



## A commentary on limited regulatory oversight in Telangana

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### 1. Introduction

Power sector investments take long time to fructify and the useful life of equipment is 25-50 years. Production and distribution of electricity has significant impact on environment, livelihoods and development. Hence active informed debates, supported by transparency of information and facilitated by regulatory institutions are essential to develop robust plans and ensure good implementation leading to development outcomes.

Telangana State Electricity Regulatory Commission (TSERC) was formed in November 2014, and all existing regulations of the joint state were accepted. Based on the Energy Task Force report (2014) and Power For All agreement (2015), vigorous efforts were made to remove power shortages and strengthen the electricity sector. There were many changes in the sector, like contracting significant generation capacity including solar, high investment in the T&D network and providing 24 x 7 supply to agriculture. This update reviews the regulatory oversight of TSERC in the past five years. It notes some good initiatives, but observes that the oversight on the dynamic sector was weak, due to challenges in capacity, failure to ensure due processes and limited proactive initiatives.

### 2. Good initiatives

There were some good initiatives by TSERC, which include regulations on complaint redressal (2015), order on ex-gratia for accidents (2015), order on transmission line compensation (2017), commissioning a study to estimate agriculture consumption (2017) and changing the tariff design for the Rural Electricity Supply Cooperative (RESCO) in 2019. Table 1 gives a summary.

### 3. Capacity challenges

Staff strength has been low and there has been long periods of vacancy in the Commission during the period 2016-2019.

The Commission had full strength only till August 2016, and unfortunately, for 10 months of 2019, there was no Commission. The Member – Technical retired in August 2016, Member – Finance in April 2018, and Chairman in January 2019. State government appointed a committee for selection of Chairman and two members in December 2018 (GO.MS No 22, dated 28/12/18), but all vacancies were filled only in end-October 2019. In the current Commission, only Member – Technical has exposure to electricity sector since he had worked with a Distribution Company (DISCOM) and was once Secretary of the united APERC.<sup>3</sup>

Table 1. Summary of good initiatives by TSERC

| Issue  | Initiative  |
|--|---|
| Grievance Redressal regulations              | GRF Regulations 2015: Chair specified as judicial officer, voting rights provided to consumer member.   |
| Electricity accidents                        | Compensation increased from Rs. 2 lakhs to Rs. 4 lakhs in 2015 order and further increased to Rs. 5 lakhs in 2017 order. Simplified procedure for claims. Payment to be made in 2 months, 12% interest charge in case of delays.<br>In the 2015 MYT order, gave directives to reduce accidents and allocated Rs. 490 crore for safety measures for 2015-19. |
| Transmission line land compensation          | In the 2017 order, suggested that District Collectors should decide the compensation, following principles of natural justice and provisions of the land acquisitions Act. Directed licensees to approach Collector to frame guidelines for laying lines and awarding compensation  |
| Agricultural Demand Estimation               | As mentioned in the 2019 Tariff order, TSERC commissioned a consultancy project by Administrative College of India (ASCI) to develop a better method to estimate agriculture consumption.   |
| Forecasting and Scheduling of wind and Solar | Notified DSM Regulations in 2018. Not clear how this is being implemented. <sup>4</sup>   |
| Change in subsidy provision to RESCOs        | In the 2019 Tariff order, Rural Electricity Supply Cooperatives (RESCO) to be provided tariffs exclusive of subsidies with the subsidies being accounted for the DISCOM consumers in the RESCO area.  |

Source: Compiled by Prayas (Energy Group) from TSERC annual reports, Regulations and Tariff orders

The existing staff of the united SERC was divided between the newly formed APERC and TSERC. Staff strength of TSERC after it was formed was 26, including four on deputation. There were nine professional staff<sup>5</sup>, with one joint director, four deputy directors and remaining on deputation from utilities. There were no director level staff and none specialising in power purchase. The Deputy Director- Tariff engineering retired in 2016 and the number of people on deputation from utilities slowly reduced. In March 2019, staff strength was 17, with three Joint Directors for IT, Tariff and Law. Commission Secretary was on deputation from IRS and after he left in 2018, the Joint Director –IT was given charge of Secretary position.

Long vacancies and shortage of staff have contributed to the limitations in regulatory oversight in Telangana.

#### 4. Regulatory functioning – not so good developments

There were many not so good developments, for which all sector actors, including the TSERC, and the government are responsible. Weak political opposition in the state and limited civil society engagement have also contributed. The next paragraphs elaborate these.

