## CHAPTER - 5

# Investment Approval and Project Funding

### *5.1 Investment approval*

The Report on the Working Group on Power for XI Plan *inter alia* stated (February 2007) that it is desirable that the project is defined to finer details to the extent possible at the Feasibility Report (FR)/Notice Inviting Tender (NIT) stage for effective planning and scheduling of project(s) besides minimization of resources. The Report further provided that detailed survey should be carried out before start of procurement process to avoid large quantity variations during execution which could be a cause of dispute/delay. Works & Procurement Policy and Procedures (WPPP) of PGCIL stipulated that walkover survey be conducted to identify the Bill of Quantities (BOQ)[51] and other details/information for preparation of FR of the project. WPPP, however, required that detailed survey of forest stretches and river crossings should be carried out before preparation of BOQ and cost estimates. Thus WPPP limits the exercise of detailed survey only to forest stretches and not to the whole line route, advised by the Working Group on Power.

PGCIL, however, as a practice did not conduct detailed surveys of forest stretches before preparation of BOQ and cost estimates, as stipulated in WPPP. Quantities for the purpose of FR were estimated based on forest atlas, topo-sheet[52]and walkover survey of the area resulting in significant variations at the time of actual execution of projects.

In test checked 20 projects, actual length of 17 transmission lines in 12 projects had variations as compared to FR line length ***(Annexure 5.1)***. In 11 transmission lines, actual length was less while in six transmission lines, the actual executed length was more. The difference in executed length as compared to FR length in four cases was less than 10 *per cent*, in four cases between 10 to 20 *per cent*, in four cases between 20 to 30 *per cent* and in five cases it was more than 30 *per cent*.

MOP stated (March 2014) that variations in line length considered in FR vis-a-vis actual constructed in most cases had been due to (i) change in the sub-station location, since at the time of preparation of FR, the locations for new sub-stations were tentatively identified and at the time of execution of projects, due to land acquisition Right of Way issues, line route was required to be changed, which was beyond the control of PGCIL; and (ii) detailed survey in forest area was undertaken as a parallel activity to primarily expedite submission of forest clearance proposals; MOP, however, assured that PGCIL was making all efforts to minimise the variation, such as more detailing at the FR stage by use of various tools like Google map, satellite images, topo- sheets, *etc*.

---

[51] ***Bill of Quantities is a list containing all items and their respective quantities, rate, etc. to be supplied by the contractor, under a given contract***

[52] ***Topo-sheet or Topographic sheet essentially contains information about an area like roads, railways, settlements, lands, rivers, electric poles, etc. According to their usage they may be available at different scales.***

The reply is to be viewed against the fact that variations at the time of execution of projects were possible to be minimised by conducting detailed survey before the start of procurement process. There is a need to adhere to the advice of the Working Group on Power through appropriate modifications in the relevant provisions of WPPP.

### *5.2 Non-adjustment of STOA charges from project cost*

Transmission charges for use of inter-state transmission system fall under three categories *viz*. Long term Access (LTA) charges, Medium term open access (MTOA) charges and Short term open access (STOA) charges. As per CERC (Open Access in Inter-state Transmission) Regulations, 2004 read with CERC order dated 30 January 2004, PGCIL was allowed to retain 25 *per cent* and 12.5 *per cent* of STOA charges collected in intra regional and inter regional transmission systems respectively and the balance was to be adjusted towards reduction in the transmission charges payable by Long-term customers. While allowing retention of STOA charges, CERC in its order dated 30 January 2004 stated that, "...25% of the revenue received from the short-term customers shall be retained by the transmission licensee, which is expected to be utilised in the core activity of building new transmission system." CERC amended (September 2013) the relevant Regulation relating to collection and disbursement of transmission charges (*i.e*. 75:25 and 87.5:12.5 ratios for intra-regional and inter-regional transmission system usage respectively) and provided that STOA charges had to be returned by CTU (PGCIL) to long term customers through adjustment of monthly transmission charges payable by them.

PGCIL received ₹ 906.49 crore between 2004-05 and 2012-13 on account of the above mentioned 25 *per cent* (12.5 *per cent* in case of inter regional) component of STOA charges but did not maintain project-wise details of inter-regional/intra regional transmission schemes where such STOA charges were utilised. This meant that PGCIL had used this as a revenue stream for itself instead of using it for funding new transmission systems/schemes, which would have resulted in reduction of tariff of such schemes to be recovered from customers.

MOP stated (March 2014) that as per CERC mandate, PGCIL had been utilising STOA charges in core activities of building new transmission system and for discharging CTU activities. MOP further stated that based on the rich experience, expertise, technical knowhow and intellectual assets possessed by PGCIL in the power transmission field, certain large and important activities which were difficult to monetize were performed by PGCIL such as carrying out Transmission System Planning activities in line with the National Electricity Plan, capacity building of State Utilities and DISCOMs, ATC/TTC declaration, communication planning, protection audit carried out for State Utilities, inputs for competitive bidding, coordination & support to State Transmission Utilities (STUs) viz., providing advanced simulation software and organizing training programs for their personnel and R & D and Technology Development. MOP contended that CERC Regulations did not have any provision for adjusting the project cost with STOA charges and added that PGCIL had filed a review petition with CERC, in respect of the amendment made by CERC in September 2013 regarding full STOA charges to be retained by long term customers.

