TRANSMISSION CORPORATION OF TELANGANA LIMITED

Annual Performance Review (True-up) for FY 2025-26 of Transmission Business

Replies of TSTRANSCO to the Objections & Suggestions of Sri M. Venugopala Rao
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Sl. No.	Objections/Suggestions	Replies of TSTRANSCO
1	It is commendable that TGTRANSCO has been able to maintain network availability of 99.9% during the 4th control period and exceeded the targets of reduction of transmission losses determined by the Commission for the FY 2023-24, with relentless efforts of its officers, engineers, workers and other personnel. We wish TRANSCO would continue to maintain and improve its standards of performance and continue to win laurels at the national level and serve the consumers better.	Submission to Commission
2	TGTRANSCO has submitted a proposal for true down of Rs.1081.56 crore for its transmission business for the FY 2023-24 and worked out a surplus of Rs.1608.87 crore for the 4th control period. Except exceeding targets of reduction in transmission losses, the reasons given by TRANSCO for this surplus indicate that it is due to under-performance in terms of various factors. It also indicates that there is scope for improving its performance.	Submission to Commission

3	Against aggregate revenue requirement of Rs.4286.14 crore for the FY 2023-24 determined by the Commission, TRANSCO has achieved Rs.4558.37 crore. Compared to what was determined by the Commission in the MYT order, for the FY 2023-24, various items under expenditure have come down substantially - depreciation by Rs.305.45 crore, taxes by Rs.37.81 crore, net expenditure by Rs.227.73 crore, cost of debt by Rs.403.01 crore, regulated rate base by a whopping Rs.5102.50 crore, return on equity by Rs.178.59 crore and return on capital employed by Rs.581.60 crore. At the same time, revenue from tariff has increased by Rs.309.25 crore. We request the Hon'ble Commission to examine the following points, among others:	
	a) TRANSCO has maintained that capitalization of expenditure decreased due to decrease in capitalization. However, it has to explain the items for which it could not incur expenditure permitted by the Commission and whether the purpose for which the said expenditure was permitted was really required and served or not in maintaining its transmission network during 2023-24	Certain expenditure components like depreciation, Taxes and Interest charges have not been incurred in FY 2023-24 to the extent permitted by the commission in tariff order, since the company has comparatively lower asset capitalisation (i.e. 9,325.23crs.) during the 4th control period from FY 2019-20 to FY 2023-24 as against approved capitalization (i.e. Rs. 16,988.07 crs) for the same period on account of delay in completion of certain major projects like Dameracherla – YTPP. Accordingly, depreciation, taxes and interest expenditure has been decreased than the expenditure permitted by the commission in the tariff order.
	b) Apart from lesser capitalization, shifting of methodology for depreciation from MoP, GoI, to CERC is the reason for lesser depreciation, TRANSCO has explained. As far as decrease in depreciation due to change in the said methodology is concerned, it reduces the burden of frontloading the tariff on consumers, without causing any	The Capital expenditure approved for FY:2023-24 is Rs.1397.91 Crores. The actual expenditure incurred is Rs.1461.04 Crores. The Capitalization approved for FY:2023-24 is 4864.66 Crores and actuals as per audited accounts is 1267.60 Crores.

	loss to TRANSCO. Lesser depreciation caused due to lesser capitalization and hefty reduction in RRB naturally leads to reduction in RoCE and RoE. It is a reflection of the failure of TRANSCO to take up and complete the works and incur expenditure permitted by the Commission in time. The licensee has to explain the reasons for such a failure and how it proposes to take corrective measures.	The Annual Tariff Petition for 4th Multi Year Tariff control period from FY:2019-20 to FY:2023-24 was filed in 30.11.2019. Some of the 220/132 KV schemes proposed for FY: 2023-24 in the MYT ARR could not be taken up since, some other projects had to be taken up as per field exigencies. Few of the schemes from them may be taken up in the future. Lock down restrictions due to Covid-19 second wave in 2021 has resulted in delay in supply of material due to restrictions in vehicle movement from other states to Telangana which had cascading effects in the works during the 4th control period. The Lift Irrigation Schemes / PRLIS works are Deposit Contribution works and the consumer is I & CAD. Works will be executed as per the request of Irrigation & CAD department (Govt. of Telangana). Capitalization of expenditure for FY 23-24 decreased as the progress of Additional 1 TMC works and 2 TMC works (Yacharam Thanda, New Manchippa and Manchippa) and other PRLIS works (Narlapur SS, Yedula SS, Vattem SS & Uddandapur SS) were slow due to pending payments from I & CAD department.
	c) Despite the above-mentioned decreases, TRANSCO has shown an increase of Rs.127.83 crore (10.67%) in O&M expenditure compared to what the Commission determined for 2023-24. It reflects elements of profligacy. In fact, O&M expenditure should have decreased due to other decreases substantially. TRANSCO has requested the Hon'ble Commission to allow actual O&M expenditure as per its audited accounts for the FY 2023-24 against the	• The O&M expenditure as per Tariff Order is an estimated amount computed based on O&M approved norms (as per no. of bays and line length in circuit kms). Whereas, Company has submitted the actual O&M cost as per audited accounts of FY 2023-24. • Further, the gross O&M expenditure approved in tariff order for FY 2023-24 of Rs. 1197.51 Crs. did not factor in the pay revision that was implemented from

