CHAPTER–III

3. Transaction Audit Observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies/Statutory corporations are included in this Chapter.

Government companies

Uttar Pradesh Rajkiya Nirman Nigam Limited

3.1 Injudicious management of surplus funds

Due to not availing auto sweep facility with current accounts, not investing unutilised funds in Fixed Deposits at higher interest rates and obtaining Performance Bank Guarantee against pledge of current account, the Company suffered a loss of interest of ₹ 31.27 crore.

Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) executes construction works of various Government Departments on deposit work basis. For execution of deposit works, the Government provides funds to the Company in advance. The Company generally has huge unutilised funds received for execution of deposit works. These unutilised funds are kept in bank accounts either at Headquarters or at the Units.

An efficient and effective fund management system ensures adequate liquidity to meet expenses and enables investment of surplus funds in appropriate instruments to optimise interest income.

We examined the management of unutilised/ surplus funds by the Company during the period April 2009 to March 2013 and noticed various deficiencies as discussed in the succeeding paragraphs:

3.1.1 Non availing of auto sweep facility in current accounts

Banks do not provide interest on current accounts. Banks, however, provide auto sweep facility to their customers, on their request, to enable automatic investment of surplus funds lying in current accounts into term deposits. It also allows automatic encashment of term deposits when funds are required to meet an impending expenditure. Interest at the rate of 2.75 *per cent* per annum is provided on the amount transferred to term deposits from current account. The threshold limit for transfer to term deposits from current account is ₹ two lakh and an average quarterly balance of ₹ two lakh is to be maintained in the current account.

We noticed that the Company did not avail auto sweep facility being provided by banks on 29 current bank accounts which resulted in loss of interest to the extent of ₹ 26.71 crore.

3.1.2 Investment of funds in Fixed Deposits at lower rates

As per common financial prudence, the Company should formulate a policy and establish a system regarding investment of surplus funds to ensure maximum returns on short term deposits with banks.

We noticed that the Company has not formulated any policy for investment of surplus funds. The Company invested its surplus funds arbitrarily without ensuring maximum returns which resulted in loss amounting to ₹ 1.16 crore as discussed below:

- The Company invested an amount of ₹ 231.46 crore in 23 fixed deposits, in various banks, at its Headquarters at Lucknow during the period March 2010 to June 2012 at interest rates which were lower than the interest rates being earned by it on other Fixed Deposits made on the same/ previous day. Investment in Fixed Deposits at lower interest rates resulted in loss of interest of ₹ 62.94 lakh.
- The Company invested an amount of ₹ 68.96 crore for one year in five Fixed Deposits in two[1] banks on 16 March 2011 and 17 March 2011 at an interest rate of 9.25 *per cent* per annum and 9.5 *per cent* per annum respectively. We observed that the Company had received (11 March 2011) an offer of interest rate of 10.15 *per cent* per annum from Allahabad Bank, Hussainganj branch for Fixed Deposits of ₹ 10 crore and above. The Company despite having knowledge of higher interest rates during the period, did not invite offers of interest rates on Fixed Deposits from other banks including Allahabad Bank. Thus, due to investment at lower interest rate, the Company suffered loss of interest of ₹ 52.56 lakh**.**

3.1.3. Bank Guarantee on imprudent terms

In respect of tender works being executed by the Company, the terms and conditions of contract agreements require it to furnish Performance Bank Guarantee to its clients for fulfillment of its obligation under the contract. The Company generally obtains these Bank Guarantees from banks against pledge of Fixed Deposit Receipts (FDRs) so as to earn interest on the amount locked during the period of guarantee.

The Company, in respect of Hospital works of Employees State Insurance Corporation (ESIC), provided three Bank Guarantees (13 August 2009) of total value of ₹ 21.96 crore for the period effective up to 12 January 2011, which was later extended up to 12 January 2012, from Bank of India, Nirala Nagar Branch, Lucknow, against pledge of equivalent amount in current account of the Company. Instead of first investing the required funds from current account as Fixed Deposits and then pledging the same Fixed Deposit Receipts against the Bank Guarantees, the pledge of ₹ 21.96 crore in the current account led to the Company's funds of that amount being locked for the period 13 August 2009 to 12 January 2012 without earning interest. As a result, the Company did not earn interest of ₹ 3.40 crore[2] on the blocked amount.

The matter was reported to the Management and Government (October 2013); their replies have not been received (December 2013).

3.2 Imprudent release of mobilisation advance to sub-contractors

The Company extended undue advantage to sub-contractors by releasing interest-free mobilisation advance of ₹ 138.01 crore, without ensuring availability of land/requisite approvals, which were pre-requisites to start the work.

Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) was awarded five works[3] by the Employees State Insurance Corporation (ESIC) on cost *plus* centage basis which were sub-contracted by the Company on back-to-back basis to various sub-contractors by inviting tenders.

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[1] Oriental Bank of Commerce - ₹ 30.96 crore and Punjab National Bank - ₹ 38.00 crore.

[2] Calculated at a quarterly compounding interest rate of 6 *per cent* per annum being the prevalent interest rate on short term deposits.

[3] Examined in Audit.

The terms and conditions of agreements entered into by the Company with ESIC provided that 10 *per cent* of the contract price shall be paid as interest free mobilisation advance by ESIC to the Company after signing of the contract agreement and production of bank guarantee. Similar provision was also incorporated in the agreements entered into by the Company with the sub-contractors for providing interest free mobilisation of advance to the sub-contractors by the Company.

The Letter of Intent (LoI) issued by the ESIC to the Company provided that necessary permission from the concerned Government authorities[4] were to be obtained[5] before undertaking the work. However, no corresponding clause, restricting the release of mobilisation advance till the necessary clearance/approval from local bodies was made in the agreement either by the ESIC or by the Company.

Since the start of the various works was dependent upon other factors viz. availability of land and obtaining necessary approvals/clearances from the concerned Government Authorities, the Company should have, as per normal financial prudence, released the mobilisation advance only after ensuring that the concerned issues have been addressed and it was possible to start the work immediately after release of mobilisation advance or in the foreseeable future.