##### Over-ambitious load forecast and resource plan, with no public consultation

A realistic demand forecast and resource plan was not prepared, but actions initiated to meet the ambitious plans that were hurriedly prepared in the first year. Most of the sector planning was based on Energy Task Force report (2014) and Power For All agreement (PFA, 2015). These were five-year plans prepared by government and utilities with help of consultants, but without any public consultation. These plans envisaged ambitious demand growth and matching ambitious capacity addition. CAGR of energy demand growth from 2015-2019 was 20% as per PFA, whereas actual was less than half at 9%. Actual peak load in 2019 was 57% of what was projected by PFA.<sup>6</sup>

As per the tariff regulations, load forecast and resource plans are to be filed and approved by TSERC before MYT filings are submitted and approved. This was not done and TSERC did not take any corrective steps. On the other hand, in Andhra Pradesh (which has similar regulations), plans for the fourth control period

(2019-24) and fifth control period (2025-29) were submitted to APERC in 2018 and after a public participatory process, order issued in 2019. This order had made strong remarks about the non-submission of plans by the AP DISCOMs.<sup>7</sup>

MYT petitions for 4<sup>th</sup> and 5<sup>th</sup> control periods were filed by TS utilities between December 2019 and January 2020. These petitions mention that load forecast and resource plans have been submitted to TSERC in October 2018. But these have not been made public or any public consultation process initiated till March 2020. The Tariff regulations and the regulatory guidelines on 'load forecasts, resource plans and power procurement' issued in 2006 indicate that forecast and plan approval are a pre-requisite for MYT process. The guideline also indicate that the Commission can take up public consultations on these. But this option was not exercised by TSERC, which was functional till January 2019. If public hearings on load forecast and resource plans are not held in order to arrive at realistic forecasts, unfortunately there could a repetition of a similar story.

#### Tariff process – delays and limited tariff increase

TSERC has separate processes for distribution tariff and retail supply tariff determination. Retail tariff filings and orders were delayed and tariff hike NIL during some years. Barring the 2016 retail supply, distribution and retail true-up has not been completed for any year since the inception of the Commission. Provisional true-ups for retail supply has been completed only till 2017. Tariff orders were not very detailed and public participation low. Table 2 captures the major aspects of regulatory processes between 2015-2020.

Table 2. Key regulatory aspects 2015-2020

| Aspect/Year                  | 2015                                     | 2016 | 2017     | 2018 | 2019 | 2020 |
|------------------------------|--|------|----------|------|------|------|
| Tariff filing delay -months  | 1  | 2    | 3        | 4    | 1    | 12   |
| Tariff order delay - months  | 12                                       | 0    | 3        | 5    | 0    | 12   |
| Tariff hike %                | 0  | 4.4  | 7.5      | 0    | 0    | 0    |
| Supply true-up               | 2015 (P)                                 | 2018 | 2018 (P) | No   | No   | No   |
| Objectors in tariff hearings | NA                                       | 170  | 158      | 55   | 82   | NA   |
| Tariff hearing locations     | NA                                       | 2    | 2        | 2    | 2    | NA   |
| Commission vacancies         | 0  | 0    | 1        | 1    | 3    | 0    |
| SAC meetings                 | 1  | 1    | 1        | 1    | 0    | 1    |
| Distribution true-up         | Not done for 2007-09; 2010-14; 2015-2019 |      |          |      |      |      |

Source: Compiled by Prayas (Energy Group) from Annual reports of TSERC, Tariff orders, Press releases

Notes: No tariff orders were issued for 2015 and 2020; delay is counted from April of the FY; NA – Not applicable, since there was no tariff revision process; (P) = Provisional; Tariff hike % is as reported in the press notes of TSERC

DISCOMs did not submit ARR and tariff proposals for 2019-20 and since there was no Commission from January 2019, tariff order was not issued for 2019-20. A new Commission was appointed in October 2019, but as of March 2020, ARR and retail supply tariff proposals for 2020-21 have not been submitted by the utilities.

#### Tariff process – low public participation and inadequacy of tariff orders

Shortcomings in the tariff process is another major lacuna in Telangana. This section highlights two major aspects in this regard. Unlike the good practice followed by many states of having hearings in multiple locations for each DISCOM, in all these years, tariff related public hearings were organised only at two locations – one in each DISCOM area. This contributed to low public participation. Additionally, in 2016, TSERC issued an advisory stating that, as per conduct rules, employees of licensees can participate in regulatory process only after due permission from the management. This set the tone for limited public participation, both in quantity and quality, in the tariff process. The number of objectors reduced over the years, as can be seen in Table 2.

State Advisory meetings provide another important opportunity to receive inputs from diverse consumers and sector actors. They are expected to be held every quarter, as per the regulation, but were held only once a year. There were limited efforts to increase consumer awareness. TSERC did not bring out tariff orders or consumer related regulations in Telugu<sup>8</sup> and Urdu, the dominant local languages in Telangana. Important initiatives like 24 x 7 power supply to agriculture, Lift Irrigation projects (with very high power demand only for 16 hours during August-November) and massive generation capacity addition were taken up without any public consultation. There have been no regulatory reviews on these with public participation.

Another shortcoming in TS has been about data, analysis and justification provided either in DISCOM petitions or in regulatory orders. DISCOM Petitions and Commission orders (on tariff, true-up and distribution MYT) are not very detailed. This is especially true about the true-up process, where the DISCOM petitions and Commission orders are very brief giving just the numbers with no detailed justifications. For example, MYT order for distribution business for 3<sup>rd</sup> control period (2015-2019) is only 62 pages long; true-up for 2016 (the only year for which true-up is available) is covered in 7 pages of the 2018 tariff order.