	expenditure determined in the MYT order. As per applicable regulations and parameters, the Hon'ble Commission has been determining permissible expenditures for the items approved in the MYT orders, after considering submissions of the licensees. The licensees are expected to incur permitted expenditure prudently. Without justifying additional expenditure, seeking its approval on the simplistic and implied proposition that the expenditure is incurred, it is shown in the audited accounts, and, therefore, it should be permitted, is questionable and impermissible. Audited accounts reflect the expenditure incurred, but do not, ipso facto, provide justification, if the additional expenditure is impermissible. TRANSCO has not submitted the audited accounts for 2023-24, along with its subject petitions.	2022-23 and actuarial valuation provision towards terminal benefits of the employees. Therefore, the increase in O&M expenses can be majorly attributable to increase in employee cost due to above mentioned factors. • Further to the above, the audited annual accounts of the company for FY 2023-24 was already submitted along with the subject petitions. However, hardcopy of the same is herewith attached.
	d) One of the reasons for net increase in revenue of TRANSCO for 2023-24 is revenue from ISTS charges of Rs.265.58 crore approved by CERC, TRANSCO has claimed. The licensee has not explained how it could get revenue from ISTS charges, which accrue to PGCIL. Is it a refund of ISTS charges paid earlier to PGCIL as per questionable GNA-ISTS order given by CERC, which was revised, after it is challenged in an appeal filed by some of the DISCOMs in the southern region, and after the order on the appeaL given by APTEL?	The Yearly Transmission Charges are shared amongst the users of ISTS system as per (Sharing of Inter State Transmission Charges and Losses) Regulations, 2020. The Yearly Transmission Charges are determined by the CERC as per the CERC (Terms and Conditions of Tariff) Regulations applicable for the period. TGTransco files the Tariff petition for determination of YTC for the 41 nos. inter-state lines owned by it, for every control period. The CTUIL (erstwhile PGCIL) is responsible for raising transmission bills, collection and disbursement of monthly transmission charges to ISTS transmission licensees.

		An amount of Rs. 265.58 Crs. was received during FY 2024-25 towards ISTS charges.
	e) Even the lesser expenditure vis a vis permitted expenditure needs to be subjected to prudence check by the Hon'ble Commission to ascertain whether the expenditure incurred item-wise is as permitted by it in the MYT order, and whether variations in such expenditure are required, justifiable and permissible. Compared to the expenditure permitted by the Commission for the FY concerned, the actual expenditure in absolute terms is lesser, but it need not be lesser compared to the expenditure permitted item wise in relative terms. As such, the permissible expenditure and ARR for 2023-24 may turn out to be higher; it need not be permitted at that level. In other words, prudence check of all relevant factors may lead to more surplus than what the licensee has shown for true down.	Submission to Commission.
4	During the 4th control period, TRANSCO has shown deficit for two years - Rs.64.86 crore for 2019-20 and Rs.160.80 crore for 2021-22 – and surplus for three years – Rs.173.94 crore for 2020-21, Rs.579.05 crore for 2022-23 and Rs.1081.56 crore for 2023-24. TGTRANSCO has requested the Hon'ble Commission to consider actual income tax of Rs.41.12 crore for 2022-23 and adjust it under true-up for next control period. It may be considered on submission of proof and permissibility. TRANSCO has requested the Hon'ble Commission to permit adjustment of the amount under true down for the 4th control period and pass on the balance to the consumers. We request the Hon'ble Commission to consider the following points on how to adjust true-up or true-down:	Para4(a). It is to mention that, both true-up and true-down are being adjusted after the completion of the control period only. para. 4(c). It is to submit that the commission has approved a net surplus of Rs. 520.51 Crs. for 3rd control period and has further charged carrying cost at interest rate of 9.85% p.a for Rs. 25.64Crs. on the surplus and recovered a total of Rs. 546.15 Crs. as per clause 20.2 of the regulation No. 5 of 2005. (See "Table 4-18: Recovery of approved surplus for 3rd control period" of tariff order for 4th control period)