The details of mobilisation advances released to the sub-contractors, dates of clearances of site/approvals of local bodies and actual start of works are given below:

Table No. 3.1

(₹ in crore)

Sl. No.	Name of the work	Name of the sub-contractor	Date of agreement with sub-contractor	Date on which MA[6] released to sub-contractor	Amount of MA[6] released to sub-contractor	Date of clearance of site/approval of Local Bodies (Delay in months)	Date of start of work	Duration between MA[6] released and start of work
1.	300 bedded hospital at Kandivali, Mumbai	KCP Projects Limited, Hyderabad	March 2009	March 2009	13.00	February 2010 (11 months)	February 2010	11 months
2.	Staff quarters at Andheri, Mumbai	KCP Projects Limited, Hyderabad	March 2010	April 2010	11.20	Not yet obtained (45 months up to December 2013)	Not yet started	Not yet started
3.	ESI Medical College as well as staff housing at Basaidarapur, New Delhi	NKG Infrastructure Limited, Ghaziabad	January 2010	February 2010 to January 2011	58.87	December 2011 (23 months)	March 2012	14 to 25 months
4.	ESI Medical College at Sanath Nagar, Hyderabad	Vijay Nirman Company Private Limited, Hyderabad	December 2009	February 2010 to September 2010	38.94	December 2010 (12 months)	December 2010	3 to 10 months
5.	ESI Dental College at Nacharam, Hyderabad	Kanakdhara Ventures Private Limited	October 2009	February 2010 to June 2010	16.00	December 2010 (14 months)	December 2010	6 to 10 months
	Total				**138.01**			

It is evident from the above that there were considerable delays ranging between 11 and 23 months in demolition of existing building/obtaining the

4 Municipal Corporation of Greater Mumbai/Maharastra Housing and Area Development Authority, Municipal Corporation of Delhi and Greater Hyderabad Municipal Corporation.
5 By the ESIC.
6 MA-Mobilisation Advance.

requisite approvals/clearances from the authorities. In one case[7], it could not be obtained so far (December 2013) despite lapse of about 45 months from the date of agreement with sub-contractor.

The Company, despite being aware of the fact that immediate start of these works was not possible, obtained complete mobilisation advance (₹ 150.85 crore) from ESIC and released (₹ 138.01 crore) the same to the sub-contractors after execution of agreements with them. The release of mobilisation advance in the beginning, without obtaining necessary approvals/ clearances, was unwarranted because as per the LoI, the works were to be started only after obtaining the necessary approvals/clearances. Moreover, as there was a long delay between release of mobilisation advance and start of work, the very purpose of mobilisation advance was not fulfilled. This also resulted in undue advantage to the sub-contractors in the shape of readily available funds to that extent.

The Management stated (June 2013 and November 2013) that:

- The work of 300 Bedded Hospital at Mumbai was started in February 2009 on the open spaces available in the campus of the existing building. An undertaking has been obtained from the sub-contractor that the mobilisation advance was not kept in bank and was utilised towards mobilisation of plant and machinery, labour and material within one month of possession of the site.
- Against mobilisation advance of ₹ 11.20 crore released to the sub-contractor for construction of Staff Quarters at Mumbai, it had incurred expenditure of ₹ 16.84 crore on deployment of plant and machinery, men and material at the site but in the meantime the work was stopped by the local authorities as the plan, drawing and design of the building submitted by the architect of ESIC was not approved due to introduction of new rules and laws.
- The construction plan of building in case of ESI Medical College as well as staff housing at New Delhi had been submitted by the architects/consultants of ESIC with the Municipal Corporation of Delhi (MCD) for approval and in anticipation of the approvals, the sub-contractor was directed, to start the work. Accordingly the sub-contractor started the work in February 2010 by deploying their plant and machinery, men and material at the site. MCD got the work stopped in March 2010 which could be restarted after the approval of MCD in December 2011.
- The drawings of ESI Medical College and ESI Dental College at Hyderabad were submitted to the Greater Hyderabad Municipal Corporation (GHMC) by the consultants of ESIC and the sub-contractors deployed their plant and machinery, men and material at site and started the construction work in February 2010 in anticipation of approval of drawings.

The response of the Management confirms that release of mobilisation advance to the sub-contractors without obtaining necessary approvals/clearances, was unwarranted because as per the LoI, the works were to be started only after obtaining the necessary approvals/clearances. Moreover, as there was a long delay of three to 25 months between release of mobilisation advance and start of work, the very purpose of mobilisation advance was not fulfilled. In the case of the work of Staff Quarters at

[7] Staff Quarters at Andheri, Mumbai.

Mumbai, the entire amount of advance of ₹ 11.20 crore still remains blocked. Moreover, as the Management did not furnish documents in support of utilisation of mobilisation advance despite being called for by Audit, the claim of Management that the mobilisation advance was actually utilised by the sub-contractors could not be substantiated.

The matter was reported to the Government in May 2013, August 2013 and November 2013; the reply has not been received (December 2013).

3.3 Systemic deficiencies in disposal of surplus earth

The Company incurred an avoidable expenditure of ₹ 91.70 lakh on disposal of surplus earth instead of making arrangement for sale/lifting of earth prior to starting the excavation work.

Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) was assigned (March 2008 and May 2009) by the State Government (Medical Education Department) the work of construction of Teaching block and Shatabdi Hospital (Phase – II) at Chatrapati Shahuji Maharaj Medical University (CSJMMU) at a sanctioned cost of ₹ 33.27 crore and ₹ 139.35 crore respectively. The Company awarded (August 2008 and June 2009) the aforesaid works to M/s Sewa Developers Private Limited, Lucknow and M/s IVRCL Infrastructures and Projects Limited, Hyderabad respectively for back to back execution[8]. In execution of the aforesaid construction works, earth was to be excavated for making trenches for foundation and for laying pipes, cables etc. After completion of construction of foundation and laying of pipes, cables etc., some quantity of earth was required to be back-filled and the remaining surplus earth was to be disposed off.

