

OVERVIEW

1. Functioning of State Public Sector Undertakings

As on 31 March 2016 there were 67 PSUs, falling under audit purview. Out of these, 40 Working PSUs pertain exclusively to Telangana (11 of previous year; 1 newly incorporated and 28 formed due to bifurcation of the State), five PSUs are under demerger and the remaining 22 are Non-working PSUs (yet to be bifurcated). As on 31 March 2016, the investment (capital & long term loans) in 67 PSUs was ₹ 43,051.95 crore. During 2015-16, total outgo from the budget of the State of Telangana was ₹ 17,838.66 crore for working PSUs exclusive to Telangana and those formed due to bifurcation of the State and ₹ 3.93 crore for five PSUs under demerger.

(Chapter I)

2. Performance Audit relating to Government Company

Northern Power Distribution Company of Telangana Limited (TSNPDCL) functions under the administrative control of Department of Energy, Government of Telangana with its registered office at Warangal. The Company is the license holder for distribution of power in five districts/circles of Telangana. As on 31 March 2016, the Company had a distribution network of 2.16 lakh Circuit Kilo Meters (CKM) of lines (33/11 Kilo Volts (KV) and Low Tension (LT)), 1,106 Sub-stations, 1,507 Power Transformers (PTR) and 2,42,539 Distribution Transformers (DTR) of various capacities.

A Performance Audit on **Functioning of Northern Power Distribution Company of Telangana Limited along with IT Audit of Billing Systems** was conducted. Important audit findings are enumerated below:

- The Company had not prepared annual plans for creation of network to meet the projected demand. Due to inadequate planning, there was shortfall in investment during 2011-12, 2014-15 and 2015-16 compared to the amounts sanctioned by State Electricity Regulatory Commission (SERC) for creation of distribution network. The shortfall in investment during the five year period covered in audit was ₹ 752.04 crore.
- The Company had achieved only 56.25 *per cent* of conversion of agricultural services under High Voltage Distribution System Scheme (HVDS) and the objective of reduction in distribution losses was not achieved. The Company had not assessed the requirement of Capacitor banks periodically.
- The Company allowed maximum load losses of 245 watts for 15 kVA Distribution Transformers (DTRs) against the maximum limit allowed (230 watts) for 16 kVA transformers. The energy loss additionally allowed on the 7160 DTRs of 15 kVA capacity procured (2011-16), works out to 0.94 MU per year (i.e. ₹ 58.19 lakh, considering the Average Cost of Supply as ₹ 6.19 per unit).
- The Company had not assessed the aggregate score each year as per the criteria specified in the National Electricity Fund (Interest Subsidy) scheme and failed to claim interest subsidy amounting to ₹ 2.50 crore.

- The Company failed to adhere to the agricultural sales volume approved by SERC in the Tariff Orders and also did not claim the cost of additional units supplied to the agricultural consumers from the Government, resulting in loss of ₹ 1,077.27 crore during 2011-12 to 2015-16.
- As per Financial Restructuring Plan (FRP), the bonds issued by the Company were to be taken over by the State Government in two to five years. The Government had not taken over these bonds even after lapse of over three years (July 2016).
- The percentage of distribution losses was higher than the norm fixed by SERC in all the years. Due to failure in implementation of loss reduction measures effectively, the Company suffered loss amounting to ₹ 194.27 crore (2011-16).
- Due to failure to establish the required information systems, the Company could not submit the proposals under Multi Year Tariff and avail of the benefits. The loss of the Company increased from ₹ 33.78 crore (2013-14) to ₹ 1,348.21 crore (2014-15) mainly due to adoption of Tariff Order of 2013-14 for 2014-15.
- The Company did not limit the cross subsidy to the suggested levels even beyond the target year (2010-11) and the financial impact on categories for which tariff was higher than the maximum allowed as per norm works out to ₹ 909.37 crore (2011-15).
- The Company failed to recover additional expenditure of ₹ 98.91 crore, incurred beyond budget estimates due to increase in the number of Distribution Transformer failures, employee cost, administrative and general expenses during 2013-14, by filing true-up petition.
- The Company had neither collected the subsidy of ₹ 693.23 crore (2014-15 and 2015-16) nor implemented the full cost recovery tariff. The Company claimed ₹ 2,398.81 crore (2014-15) against ₹ 2,555.28 crore subsidy approved by SERC, resulting in short claim of ₹ 156.47 crore. Additional subsidy of ₹ 130.14 crore approved by SERC (2014-15) was also not claimed. The Company paid ₹ 1.01 crore as Delayed Payment Surcharge to the Generating Stations (2015-16) due to non-receipt of subsidy from the Government.
- Arrears of revenue of ₹ 1,232 crore (31 March 2016) included ₹ 820.89 crore pending from the Government Departments/ Local Bodies and ₹ 249.03 crore pending from other live services.
- The Company had not ensured supply for seven hours a day to all agriculture feeders and the Government also had not monitored the supply, though the subsidy was paid for supply of electricity for seven hours a day. As supply was less than six hours a day for a majority of the feeders in many circles, out of the subsidy of ₹ 8,237.63 crore paid by the Government (2011-16), about ₹ 1,176.80 crore (1/7th of the subsidy) was not spent on fulfilment of the objective of the Government of supplying free power for seven hours to the agricultural consumers.
- Though SERC had directed (March 2015) the Company to prepare safety improvement plan for four year period 2015-19 relating to distribution

network and file the report with the Commission by 31 August 2015, the Company has yet to chalk out the plan. Despite allocation of special appropriation amount for improving the safety of distribution network by SERC, the actual expenditure incurred on safety was not accounted for under a separate accounting head.