	a) TGERC has been considering true-up/true-down annually based on actual performance of the licensees for transmission and distribution business. While true-up is being allowed annually, true-down is being allowed after completion of the control period concerned. This kind of lop-sided arrangement, as per applicable regulations, is leading to doing injustice to consumers at large for their no fault. b) Projection and determination of inflated ARR and tariffs in the MYT order is leading to imposing avoidable higher burdens on the consumers, with licensees collecting more revenue than what is actually due to them. c) While true-up is being allowed annually, true-down is being allowed after end of the control period. As a result, the consumers are being denied refund of the amount due under true-down annually. The licensees are being allowed to retain the true-down amounts with them till the Commission determines true-down after completion of the control period. No interest is being allowed on the true-down amounts. Since adjustment of true-up/true down is between TRANSCO and the DISCOMs for transmission business, and within the DISCOM for distribution business, the amount due to be passed on to the consumers under true-down is not being shown and adjusted in their bills for retail supply of power. d) Adjustment of the amount due under true-down after completion of the control period in the ARR of TRANSCO/DISCOM transmission/distribution business	

	does not benefit the consumers directly. On the other hand, such an adjustment again results in frontloading the tariff to the extent the amount due under true-down is adjusted accordingly. e) Such an adjustment would lead to old consumers to whom the amount of true-down is to be refunded, cross-subsidising a part of it to new consumers for whom transmission charges would apply during the FY concerned. It is unfair. f) If amounts due under true-down are refunded to the consumers in their CC bills directly, it would reduce their monthly burden. If such amounts are adjusted in the FSA true-up claims of the DISCOMs for their retail supply business annually, it would reduce the burden on the consumers to that extent. g) Adjusting amounts due under true-down for transmission and distribution business in their ARR for the 1st year of the next control period would lead to reduction of ARR and revenue gap for retail supply business of the DISCOMs. In this way, need for subsidy from the government comes down to that extent in advance. Transmission and distribution tariffs are being factored into ARR of the DISCOMs for their retail supply business. If amounts due under true-down for transmission and distribution business are adjusted annually, as suggested above (4 e), the consumers do get benefit of subsidy fully, if the government decides to provide subsidy required to bridge the revenue gap determined by the Commission fully for ARR of the	

	DISCOMs annually, with no increase in tariffs as well. How much subsidy and to which categories of consumers is to be provided is left to the discretion of the government. h) We request the Hon'ble Commission to consider the arrangement suggested above (4 e) by amending the applicable regulations appropriately, if necessary, to ensure fairness and do justice to the consumers at large.	
5	For the FY 2025-26, TGTRANSCO has projected a revised ARR of Rs.2080.50 crore against Rs.3422.05 crore determined by the Commission in its MYT order for transmission business. The reduction is Rs.1341.55 crore or 39.20%. TRANSCO has reduced the ARR by deducting the sum of true down of Rs.1608.87 crore for the 4th control period from the ARR determined in the MYT order. In fact, without such reduction, the ARR revised by TRANSCO is higher than the ARR determined in the MYT order by Rs.270.03 crore. TRANSCO has increased its expenditure for depreciation, interest and finance charges on loan, interest on working capital and RoE put together by Rs.268.68 crore, while reducing O&M expenditure by Rs73.78 crore. It has reduced non-tariff income by Rs.72.43 crore. By deducting the true-down sum for the 4th control period from its projected ARR, TRANSCO is collecting a sum of Rs.1609.87 crore, or 47.04%, in advance, of its ARR for 2025-26 approved in the MYT order, instead of collecting its ARR in the form of transmission tariffs proportionately every month. This lop-sided arrangement should be put an end to, as suggested above (4 e).	Submission to Commission.