The earth is a saleable commodity as it is often purchased by the executing agencies for filling at sites. Moreover, the rate of earth is fixed in Collector's circle rate list also. Though the Company was aware, since the beginning, of the fact that disposal of earth shall be required in due course of execution of the works, it failed to make efforts to realise the sale of surplus earth on the spot. The Company disposed off 62,942.62 cu.m.[9] surplus earth against estimated quantity of 62,368.35 cu.m.[10] earth, in execution of the aforesaid works after incurring an expenditure of ₹ 91.70 lakh[11]. The surplus earth, being a saleable commodity should have been sold on the spot after deposit of due royalty. The sale of this surplus earth on spot would have served a two-fold purpose i.e. it would have eliminated the need for incurring disposal costs and would have fetched revenue[12]. Thus, due to this systemic deficiency, the Company incurred an avoidable expenditure of ₹ 91.70 lakh on disposal of surplus earth.

The Management stated (August 2013) that the excavated earth could not be stored at the site as it would have hindered the free passage of the patients and local traffic within the campus. Besides, other building materials also required space and non-disposal of earth immediately would have caused obstruction

[8] Back to Back execution refers to sub-letting of the whole work to a sub-contractor.

[9] Teaching Block – 15,541.97 cu.m. and Shatabdi Hospital (Phase-II) – 47,400.65 cu.m.

[10] Teaching Block – 14,963.76 cu.m. and Shatabdi Hospital (Phase-II) – 47,404.59 cu.m.

[11] Teaching Block – ₹ 17.94 lakh (15,541.97 cu.m. x ₹ 115.42) and Shatabdi Hospital (Phase-II)- ₹ 73.76 lakh (47,400.65 cu.m. x ₹ 155.61).

[12] Revenue of ₹ 28.32 lakh for 62,942.62 cu.m of disposed earth at the rate of ₹ 45.00 per cu.m being the rate of sale/purchase of earth prescribed in the circle rate list issued by the District Magistrate for the year 2010-11.

in the construction work. Considering these practical problems, the surplus earth was disposed off.

The reply appears to be afterthought in view of the fact that, the Company knew in advance that disposal of surplus earth shall be required in due course but did not make timely arrangement for sale/free lifting of earth prior to starting the excavation work. Moreover, the Company paid royalty of ₹ 5.66 lakh on excavation of earth only after it was pointed out by Audit.

The matter was reported to the Government in June 2013; the reply has not been received (December 2013).

3.4 Avoidable extra expenditure

The Company incurred extra expenditure of ₹ 54.42 lakh on purchase of transformers and ₹ 35.00 lakh on construction of 33/11 kV sub-station building due to non-adherence to the canons of financial propriety.

The Government of Uttar Pradesh (Medical Education Department) awarded (September 2009) the work of construction of 33/11 kV sub-station at Dr. Ram Manohar Lohia Institute of Medical Sciences, Lucknow to Uttar Pradesh Rajkiya Nirman Nigam Limited (Company). The Company, in turn, sub-contracted (March 2010) the work to two contractors as detailed below:

Table No. 3.2

(₹ in lakh)

Sl. No.	Name of the contractor	Name of the work	Amount
1.	Anupam Power Products, Lucknow **(Supplier)**	Supply of transformers and other equipments	318.72[13]
2.	Eagle Enterprises, Lucknow **(Contractor)**	Erection of sub-station	194.30
	Total		**513.02**

We noticed (November 2012) the following lapses in the award of rates in these contracts:

A. Supply of Equipments:

The supply order placed with the Supplier included supply of two sets of 33/11 kV, 10 MVA transformers[14], which formed 53 *per cent* of the total value of the supplies, at FOR cost of ₹ 95.45 lakh[15] each (inclusive of VAT). We compared the rates awarded to the Supplier with the rates at which the Supplier purchased the same from the manufacturer i.e. Areva T&D India Limited and also with the cost[16] of transformers of the same specifications purchased by Uttar Pradesh Power Corporation Limited (UPPCL) which has domain expertise in the field. We observed from copy of the invoice of Areva T&D India Limited and issue rates of UPPCL that:

- The landed cost of each transformer to the Supplier was ₹ 59.34 lakh[17] (including VAT).
- The cost of each transformer purchased by UPPCL was ₹ 56.68 lakh.

Comparing the cost to the Company i.e. ₹ 95.45 lakh with the purchase cost of the same set of transformers to the Supplier i.e. ₹ 59.34 lakh, we noticed that

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13 Excluding VAT.
14 As per IS:2026.
15 ₹ 84.10 lakh excluding VAT.
16 Issue rate of 10 MVA transformer fixed by the UPPCL.
17 Invoice price of Areva T&D India Limited - ₹ 58.84 lakh *plus* ₹ 0.50 lakh being freight.

the Supplier had quoted and received profit of ₹ 36.11 lakh for each transformer which was 61 *per cent*.

It is clear that the Company did not conduct any due diligence like market survey or consultation with the UPPCL, which is a regular buyer of the transformers, with the domain expertise on this subject, for the main components of the total supply order, in order to examine the reasonability of the rates quoted by the Supplier before award of supply order to them. This resulted in avoidable extra expenditure of ₹ 54.42 lakh[18].

The Management stated (July 2013) that:

- works were awarded to the Supplier on the basis of lowest rates obtained after inviting tenders from reputed firms.
- rates of transformers were obtained as a constituent of the whole lot and not as an individual item which resulted in lower rates for some items and higher rates for others.

We do not accept the reply as the Company did not ensure the reasonableness of the rates quoted by the Supplier by obtaining the procurement rates of similar transformers from UPPCL which is a regular buyer.

B. Civil work of sub-station

UPPCL in its cost schedule[19] has prescribed a standard cost of ₹ 33.06 lakh for construction of 33/11 kV sub-station building. It was, however, observed that the work order placed by the Company with the Contractor included construction of 33/11 kV sub-station building for housing of 33 kV, 11kV/LT panels etc., as per standard designs of UPPCL at a cost of ₹ 70.00 lakh. The amount sanctioned by the Expenditure Finance Committee (EFC) for the aforesaid work was ₹ 35.00 lakh. Thus, the work of construction of sub-station building was awarded at twice the sanctioned as well as standard cost. Although the construction was to be as per standard designs of UPPCL, the Company did not obtain the prevalent cost for the same from UPPCL in order to know the genuineness of the rates quoted by the Contractor before award of the work order to them. This resulted in avoidable expenditure of ₹ 35.00 lakh.