IT Audit of Billing Systems

- The Energy Billing System (EBS) for billing of LT consumers was developed by the Company in-house in 2013. As at the end of July 2016, the data pertaining to LT consumers, other than those in Restructured-Accelerated Power Development & Reforms Programme (R-APDRP) was maintained in the Energy Billing System (EBS). The HT consumer data was maintained in the Metering, Billing and Collection (MBC) module developed under R-APDRP.
- Though the Company was utilising IT applications like Energy Billing System (EBS), Metering, Billing and Collection (MBC), System Applications Products (SAP), Enterprise Resource Planning (ERP) etc. for managing its various operations, it is yet to formulate and document a formal IT policy and a long/medium-term IT strategy. The Company does not have an approved Information Security Policy for protection of its application/database.
- Absence of interface between SAP ERP and High Tension (HT) billing system resulted in duplication of works and scope for errors which may affect the integrity of the databases. There was no interface between the three billing systems *viz.* MBC, EBS (LT) and EBS (Agriculture) utilised for billing of various consumers.
- The billing of temporary HT service connections was done manually till they were regularised and were not routed through the HT billing application (MBC), resulting in lack of completeness of the database. As the application had also not provided for capturing the minimum agreement period, based on which demand would be raised, the Company had to manually verify and raise demand. The application had not provided for automatic calculation of surcharge in respect of Security Deposits, which were to be paid within 30 days from the date of intimation.
- For Low Tension (LT) category-III consumers, energy charges, fixed charges and Time of Day charges were manually calculated and then entered into EBS. During annual review of Security Deposit, previous data was replaced with current data. Thus historical data was not available in the system. Application was also incorrectly designed to generate the first bill from the date of supply to the date of bill in spite of previous manual bills resulting in excess demand on the consumers.
- The Company had not migrated the billing data available in legacy system into EBS. The legacy applications were not installed in any of the systems available in the Company.
- The field definitions were incorrect and were coupled with lack of proper input validations, thereby, leaving scope for errors.

- In respect of data pertaining to Security Deposit of HT consumers, there was a difference of ₹ 5.06 crore between two applications i.e. SAP and MBC.
- The interest on Security Deposit of ₹ 2.57 crore to 43 HT consumers (Bills stopped consumers) was not credited.
- The Company did not have any approved Backup Policy and had not prepared any business continuity plan or a disaster recovery plan. There was no training policy for the employees for utilising the IT billing systems.

(Chapter II)

3. Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 36.77 crore in 10 cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.1.3.7, 3.1.3.8, 3.1.3.9, 3.2, 3.3.2.4, 3.3.2.5, 3.3.2.6, 3.4, 3.7 and 3.8)

Loss of ₹ 313.29 crore in nine cases due to not safeguarding the financial interest of the concerned organisation.

(Paragraphs 3.1.3.1, 3.1.3.2, 3.1.3.3, 3.1.3.4, 3.1.3.5, 3.3.2.1, 3.3.2.2, 3.3.2.3 and 3.6)

Loss of ₹ 1.16 crore in one case due to defective/ deficient planning.

(Paragraph 3.5)

Gist of some of the important audit observations is given below:

Telangana State Industrial Infrastructure Corporation Limited

The Company had made investments of ₹ 572.53 crore (1994-2015) in two JVs and 12 SPVs, of which audit covered two JVs and eight SPVs.

The Company had invested ₹ 79.27 crore in two JVs (₹ 59.01 crore) and eight SPVs (₹ 20.26 crore) during the period 1994-2015 either in the form of cash or land and expected to receive return in the form of dividends, lease premium and lease rentals.

The rate of return on investment in one JV (K. Raheja IT Park Private Limited, Hyderabad) was low (0.43 *per cent* per annum).

Apart from equity, the Company had contributed 109.36 acres of land (₹ 54.68 crore) to the JV Company. On the ground of proper implementation of the project, the JV Company was demerged and land was transferred (97.21 acres) to the demerged companies. The balance land (12.15 acres) was transferred to Non-IT/ITES sister companies of M/s Raheja Group, at a rate lesser than the rate fixed by the Price Fixation Committee and without consulting the Company (APIIC). This had resulted in loss of ₹ 73.75 crore.