6	While TRANSCO achieved reduction of transmission losses to 2.30% for 2023-24, it has projected transmission losses of 2.48 plus or minus 0.2% for the current financial year and projected the same at 2.46 plus or minus 0.2% for the FY 2025-26. TRANSCO should try to maintain the level of transmission losses for FY 2025-26 at the lowest percentage already achieved, if not reducing them further.	Submission to Commission.
7	PPAs with 4 projects with a total capacity of 1001.11 MW expired during 2024 - TGGENCO's RTS-B 62.5 MW, Sembcorp Energy India Ltd. 570 MW, GVK extension 118.56 MW and GVK Gouthami 250.05 MW. Non-supply of power from Chattisgarh plant (1000 MW) is continuing. While a generation capacity of 3744 MW was added from YTPP of TSGENCO during 2024-25, only 4.60 MW of a solar plant is expected to be added during the next financial year. It is projected that, against availability of 106636.81 MU, total energy requirement of the DISCOMs at state periphery is expected to be 87564 MU during 2025-26. The projected availability of surplus power during the next FY is 19,073 MU, against a projected surplus of 12,696 MU during 2024-25. Against a contracted capacity of 23545 MW for 2025-26, TRANSCO has proposed a revised transmission tariff of Rs.73.64 per kw per month. While the contracted capacity of 13958 MW is shown by both the TGDISCOMs for their distribution business for the FY 2025-26, contracted transmission capacity of TRANSCO is higher by 40.71%. While transmission capacity contracted for the next financial year for open access is 129.75 MW only, the remaining capacity might be above 33 kv level. TRANSCO has to make it clear whether the contracted capacity for its transmission business for 2025-26 includes the projected hefty surplus	The Generation Contracted capacity filed by TGTransco for FY:2025-26 is 23545 MW which includes Open Access capacity of 129.754 MW. As can be seen from the DISCOM Retail Supply Business filing for FY:2025-26 they have filed a generation contracted capacity of 23797 MW. Hence, there is a difference of 383 MW. The PPAs with the Generators are entered by the TG DISCOMs and not TGTransco. However, in the Resource Plan Approval Order, the Hon'ble TGERC has communicated the energy requirement, energy availability and energy surplus/deficit for the 5th Control Period and 6th Control Periods as approved by the Commission in Business Plan Order of State Distribution Licensees for the 5th and 6th Control Period as applicable /approved figures. The resource plan was filed in August 2023. The Hon'ble TGERC has considered the Capital Investment Plan as approved in the Resource Plan Order dated 29.12.2023 for FY:2024-25 to FY:2028-29. Thereafter, the transmission capital expansion plan has been revised to strengthen the existing network for providing quality & reliable power to the consumers to meet the high demand expected for the summer of 2025-26 based on the high demand experienced during hot summer in 2024-25.

	power also. The total contracted transmission capacity for 2024-25 is 23545 MW. In other words, contracted transmission capacity for 2025-26 has increased by 4.40% only. However, capital expenditure (including interest during construction and O&M expenditure capitalized) during 2025-26 is revised to increase to Rs. 5032.55 crore from the permitted Rs.1029.73 crore, i.e., by Rs.4002.82 crore or 388.73%. Similarly, capitalization of expenditure is revised to increase to Rs.7120.66 crore from the permitted Rs.1769.60 crore, i.e., by Rs.5351.06 crore or 302.39%. Such abnormal increases in one FY confirm that TRANSCO could not take up the works permitted in the previous years, execute and capitalize them in time, thereby not meeting intended requirements for maintaining and strengthening transmission network. As a result of such avoidable delay, interest during the construction, and even approved costs, must have been escalated. We request the Hon'ble Commission to subject them to prudence check and examine the permissibility or otherwise of the additional expenditure, including additional interest during the period of delay. Compared to increase in contracted transmission capacity by just 4.40%, whether the revised increases of capital expenditure of Rs.5032.55 crore and capitalization of Rs.7120.66 crore during the FY 2025-26 alone is required, justified and permissible or not need to be examined.	
8	If transmission (as well as distribution) capacity is added, covering the huge surplus power also, the additional network capacities remain unutilized or under-utilised, to the extent they cannot be put to use otherwise. If transmission (as well as distribution) capacities remain unutilized or under-utilised,	Submission to Commission.

	and if transmission (as well as distribution) charges are collected, to that extent, avoidable burdens would be imposed on the consumers. Similar would be the situation, if demand for power turns out to be considerably less than what is projected and determined in the MYT order during the FY concerned. Therefore, a realistic balance between demand, procurement of power and addition of transmission and distribution needs to be maintained to the extent technically possible.	
9	For the FY 2025-26, the ARR revised by TRANSCO should be subjected to prudence check, going by its deficient performance during the last two financial years and requirements during the next financial year in a realistic manner, and ARR and transmission charges be redetermined.	Submission to Commission.