The Management stated (July 2013) that the:

- works were awarded to the Contractor on the basis of lowest rates obtained after inviting tenders from reputed firms.
- rate of ₹ 70.00 lakh for construction of sub-station building was finalised as earth filling in large quantities was required at the site. Besides, an approach road was also to be constructed.
- rate for sub-station building was approved by the EFC in the year 2008 while the tenders were invited in the year 2010 which warranted adequate price variation as well.

We do not accept the reply as:

- the Company has not recorded the fact of requirement of extra work i.e. earth filling and construction of approach road in the work order and not calculated the extra cost involved for the same.

[18] 2 x [₹ 95.45 lakh – (₹ 59.34 lakh + 15 *per cent* contractors' profit as per Delhi Schedule of Rates)] = ₹ 54.42 lakh.

[19] Cost Schedule (effective from 1 April 2010) is a Schedule of Rates prepared by the Rural Electrification and Second System Planning Organisation (RESSPO) on the basis of current rates to be used for formulation of schemes/projects.

- The Company did not obtain the approval of the EFC for the enhanced cost (₹ 70.00 lakh) of sub-station building.
- The point of cost escalation is not valid as the rate of ₹ 35.00 lakh approved by the EFC in January 2009 was already higher than the rate of ₹ 33.06 lakh of UPPCL of April 2010.

Thus, the Company did not adhere to the canons of financial propriety and allowed excessive rates in procurement of transformers and construction of sub-station building which resulted in avoidable expenditure of ₹ 89.42 lakh.

The matter was reported to the Government in June 2013; the reply has not been received (December 2013).

3.5 Extra expenditure on architects' fee

The Company paid architects' fee at higher rates for the repetitive work of drawings and designs of Government Polytechnics, resulting in extra expenditure of ₹ 50.20 lakh.

Uttar Pradesh Rajkiya Nirman Nigam Limited (Company) executes works of various departments of the Government of Uttar Pradesh (GoUP) on deposit basis i.e. actual cost *plus* centage at the prescribed rate thereon. The GoUP issued (February 1997) orders which provides for centage at the rate of 12.5 *per cent* which includes 1.5 *per cent* towards architect's fee. Although the Company has its own architectural wing, it also appoints external architects in some cases.

We noticed that the Company had not formulated any policy for appointment of external architects and therefore external architects were appointed on case to case basis by the Company's internal High Level Committee (HLC) after approval of the Managing Director (MD). In one such case[20] the HLC and the MD directed (February 2005) that in case of repetitive work, fee to the architect should be paid at the rate of 0.25 *per cent* of project cost. Further, the Central Vigilance Commission's (CVC) guideline[21] regarding appointment of consultants also *inter-alia* provides that the consultants should not be paid same standard fee for repetitive type of work. Besides, in a meeting held in June 2010 under the chairmanship of the Principal Secretary, Public Works Department to formulate a policy to obtain the services of private architects, it was proposed that if standardised drawings are to be used at various places, fee shall be paid at the rate of 20 *per cent* of total fee[22].

Thus, in cases where a standardised set of drawings, designs and estimates are prepared for one work and the same set is used for all the remaining works, the external architect should be paid at the full rate for one work only and for all remaining works, fee should be paid at a reduced rate in view of the reduced scope of services to be rendered by the architect.

The Company was awarded (February/March 2010) the work of construction of eight[23] Government Polytechnics by the Technical Education Department, Government of Uttar Pradesh at a sanctioned cost of ₹ 6.45 crore each (including centage). The Company engaged (April 2010) an architect[24] for providing consultancy services in respect of architectural works, structural

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20 Construction of residences for employees of Secretariat of Uttarakhand at Kedarpuram, Dehradun.
21 Office Memorandum No. OFF 1 CTE 1 dated 25 November 2002.
22 Which works out to 0.3 *per cent* (1.5 x 20 *per cent*).
23 Varanasi, Chandauli, Bhadohi, Azamgarh, Ghazipur, Ballia, Sonbhadra and Mirzapur.
24 Rajiva Kumar & Associates.

engineering works and preparation of estimates at a fee of 1.5 *per cent* of the cost of each project (excluding centage from the cost of project for calculating architect fee).

In this regard we noticed the following:

- Selection of the architect was arbitrary and non-transparent as no bidding process was followed contrary to the CVC guidelines which provide that selection of consultants should be made in a transparent manner through competitive bidding.
- Since the architectural works of all Polytechnics were uniform and repetitive in nature, in view of standardised drawings and designs of the Polytechnics, the architect was required to be paid fee at the rate of 1.5 *per cent* for one Polytechnic and at the rate of 0.25 *per cent* for remaining seven Polytechnics.

The Management stated (September 2013) that the Polytechnics were constructed at different geological areas with different sites and soil conditions, hence, the structure of designs of foundation and super structure were different. Besides, the designs of drainage systems, water supply and sanitary systems, site development, external electrification arrangement, street light etc. were also different for each site.

The reply is not acceptable as:

- It was noticed that the drawings and designs of all Polytechnics were similar.
- Another PSU[25] executing the same work viz., construction of Polytechnics at other places of the State, paid fee at full rate for one Polytechnic and at reduced rates for the remaining polytechnics to the same architect. Further, the Company itself had paid fee at reduced rate for repetitive works in other cases[26].

Thus, due to appointment of architect on irregular payment terms, the Company incurred an extra expenditure of ₹ 50.20 lakh[27].

The matter was reported to the Government in May 2013; the reply has not been received (December 2013).

Purvanchal Vidyut Vitran Nigam Limited

3.6 Loss of interest due to delay in raising of bills

The Company suffered loss of interest of ₹ 11.30 crore due to delay in raising bill for energy supplied during peak hours to Hindalco as per provisions specified in CNCE Regulations, 2009.

The sale of electricity from Captive Power Generation Plants to Electricity Distribution Licensees in the State of Uttar Pradesh is governed by CNCE[28] Regulations 2005[29] and 2009[30] issued by Uttar Pradesh Electricity Regulatory

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25 Uttar Pradesh Avam Evam Vikas Parishad.