The reply that the STOA charges were utilized in core activities of building new transmission system is to be viewed against the fact that details of projects wherein such charges were utilized were not available with PGCIL. In the absence of project-wise accounting/disclosure while filing tariff petition for new transmission systems, the condition on which PGCIL was allowed to retain the charges *i.e.* utilization of the funds in building new transmission systems, remained unfulfilled. As regards the claim that the charges were also utilised for discharging CTU activities, the stand is not in line with CERC Order dated 30 January 2004 which envisaged utilisation of charges in the core activity of 'building new transmission system'. Thus, the conditions stipulated by CERC for retention of STOA charges were not followed by PGCIL which resulted in denial of the benefit of reduction in the cost of new transmission projects to the extent of ₹906.49 crore between 2004-05 and 2012-13.

### *5.3 Non-utilisation of Power System Development Fund*

The "Power System Development Fund" (PSDF) was constituted (June 2010) under the CERC (Power System Development Fund) Regulations, 2010 by aggregating the funds available in the following four individual funds/Accounts maintained by RLDCs:

- *Unscheduled Interchange Charges Pool Account Fund* - The fund contained amounts that are payable/receivable by generators and discoms, for deviations from schedule, depending on whether the deviations has improved or worsened the grid frequency.
- *Congestion Charge Account*– RLDCs levied Congestion charge on real time, on entities causing congestion and the charges are distributed to entities relieving congestion.
- *Congestion Amount (Market splitting charge)* – Levy of congestion amount is a methodology adopted by power exchanges for congestion management, by splitting the market into a surplus part and a deficit part and adjusting the prices in the two markets[53].
- *Reactive Energy Charges Account* – Reactive energy charges are payable by discoms and generators who had a net drawal/injection of reactive energy under high/low voltage conditions.

The above charges are settled between those entities who pay and those who need to receive and the surplus amount in the four accounts is transferred to PSDF on a monthly basis. The funds are to be utilised for purposes specified in the respective CERC Regulations *viz.* to relieve congestion including but not limited to carrying out specific system studies to optimise

[53] ***If the flow exceeds the capacity at the common price for the whole market area, it is split in a surplus part and a deficit part. The price is reduced in the surplus area (sale > purchase) and increased in the deficit area (Purchase> sale). This will reduce the sale and increase the purchase in surplus area. In the same way, it will reduce the purchase and increase the sale in the deficit area. Thus, the needed flow is reduced to match the available transfer capability. This method of managing congestion is known as market-splitting.***

the utilisation of the inter-regional links, installation of special protection schemes, installation of shunt capacitors, VAR[54] compensators, series compensators and other reactive energy generators. The fund can also be utilised for creation of additional transmission capacity for relieving congestion and capacity building measures and training of participants of power exchanges, SLDC operators etc. Administration of PSDF was vested with a Management Committee (MC) appointed by CERC having Chief Executive Officer, POSOCO as its Chairman and having representatives from RPC, RLDCs and independent external members. The amount in PSDF as on 31 December 2013 was ₹ 6301.64 crore. (**Annexure 5.2**). Apart from nominal utilisation of ₹ 22 lakh (For meeting travel expenses, audit fees, sitting fees to Members, etc.), the fund remained unutilised since it was constituted. The accounts of PSDF were kept outside CERC Account as well as NLDC account and the unutilised balance was invested in treasury bills and flexi deposits of Indian Bank. In this connection, it is seen that a document titled 'Procedure for disbursement of funds from PSDF' was formulated by the MC and submitted to CERC for its concurrence in December 2010. As per correspondence exchanged by administrators of PSDF with CERC in September 2012, non-receipt of concurrence of CERC to the said procedure has been cited as the reason by the MC for the inability to discharge the functions assigned to it under the PSDF Regulations. Examination of the PSDF Regulations, however, revealed that the MC is vested with the power to prepare detailed procedure for disbursement from the Fund consistent with the provisions of the regulations but disbursement from the Fund shall not be made without the approval of CERC. In other words, it is the disbursement that requires CERC approval and not the procedure.

During the period of three years (December 2010 to December 2013), the MC received proposals for 16 projects, total estimated cost of which was ₹ 655.02 crore, for funding from PSDF, which were kept pending.

In January 2014, a Cabinet Note moved by MOP was approved wherein scheme for operationalisation of PSDF including eligible projects, appraisal committee and monitoring mechanism, etc, were mentioned. It was decided that the Fund, which hitherto remained outside the Government Account Framework[55], would be brought under Public Account.

POSOCO stated (February 2014) that the MC of PSDF not only submitted the procedure for disbursement from the Fund to CERC for approval, but was continuously pursuing the matter with CERC. However, as the procedure was not approved, MC could not start disbursement from the Fund. POSOCO was also of the view that in the regulatory regime, the procedure, even though made under CERC Regulation would have weight only if approved by CERC.

POSOCO's reply indicates that due to avoidable administrative issues, funds lying in PSDF were not utilised towards relief of congestion and system strengthening projects.

MOP informed in the Exit Conference (April 2014) that an initiative had since been taken for proper accounting and utilisation of PSDF.

[54] ***VAR – Volt-ampere reactive***

[55] ***All Government moneys come under three accounts viz., the Consolidated Fund of India, Contingency Fund and Public Account and all three accounts are audited by the Comptroller and Auditor General of India.***