Supplementary Submission by Prayas to MERC on TPC ARR 03-04 & 04-05

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1. Fuel related issues:

We had requested TPC to give calculations to show the heat balance for FY 02-03. TPC has not done this.

2. Merit order Dispatch

As explained in the oral submission, TPC objections to our analysis are already considered while working out the Merit order dispatch. We wish to point out that Prayas objection to MSEB supplying power / stand-by support to Mumbai at the cost of load shedding was restricted to the possible situation that Mumbai utilities are not paying for stand-by charges.

3. Profit & IT

We wish to correct the typographic error in our earlier submission. The NTPC profit + tax is Rs 0.36 / unit and not Rs 0.26 /unit as mentioned in our earlier written submission to MERC on TPC ARR. This was compared with the TPC profit + tax of about Rs 0.60 / unit.

4. Capital Expenditure & Capital structure

We wish to point out that the responsibility of giving proof of prudence and usefulness lies purely with the utility for past or future capital expenditure.

<u>Helicopters:</u> We had requested TPC to prove using the flight logs that the helicopters were used primarily for the operations of the regulated utility. Until this is proved, it is unfair to recover all cost for the helicopters from Muinbai consumers. TPC has not proved this.

Debf.Equity Ratio: TPC has pointed out lack of mandatory Debt:Equity structure in the Schedule VI. We wish to point out that lack of mandatory D:E ratio cannot be an argument for prudence. For several kinds of projects a norm of 70:30 is considered as reasonable.

At this point, we wish to point out that every year consumers have been loosing large sums due to bad leveraging by both utilities. We are only seeking limited relief, at this stage, by MERC considering the normative D:E ratio (or use of cost of capital) while calculating the reasonable return and the IT on profit for both the utilities for FY 04-05.

5. Foreign Exchange Write-off

We had requested TPC to prove the fairness of the write-offs by showing the calculations for the past three years and the proposed amounts for the ARR years (FY 03-04, 04-05). TPC has not done this.

6. Reference of Schedule VI para XII

In point 6 para 9, TPC reply mentions the reference of schedule VI para XII, in relation to the consumer contributions. Schedule VI mentions that in case of cost of service lines the consumer contributions are to be deducted from capital base but not from calculations for arriving at the depreciation. We wish to point out that (1) Schedule VI mentions only the service lines and not special appropriations and other such advance payments by consumers and (2) the commission has the authority to deviate from schedule VI by giving reasons.

7. Other issues

There are some issues that are common for TPC and BSES (REL), some of which are mentioned here under.

(1) Prayas request for jointly consider the comments on TPC / REE
We request MERC to jointly consider our submission on TPC / REE to the extent that the issues are interlined or have applicability for both the utilities.

(2) Expenditure on advertisements / gardens / consultancy etc.
It is very difficult and cumbersome to regulate the cost for range of non-specific costs including the promotional advertisement campaigns, general benefit such as sponsoring gardens etc. The utilities have (now and in the past) done advertisement campaigns and other expenditures aimed at brand creation / promotion. This has no benefit for consumers. We request MERC to put a ceiling for such expenditure, or simply prevent the licensees from including these expenses on advertisements (that are not linked to core business of utility - such as tender notices, public notices etc.).

Similarly, it is impossible to monitor the purpose of technical consultancies given by these utilities, unless regulator becomes very intrusive. The cost of consultancy can be very large. All consultancy assignments not directly related to the working of licenses operations should be excluded from the expenses of the utilities.

(3) Promoting Investments

In the public hearing, MERC member opined that if the profit is substantially reduced then the private sector would not be interested hi coming forward for the power sector business. We wish to point out that the commissions' mandate of protecting consumer interest, especially in situation of inefficiency and non-prudent actions of utilities, comes much higher than promoting investments / private sector, or any other mandate for that matter. In addition, it is responsibility of MERC to ensure efficiency and economy. Hence, the commission has to promote only the prudent investment practices.

(4) Schedule VI submission and ARR to be comparable

We request commission to ensure that utility submissions to the government in the format of schedule VI are tallied with the ARR data.

23rd March 2004