There was no return on the investments made by the Company in eight SPVs. These included loss of Investment in HITVEL (₹ 1.93 crore); loss of equity investment and Project Development Cost in Nano Tech Silicon India (NTSI) (₹ 56.98 lakh); loss of Equity of ₹ 25.00 lakh in Pattancheru Enviro Tech Limited (PETL).

To promote the Semiconductor industry for setting up of a manufacturing unit for wafer fabrication etc. and to develop as FAB City (fabrication facility), “FAB City SPV (India) Private Limited” was incorporated (May 2006). The investments made by the Company in FAB City was not productive and resulted in blocking of ₹ 78.56 crore. There was undue favour to M/s SemIndia FAB City Private Limited (₹ 22.61 crore) due to non-collection of lease premium, lease rentals and duties. Due to deviation from the guidelines, there was undue benefit in allotment of land to M/s ILFS Waste Management and Urban Services Limited in FAB City (₹ 1.32 crore)

(Paragraph 3.1)

The allotment of land of one acre to the Bank of Baroda, at a concessional rate, ignoring specific provision of the Company's Allotment Regulations, applicable to the Scheduled Banks, had resulted in loss of revenue of ₹ 4 crore.

(Paragraph 3.2)

Southern Power Distribution Company of Telangana Limited

The Information and Communication Technology (ICT) policy of the erstwhile Government of Andhra Pradesh inter-alia included the incentive of concessional power tariff i.e. Industrial power tariff (Category-I) to the Information Technology (IT)/Information Technology Enabled Services (ITES) units, which was less than Commercial tariff (Category-II).

This benefit was extended to commercial units like hotels, restaurants, shops, hospitals, banks etc. located in the premises of IT, Infrastructure companies and IT/ITES firms i.e. for non-IT activities. The Company had converted the entire premises to HT category-I, without restricting it to 60 *per cent* area prescribed for core IT activity in the IT policy or verifying the actual consumption of electricity for non-IT activity. This had resulted in loss of revenue of ₹ 50.35 crore. Power concession was extended to firms whose activities were not related to IT/ITES, due to which the Company suffered loss of revenue of ₹ 10.96 crore.

Though seven IT firms had not submitted the relevant documents in support of their category (HT-I) to Detection of Pilferage of Energy (DPE) wing of the Company, these continued to avail of the concessional power tariff, which resulted in loss of revenue of ₹ 30.17 crore. Power concession was extended to second and subsequent units, though not established 100 KMs away from the first unit, in deviation from the IT policy, which resulted in loss of revenue of ₹ 18.07 crore. Extension of concessional power tariff was done without obtaining a fresh Consultative Committee on Information Technology Industry (CCITI) certificate from the new occupant/firm (due to sale/purchase), resulting in loss of revenue of ₹ 5.55 crore. Extension of Concessional power tariff before completion of

one year of commercial operation, against the ICT Policy, resulted in loss of revenue of ₹ 1.98 crore.

There was no monitoring mechanism and conversion of category from HT-II to HT-I was done without any time limit. The burden of concessional power tariff was entirely borne by the Company without any subsidy from the Government.

(Paragraph 3.3)

The deferment of second phase supply of power to M/s Golden Jubilee Hotels Limited (consumer) beyond six months, against the Company's guidelines and without levying minimum charges, as specified in the Tariff Order, resulted in extension of undue benefit of ₹ 1.70 crore to the consumer.

(Paragraph 3.4)

The Singareni Collieries Company Limited

The Company, without ensuring the possibility of acquiring the private land, went ahead with the publication of Draft Notification and Draft Declaration for the proposed Indaram Opencast Mine and incurred an expenditure of ₹ 1.16 crore towards publication charges. As no award was made within the prescribed period, the proceedings for acquisition of land lapsed and the expenditure was rendered unfruitful.

(Paragraph 3.5)

The Company incurred extra expenditure of ₹ 44.14 crore over the original estimates, due to clubbing of the alternate canal to NTR canal with Indirasagar-Rudramkota Lift Irrigation Canal for a length of 28 KMs, against the diversion of only 4.76 KM, required for its mining activities.

(Paragraph 3.6)

Telangana State Power Generation Corporation Limited did not initiate action on the contractor for the defect in the Turbine Generator (TG) building (Stage-I Kakatiya Thermal Power Plant (KTPP)), as per the terms and conditions of the contract. Extension of undue favour to the contractor of Balance of Plant (BOP) works resulted in avoidable additional expenditure of ₹ 2.12 crore towards purchase of Electronically Operated Travelling Type (EOT) crane (Stage-II KTPP).

(Paragraph 3.7)

Telangana State Road Transport Corporation had not conducted periodical census of buses as per the Agreement with the agent for display of advertisement on buses. Due to this, the agent paid license fees on the reduced number of buses. This had resulted in undue benefit of ₹ 52.40 lakh to the agent by way of short recovery of license fees.

(Paragraph 3.8)

(Chapter III)