26 Residences for employees of Secretariat of Uttarakhand at Kedarpuram, Dehradun and 100 beded maternity wing in various districts of Uttar Pradesh.

27 (₹ 573.71 lakh being cost of one polytechnic excluding centage x 8 x 1.5 *per cent*) – [(₹ 573.71 lakh x 1.5 *per cent*) + (₹ 573.71 lakh x 7 x 0.25 *per cent*)] = ₹ 68.85 lakh – ₹ 18.65 lakh = ₹ 50.20 lakh.

28 Captive and Non-Conventional Energy Generating Plants.

29 Uttar Pradesh Electricity Regulatory Commission (UPERC) (Terms and Conditions for Supply of Power and fixation of Tariff for sale of power from Captive Generating Plants, Co-generation, Renewable Sources of Energy and Other Non-Conventional Sources of Energy based Plants to a Distribution Licensee) Regulations, 2005 applicable from 28 July 2005.

30 UPERC (Captive and Non-Conventional Energy Generating Plants) Regulations, 2009 (CNCE Regulations, 2009) applicable from 1 October 2009.

Commission (UPERC). 'Banking of Power' is the process under which a Generating Plant supplies power to the grid not with the intention of selling it to either a third party or to the Licensee, but with the intention of exercising its eligibility to draw back this power from the grid.

The Uttar Pradesh Power Corporation Limited (UPPCL) on behalf of Purvanchal Vidyut Vitran Nigam Limited (Company) entered into an agreement (effective from 1 April 2009) with Hindalco Industries Limited (Hindalco) for supply of electric energy to Hindalco as well as for purchase of electric energy from the Power System of Hindalco for a period of five years. The rates, terms and conditions of the agreement were governed by the new policy (CNCE Regulations, 2009) for purchase of power from Captive Power Plants (CPP) as approved by UPERC. The other important provisions of the agreement were as follows:

- As per clause 22, Hindalco will supply to UPPCL, electric power up to 60,000 kW, through "Power System of Hindalco". Out of the total energy supplied by Hindalco, 75 *per cent* of energy will be treated as Banked Energy and balance *25 per cent* energy will be treated as energy sold by Hindalco to UPPCL.
- As per clause 10, Hindalco shall pay to UPPCL, for supply of electrical energy from UPPCL to Hindalco under this agreement, after adjustment of Banked Energy.

We noticed[31] (December 2012) the following shortcomings in the billing to Hindalco by the Company:

- Energy drawn by Hindalco during peak hours (17:00 hours to 22:00 hours) was not ascertained by the Company although Time of Day (TOD) meter for recording energy consumption was installed.
- The Company supplied 36,16,41,502 kVAh of energy to Hindalco between April 2009 to March 2013, which was entirely adjusted against Banked Energy.
- Out of above, 7,53,41,980[32] kVAh of energy was supplied to Hindalco during peak hours. As per clause 39 (B) of the CNCE Regulations 2009, energy supplied during peak hours was not to be adjusted from the banked energy and was to be treated as sale of energy by the Company to Hindalco. In contravention of above provision, no bills were raised by the Company and adjustment of energy drawn during peak hours, against the Banked Energy was wrongly permitted. The value of such energy not billed is ₹ 32.69 crore as detailed in **Annexure-14.**

Due to non-adherence to the provisions of CNCE Regulations, 2009, the Company did not raise the bills to Hindalco for energy supplied during peak hours resulting in non-billing of ₹ 32.69 crore for the period April 2009 to March 2013 and suffered consequential loss of interest of ₹ 11.30 crore[33] up to

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[31] During audit of Electricity Distribution Division, Pipri.

[32] In absence of reading of peak hours, the supply in peak hours has been worked out on the basis of proportion of peak hours i.e. five hours to total hours i.e. 24 in Column 5 of **Annexure-14**. The year-wise peak hours supply was: 2,39,60,313 kVAh (2009-10); 1,69,61,597 kVAh (2010-11); 1,56,14,306 kVAh (2011-12) and 1,88,05,764 kVAh (2012-13).

[33] Calculated at the rate of 1.25 *per cent* per month being the rate of late payment surcharge levied by the Company on delayed payment of bills by the consumers.

August 2013 **(Annexure-14)**. After we pointed this out (May 2013), the Company raised (September 2013) bills for peak hour charges to Hindalco. The recovery was, however, still to be made (December 2013).

Thus, due to delay in raising of bills for energy supplied during peak hours, the Company has suffered a loss of interest of ₹ 11.30 crore.

We recommend that the Management review the billing of energy supplied during peak hours between April 2005 to March 2009 as the CNCE Regulations, 2005 also had similar provisions.

The matter was reported to the Government in May 2013; the reply has not been received (December 2013).

3.7 Loss of interest due to incorrect billing of demand charges

The Company suffered a loss of interest of ₹ 9.05 crore due to incorrect billing of demand charges.

Uttar Pradesh Power Corporation Limited (UPPCL) on behalf of Purvanchal Vidyut Vitran Nigam Limited (Company), entered into an agreement (March 2007) with Divisional Railway Manager, North Central Railway, Allahabad (Consumer) for supply of Power to Railways for Electric Traction between Mugalsarai-Kanpur Section.

As per Para 8 of the Agreement, if the total simultaneous maximum demand[34] created on all the supply points exceeds the contracted load, penalty as provided in the tariff order issued by UPERC and as amended from time to time, shall be levied.

The connection to Railway Traction comes under HV- 3[35] category consumers and demand charges are charged as per Rates[36] applicable from time to time. We examined the bills raised on the consumer for the period from April 2007 to January 2011 (46 months) and found the following shortcomings:

- **Billable Demand**: As per the provisions of the Rate Schedule[37], the billed demand during a month shall be the actual maximum demand as indicated by the TVM/TOD[38] meter or 75 *per cent* of the contracted load, whichever is higher. In contravention to the above provision, the Company, without considering the actual maximum demand as indicated by the TVM/TOD meter, raised monthly bills for the contracted load between the period April 2007 to May 2010 and for 75 *per cent* of contracted load between June 2010 to January 2011 at both types of supply voltage i.e. 25 kV an 132 kV. This incorrect billing for 46 months, resulted in a net short billing of ₹ 8.36 crore **(Annexure – 15)** at both types of supply.