#### Limited oversight on power purchase

TSERC approved a few power purchase contracts like medium term contract with Thermal Power Tech thermal project (570 MW), cost plus projects - Singareni thermal project (1200 MW, operational), Telangana Super Thermal project phase 1 (1600 MW, expected by 2021) and Chhattisgarh (1000 MW, operational). The Power Purchase Agreements (PPAs) for these, solar and wind projects are not available on TSTRANSCO website, but some are available in the TSERC orders.

In case of Thermal Power Tech, there was only one qualified bidder for the competitive bidding (though five bids were received) and TSERC adopted the tariff which was negotiated by the DISCOMs with the bidder.<sup>9</sup> In case of Chhattisgarh, TSERC approved the tariff as approved by the Chhattisgarh Commission. In 2015 and 2016, there was significant power purchase from the market at high cost to overcome the shortages, but with limited oversight. There were true-ups for both these years (2015 being provisional), with the additional power purchase cost adding to the ARR in the subsequent years.

Many Power Purchase Agreements (PPAs) are waiting for regulatory approval, as of February 2020.<sup>10</sup> All these amount to over 8000 MW of state-owned thermal capacity, which is nearly double the current thermal capacity.

## 5. Implications for the Telangana electricity sector

In Telangana, the sector has witnessed significant investment in thermal and solar power projects as well as in transmission and distribution infrastructure, which does not match the actual demand growth. There has been limited tariff increase, delays in true-ups and no mechanisms to clear the mounting financial loss of the DISCOMs. Table 3 captures a few key performance parameters of Telangana DISCOMs for 2015 and 2019. It can be seen that power shortage has given place to surplus, but financial performance of DISCOMs has worsened.

*Table 3. Key parameters of Telangana DISCOMs – 2015 and 2019*

| Parameter/year            | 2015  | 2019   |
|---------------------------|-------|--------|
| Energy shortage/surplus % | -22%  | 12%    |
| Revenue gap Rs Cr         | 3,338 | 10,013 |
| State subsidy % of ARR    | 16%   | 19%    |
| Financial loss Rs Cr      | 2,513 | 5,703  |

*Source: Compiled by Prayas (Energy Group): 2015 are based on actuals reported by DISCOMs in 2017 and 2019 ARR and in 2015 Annual report; 2019 from 2019 Tariff Order, MYT petitions filed by DISCOMs in 2019/2020 and UDAY portal*

A professional TSERC could have helped in better planning and ensuring mid-course corrections, which unfortunately did not happen. Reasons could be capacity limitations, limited civil society pressure and issues with appointments. It is not clear if the situation will be different in the coming years. The ruling party TRS, won the assembly elections in December 2018 also, with a very comfortable majority, leading to a weak opposition. Continuation of weak regulatory oversight would lead to mounting sector challenges, which ultimately burden the consumers and general public. It is therefore important that all public interest actors work together to increase transparency and strengthen the regulatory processes in Telangana.

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<sup>2</sup> This article is part of an ongoing series called Power Perspectives which provides brief commentaries and analysis of important developments in the Indian power sector, in various states and at the national level. The portal with all the articles can be accessed [here](#). Comments and suggestions on the series are welcome, and can be addressed to [powerperspectives@prayaspune.org](mailto:powerperspectives@prayaspune.org)

<sup>3</sup> In November 2019, the current Commission had issued a [tender for consultancy services](#) for determining tariffs for generation, transmission, distribution and retail supply for next control period/ 2020-21.

<sup>4</sup> Page 6 of the [reply to the objections filed by Sri. M Venugopala Rao](#) on the MYT petitions of TSTRANSCO for 2020-24 states: "So far, there is no forecast and scheduling mechanism is established in the State".

<sup>5</sup> We are including SERC staff dealing with topics like tariff, power purchase, engineering, transmission, renewable, finance, IT, accounts etc) as professional staff.

<sup>6</sup> Energy data from PFA and 2019 Tariff order; peak data from PFA and [4<sup>th</sup> Quarterly report of SRLDC 2020](#).

<sup>7</sup> To quote from the Preface of [APEREC Load Forecast and resource plan order](#) dated 15/4/19: "This Commission after its constitution in 2014, found in the course of review of various aspects of the functioning of the Commission that the Guidelines on Load Forecasts, Resource Plans and Power Procurement issued by the Commission in 2006 and the corresponding provisions of the above referred to regulations appeared to have been observed only in breach and not in compliance ..."

<sup>8</sup> Exception is the [Telugu version](#) of the 2017 Tariff order

<sup>9</sup> It is another matter that the tariff was less than that of some TSGENCO stations, as per the [TSERC order on TTPL](#).

<sup>10</sup> As per the MYT proposals for TSTRANSCO submitted in December 2019, PPA for Kothagudem stage VII has been signed on 19/3/18, submitted to TSERC for approval; PPA for Bhadradi has been signed on 17/9/19, submitted for TSERC approval; PPA for Telangana STPP (of NTPC) is submitted to TSERC for approval; and PPA for Yadadri is being prepared. This information is given in the [reply by TSTRANSCO given in February 2020 to M Venugopala Rao's objections](#) on the MYT petitions.