

**BEFORE MAHARASHTRA ELECTRICITY REGULATORY COMMISSION,
MUMBAI**

Objections/Comments/Suggestions on

**ARR Application by Maharashtra State Electricity Transmission Co Ltd
for 2005-06 and 2006-07**

By

Prayas Energy Group, Pune

11th June 2006

1. Background and Introduction

1.1. We consider ARR and tariff determination process for FY 2007 to be extremely critical for two reasons - (i) It puts MERC Tariff Regulations, 2005 on test for the very first time and (ii) this process would be a valuable input while going towards first Multi Year Tariff (MYT) framework in the state from FY 2007-08.

1.2. Maharashtra State Electricity Transmission Company Ltd (MSETCL) filed its Annual Revenue Requirement (ARR) for 2006-07 on 23rd May 2006. The Commission held a technical validation session on this issue on 26th April 2006 for identifying critical data gaps in the ARR application. Prayas participated in the technical validation session and requested some additional data to facilitate further analysis of the ARR. In response to the public notice dated 23rd May 2006, we are submitting our comments on MSETCL's ARR application. Our comments mainly deal with the important techno-economic issues and some gaps we observed in the ARR application.

2. Accurate energy accounting and loss estimation

2.1. MSETCL does not have meters installed at every voltage level. This makes the process of energy accounting inaccurate and MSETCL cannot measure losses at every voltage level. Therefore, we request the Commission to direct MSETCL to install interface meters at every voltage level. These meters should be AMR enabled and the data should be downloaded without any manual interference. Such data from all interface meters should be available on MSETCL's website and should be updated regularly. Moreover, periodic (say monthly) energy balance of MSETCL's system should also be available on the website.

2.2. Moreover, present line loading and available capacity of the line should be made available on MSETCL' website on daily basis. These issues are essential as we are moving towards open access and MSETCL being the STU.

3. Capital Expenditure

3.1. MSETCL has proposed many capital investment projects over next 3 years for transmission system strengthening. Total CapEx proposed by MSETCL in next 3 years is about 8500 Cr and CapEx planned in FY 07 is 1054 Cr. Therefore, these projects need to be scrutinized in detail.

3.2. During technical validation session Prayas had raised the issue of huge differences in scheme wise CapEx amounts mentioned in the rolling plan and those submitted in the ARR. We once again request the Commission to look into the changed priorities of MSETCL and analyse which schemes are included/excluded from ARR/rolling plan. We could not find CapEx details for FY 06 and FY 07 in the revised ARR document.

3.3. In the additional data submitted by MSETCL, it has given the cost of the proposed projects and their transmission capacity in every construction circle. Surprisingly, there are wide fluctuations in cost of these projects (expressed as Rs Cr/MVA capacity addition) in different circles. For example, in FY07, cost of transmission projects in Nasik circle is 88 Cr and MVA capacity addition is 1025 MVA. Hence cost of the project becomes 0.09 Cr/MVA capacity addition. However, in the same year, this cost in Kalwa is circle 177Cr, while MVA capacity addition is 475 MVA. This translates to 0.37 Cr/MVA capacity addition. MSETCL should explain why are there such wide fluctuations in transmission project costs in different circles.

3.4. Considering the huge amount of Capital investments of MSETCL, as well as the critical role of transmission network in enhancing supply to consumers in the state, we request the Commission to prepare detailed and critical milestones for every project. MERC should also fix a timeframe for achieving the milestones. MSETCL should be directed to submit quarterly report on compliance of the milestones set by the Commission. To enhance transparency and accountability, this compliance report should be available on MSETCL's website. This is also important for planning from the perspective of Open Access consumers.

4. Cash flow of MSETCL

For ensuring cash flow situation of MSETCL remains smooth, regular revenue from MSEDCL should be continued. Therefore, we request the Commission to direct MSETCL to report to the Commission every occurrence of non-payment of its transmission charges by MSEDCL for more than two consecutive months. MSEDCL should also be directed accordingly.

5. Advance Against Depreciation

MSETCL has proposed Advance Against Depreciation (AAD) of 199 Cr in FY 07. MERC Tariff Regulations (section 48.3) mandate that AAD should be restricted to 1/10th of the principal amount of loans those are to be repaid in the financial year minus allowable depreciation for that year. However, for this, original amount of loan should be known which is not submitted by MSETCL. Therefore the Commission should ensure that AAD claimed by MSETCL falls within the limit.

6. Contractual protections

During public hearing on Load Shedding protocol, MSETCL had submitted that for long periods HVDC link operates on one pole leading to associated reduction in transmission capacity, overloading and increased losses. Frequent failure of transformers and long period for repair was sited as the major reason for this. In this context, MERC had directed MSETCL to take appropriate actions on the suppliers of the equipment as per contractual rights of MSETCL. We urge MERC to ascertain if MSETCL has taken appropriate action.

Further, in the context of current CapEx program also it is critical to ensure that MSETCL has adequate contractual protection in case of supplier default or failure to meet agreed performance. Hence, we request MERC to direct MSETCL to ensure that appropriate provisions are included in all contracts with suppliers.

7. Prayers

In light of above, we request the Commission to:

7.1. To ensure that Advance Against Depreciation for FY07 falls within limit as specified by MERC Tariff Regulations.

- 7.2. To direct MSETCL to install AMR meters at all interfaces and make this data available on its website. Moreover, monthly energy balance of MSETCL's system should also be available on the website.
- 7.3. Present line loading and available capacity for all lines should be put on MSETCL's website
- 7.4. To prepare detailed and critical milestones for every capital investment project and fix timeframes of such milestones. MSETCL should be directed to submit quarterly compliance report on achievement of these milestones. This report should be available on the website.
- 7.5. To direct MSETCL to report to the Commission every occurrence of non-payment of its transmission charges by MSEDCL for more than two consecutive months.
- 7.6. Allow us to make a presentation during public hearing dated 13th June 2006, and to make additional comments/suggestions regarding MSETCL ARR FY06-07, if any.
- 7.7. In the interest of transparency, we urge MERC to provide detailed calculations and analysis carried out during this tariff revision process in the tariff order and to make soft copies of the same (spreadsheet version) available on its website (including formulae).

~ 0 ~