- **Charges for exceeding Contracted Load**: As per the provisions of the Rate Schedule, if the actual maximum demand in any month of a consumer

[34] As per Para 11 of the Agreement, the measured demand of 25 kV supply points and 132 kV supply points shall be added separately to calculate the simultaneous maximum demand at 25 kV and 132 kV supply points for billing purposes, at any point of time during the month (billing cycle).

[35] HV-3 is category defined in the rate schedule which pertains to Railway Traction only.

[36] The rates of demand charges were:
(i) For supply below 132 kV: ₹ 170 per kVA from April 2007 to October 2007, ₹ 180 per kVA from November 2007 to March 2008 and ₹ 200 per kVA thereafter.
(ii) For supply at and above132 kV: ₹ 165 per kVA from April 2007 to July 2007, ₹ 160 per kVA from August 2007 to October 2007, ₹ 170 per kVA from November 2007 to March 2008 and ₹ 180 per kVA thereafter.

[37] Issued by Uttar Pradesh Electricity Regulatory Commission in tariff order for 2007-08 and 2008-09.

[38] TVM – Tri-Vector Meter and TOD – Time of Day Meter.

having TVM/TOD meters exceed the contracted load, such excess demand will be charged additionally as follows:

- At normal rates if such excess demand does not exceed 10 *per cent* of the contracted load;
- At twice the normal rates if such excess demand exceeds the contracted load by more than 10 *per cent.*

We further noticed that though the actual demand exceeded the contracted load by 415 kVA to 23,417 kVA in 36 months out of 46 months (April 2007 to January 2011), the Company raised the bills for excess demand charges only in one month i.e. April 2007. The chargeable excess demand was of 3,13,058 kVA, which resulted in short billing of 'excess demand charges' by ₹ 7.90 crore **(Annexure – 16)**.

Due to non-adherence to the provisions of the Rate Schedule, Company made short billing of demand charges of ₹ 16.26 crore for the period April 2007 to January 2011 to the Consumer and suffered consequential loss of interest of ₹ 9.05 crore[39] (up to August 2013). After we pointed this out (May 2013), the Company raised (September 2013 and October 2013) the bills for additional demand charges for the period April 2007 to January 2011. The recovery is, however, still awaited (December 2013).

Thus, due to incorrect billing of demand charges, the Company has suffered a loss of interest of ₹ 9.05 crore.

The matter was reported to the Government in May 2013, the reply has not been received (December 2013).

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

3.8 Avoidable expenditure on purchase of Hi-Chrome Liners

The Company incurred avoidable expenditure of ₹ 2.05 crore due to purchase of Hi-Chrome Liners at higher rates.

Anpara 'B' Thermal Power station (BTPS) of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Company), after due administrative approval, invited (February 2009) a tender for procurement of 15 set of Hi-Chrome Liners[40] for its 16 Ball Mills[41] with the condition that the tenderer must be an Original Equipment Manufacturer (OEM) of Hi-Chrome Liners having experience of supplying the Hi-Chrome Liners to Bharat Heavy Electricals Limited (BHEL)/National Thermal Power Corporation (NTPC)/State Power Sector Utilities.

In response to the aforesaid tender, bids of M/s AIA Engineering Limited, Ahmedabad and M/s Balaji Industrial Products, Jaipur were received (April 2009) and the rates of ₹ 51.74 lakh per set (including taxes) of M/s Balaji Industrial Products, Jaipur were found lowest. The rates of M/s Balaji Industrial Products were approved by the Chief General Manager, BTPS and sent (June 2009) to Headquarters for approval of the Corporate Tender Committee (CTC). The CTC rejected the proposal (July 2009) on the ground that the proposed procurement of Hi-Chrome Liners was included in the proposed Renovation and Modernisation (R&M) Scheme of BTPS and as per

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[39] Calculated at the rate of 1.25 *per cent* per month being the rate of late payment surcharge levied by the Company on delayed payment of bills by the consumers.
[40] Hi-Chrome Liners are components of Ball Mills.
[41] Ball Mills perform task of grinding of coal.

the decision of the Energy Task Force of the State Government, the said renovation was to be done from BHEL on single tender basis.

The Energy Task Force (ETF) decided (June 2009) that R&M of Boiler and its auxiliaries and Balance of Plant may be done from BHEL on single tender basis and R&M of Turbine and Generator and its auxiliaries may be done from others as per financial rules. In view of the aforesaid decision, BTPS invited (July 2009) separate offers from BHEL for various segments of activities and placed separate orders for different segments of activities under the scope of BHEL, instead of placing a single order for the whole activity.

BTPS also invited (July 2009) offer from BHEL for renovation of Ball Mills (Activity No. 2.2.2) which involved the following three activities:

- Renovation of Ball Mill Liners;
- Supply of Hi-Chrome Grinding Media Balls; and
- Installation of Ball Mill Liners

Against the aforesaid enquiry, BHEL instead of giving its offer for whole renovation of Ball Mills, gave its offer (October 2009) for supply of Hi-Chrome Liners only. The other two activities were hence, done from other firms[42].

The initial rate for Hi-Chrome Liners quoted by BHEL was ₹ 1.25 crore per set, which was finally negotiated (November 2009) to ₹ 65.37 lakh per set (including taxes). After approval (January 2010) of the Project Tender Committee, a separate supply order was placed (January 2010) on BHEL for supply of 15 sets of Hi-Chrome Liners at the rate of ₹ 65.37 lakh per set (inclusive of taxes). In this respect we noticed the following:

- Although BHEL did not agree to take the whole renovation of Ball Mills and its rates (₹ 65.37 lakh per set) for supply of Hi-Chrome Liners were much higher than the rates (₹ 51.74 lakh per set) offered by M/s Balaji Industrial Products, Jaipur (firm), the Company did not consider to purchase Hi-Chrome Liners directly from the firm despite the fact that in similar cases[43], the Company had decided to get some of the R&M activities initially offered to BHEL, done from Original Equipment Manufacturers, due to high rates of BHEL.
- It is interesting to note that BHEL, in turn, had placed the order (February 2010) for supply of Hi-Chrome Liners to M/s Balaji Industrial Products, Jaipur at the rate of ₹ 50.07 lakh per set, which sent the consignment directly to BTPS.

Thus, the Company incurred extra expenditure of ₹ 2.05[44] crore due to the imprudent decision of purchase of Hi-Chrome Liners from BHEL despite knowing that the rates quoted by BHEL were much higher than the rates quoted by the firm.

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[42] M/s Blue Star Malleables Private Limited, Jamshedpur, M/s Ohm Enterprises, Anpara and M/s Alok Construction, Anpara.

[43] (i) Activity No. 1.1.2 Renovation of Cation of Anion Resin of Mixed bed operator of CPP plant. Offer to BHEL dated 21 July 2009. Final work order placed to M/s Virmani Bros Dealer.
(ii) Activity No. 2.1.2 Renovation of Boiler circulation pump and accessories. Offer to BHEL dated 21 July 2009. Final work order placed to M/s ISS Machinery for Fuji Electric Japan.

[44] 15 x (₹ 65.37 lakh – ₹ 51.74 lakh) = ₹ 2.05 crore.

The Management stated (August 2013) that in compliance of the decision of the ETF, the R&M work of Boiler and its auxiliaries and Balance of Plant was to be executed by BHEL on single tender basis. It further stated that the R&M of Ball Mills was in the scope of BHEL hence, it was beneficial to purchase Hi-Chrome Liners required for R&M of Ball Mills from BHEL itself, as BHEL had to guarantee the trouble free operation of Ball Mills as a whole after completion of R&M work.

We do not agree with the reply in view of the fact that the work of complete R&M of Ball Mills (Activity No. 2.2.2) was not awarded to BHEL. The renovation of Ball Mills involved three activities and only one activity i.e. supply of Hi-Chrome Liners was awarded to BHEL and works relating to other activities were awarded to other firms. Hence, BHEL could not guarantee trouble free operation of Ball Mills.

The matter was reported to the Government in July 2013; the reply has not been received (December 2013).

Madhyanchal Vidyut Vitran Nigam Limited

3.9 Irregular benefit of Load Factor Rebate to a consumer

The Company extended undue benefit of Load Factor Rebate of ₹ 34.87 lakh in contravention of Rate Schedule and UPERC's clarification.

As per Para 5 of Rate Schedule HV-2 applicable to Large and Heavy Power Consumers having contracted load above 75 kW, a 'Load Factor Rebate' ranging from 7.5 *per cent* to 20 *per cent* is to be provided each month, on the energy charges, for any excess consumption over the defined kVAh per kVA. Consumers with arrears, however, are not eligible for the aforesaid Rebate.

The Uttar Pradesh Electricity Regulatory Commission (UPERC) further clarified (October 2008) that non-deposit of Additional Security[45] by a consumer is within the meaning of the term 'Arrear' and accordingly, such consumers cannot be allowed 'Load Factor Rebate'.

We noticed (March 2013) that Electricity Distribution Division-II, Hardoi (Division) of Madhyanchal Vidyut Vitran Nigam Limited (Company) demanded (June 2011 and May 2012) an initial sum of ₹ 62.05 lakh and a total sum of ₹ 70.83 lakh[46] as Additional Security from a Consumer[47] for the year 2010-11 and 2011-12 respectively. However, even though the Consumer did not deposit (up to February 2013) the amount of 'Additional Security' demanded by the Company, the Company instead of taking action[48] against the consumer as per the provisions of the Electricity Supply Code, 2005, extended the benefit of 'Load Factor Rebate' amounting to ₹ 34.87 lakh to the Consumer in the bills for the period June 2011 to February 2013.

The Management stated (September 2013) that the consumer has deposited (August 2013) the amount of additional security. Hence, the allowance of Load Factor Rebate to the consumer has been regularised.

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45 Additional Security for the year represents the amount equal to average of two month's billed amount of previous financial year *less* Security already deposited.

46 Including the ₹ 62.05 lakh demanded in June 2011.

47 M/s Safe Yeast Co. Pvt. Limited, Sandila, Hardoi.

48 In such cases supply may be disconnected temporarily or permanently as per the procedure laid down in Clause 4.36 to 4.38 of the Electricity Supply Code, 2005.

We do not accept the reply as consumers with arrears were not eligible for Load Factor Rebate. The amount of additional security was deposited in August 2013 hence the consumer was eligible for Load Factor Rebate with effect from September 2013 and not with retrospective effect.

Thus, in contravention of provisions of the Rate Schedule and UPERC's clarification, the Company extended undue benefit of 'Load Factor Rebate' of ₹ 34.87 lakh to a Consumer during the period June 2011 to February 2013.

The matter was reported to the Government in July 2013; the reply has not been received (December 2013).

Power Distribution Companies (DISCOMs)[49]

3.10 Undue favour to consumers

DISCOMs extended undue benefit to Large and Heavy Power consumers by allowing them the facility of protective load during scheduled power cut though they had not opted for it, resulting in loss of revenue of ₹ 52.02 crore.

As per Para 10 of Rate Schedule HV-2 approved by Uttar Pradesh Electricity Regulatory Commission (effective from 15 April 2010), consumers getting supply on independent feeder at 11 kV and above voltage, emanating from sub-station, may opt for the facility of protective load and avail supply during the period of scheduled rostering[50] imposed by the Licensee, except under emergency rostering[51]. For this an additional charge, at the rate of 100 *per cent* of base demand charges[52], fixed per month is leviable on the contracted protected load each month. The consumer availing the facility of protective load shall not be subjected to scheduled power cut imposed from time to time by the State Government or the Licensee.

As per para 4.27 of Electricity Supply Code, 2005, a consumer desirous of availing protective load facility has to apply to the Licensee for sanction of the same. The Licensee on receipt of the application may allow the facility of protective load to the consumer. After sanction of the facility by the Licensee, an agreement incorporating suitable terms and conditions for availing protective load facility is executed between the consumer and the Licensee.

We noticed that DISCOMs during the period April 2011 to March 2013, supplied uninterrupted power (without scheduled rostering) to 22 consumers (having contracted load ranging between 1,100 kVA and 40,500 kVA) getting supply through 33 kV/132 kV independent feeders, despite the fact that they had neither applied for nor were sanctioned the facility of protective load. These consumers were billed as per the rates prescribed in the Rate Schedule HV-2[53] and no additional charge for supplying uninterrupted power was levied

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[49] Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL), Paschimanchal Vidyut Vitran Nigam Limited (PVVNL) and Kanpur Electricity Supply Company (KESCO).

[50] Load shedding carried out as per declared schedule of electricity supply hours imposed from time to time by the State Government or the licensee.

[51] Load shedding carried out by disconnecting at short notice for safety of personnel and equipments.

[52] Demand charges for a billing period means a charge levied on the consumer based on maximum demand recorded or 75 *per cent* of contracted load, whichever is higher. Base Rate (to be read in reference to HV-2 Tariff) defines the basic Demand and Energy Charges based on which Time of Day (TOD) rates are applied.

[53] Rate Schedule HV-2 is applicable to Large and Heavy Power Consumers having contracted load of above 75 kW (100 BHP) for industrial and/or processing purposes as well as to arc/induction furnaces, rolling/ re-rolling mills, mini steel plants, floriculture and farming units and to any other High Tension consumers not covered under any other Rate Schedule.

by DISCOMs which led to loss of revenue of ₹ 52.02 crore to DISCOMs as detailed in **Annexure-17** and summarised below:

Table No. 3.3

Sl. No.	Name of the DISCOM	No. of Consumers	Range of Contracted Load (in kVA)	Loss of revenue (₹ in crore)
1.	DVVNL	03	1500 to 7000	5.45
2.	KESCO	04	2500 to 40500	18.18
3.	PuVVNL	03	1100 to 15000	4.86
4.	PVVNL	05	3100 to 30000	13.44
5.	MVVNL	07	2000 to 10000	10.09
Total		**22**		**52.02**

Thus, the consumers were unduly benefited by being extended uninterrupted power supply during scheduled power cut without having opted for the facility of protective load.

The Management of MVVNL and PuVVNL stated (October 2013) as follows:

- MVVNL stated that the consumers were being given power supply as per the instructions of CLDS[54], Lucknow and ALDS[55], Panki and were subject to rostering, so protective load charge was not levied.

  We do not agree with the reply of the Management due to the fact that CLDS and ALDS issue instructions only for scheduled rostering. These consumers were not subjected to rostering and were given uninterrupted power supply despite the fact that they had not opted for protective load facility.

- PuVVNL stated that as per the directions of the State Government, Uttar Pradesh Power Corporation Limited (UPPCL) did not roster the supply to Large and Heavy Power Consumers having contracted load of 1,100 KVA to 40,500 KVA and getting supply through 33 KV and 132 KVA independent feeders. No DISCOM has control over rostering of supply to all categories of consumers.

  We do not agree with the reply of the Management as all these consumers were getting supply through independent feeders and hence, PuVVNL had control over their scheduled rostering.

Besides, provisions of the Rate Schedule are approved by the Uttar Pradesh Electricity Regulatory Commission and mandatorily apply to UPPCL and all DISCOMs. Hence, power supply without rostering to these consumers who had not opted for protective load facility was irregular. It was also an unsound management practice in view of the overall shortage[56] of electricity in the State.

We recommend that DISCOMs/UPPCL consider developing an internal control system to ensure that the facility of uninterrupted power supply is

[54] Central Load Dispatch Station.
[55] Area Load Dispatch Station.
[56] 28,075.22 Million Units during 2012-13.

granted only to those consumers who have opted for and have been sanctioned the protective load facility.

The matter was reported to the Management and Government in August 2013; replies of DVVNL, KESCO, PVVNL and Government have not been received (December 2013).

Power Distribution Companies (DISCOMs)[57]

3.11 Loss due to delayed reimbursement by State Government

DISCOMs suffered a loss of ₹ 3.57 crore due to non-claiming of interest on delayed reimbursement of funds by the State Government.

The Government of India (GoI) approved the 'Rajiv Gandhi Gramin Vidyutikaran Yojna' (Scheme), a scheme for Rural Electricity Infrastructure and Household Electrification for the States. As per the guidelines issued by the GoI, Rural Electrification Corporation (REC) was made the nodal agency for implementation of the Scheme. The Scheme's guidelines also provided that 90 *per cent* of the project cost was to be released as 'Capital Subsidy' to the Government of Uttar Pradesh (GoUP) and 10 *per cent* was to be arranged by the GoUP through its own resources/ loan from financial institutions.

As per Tripartite Agreements executed between the GoUP, REC and DISCOMs (January 2005 to July 2005), the entire funds (both subsidy and loan portion) for implementation of the projects were to be released by REC, directly to DISCOMs. The GoUP undertook to repay the loan component of the funds released along with interest accrued thereon and other charges to REC.

Accordingly, REC released funds to DISCOMs during the period 2004-05 to 2011-12. The repayment of loan component and interest thereon was made by DISCOMs to REC from their own resources and the GoUP reimbursed the same to DISCOMs through Uttar Pradesh Power Corporation Limited (UPPCL).

We noticed that during the period March 2005 to March 2013, DISCOMs repaid loan and interest of ₹ 200.35[58] crore to REC. Although DISCOMs regularly claimed (through UPPCL) the reimbursement of loan and interest from the GoUP, it reimbursed the same with a delay ranging from two to 406 days[59] between March 2005 and March 2013. Thus, delayed reimbursement of claims resulted in loss of interest of ₹ 3.57 crore[60] to DISCOMs worked out at the rate of 9.5 *per cent* per annum, being average rate of interest on loans charged by REC to DISCOMs. DISCOMs did not claim the above loss from the State Government.

DISCOMs stated (September 2013) that delay in reimbursement of loan and interest from GoUP were procedural delays and were beyond their control.

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57 Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Madhyanchal Vidyut Vitran Nigam Limited (MVVNL), Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL) and Paschimanchal Vidyut Vitran Nigam Limited (PVVNL).

58 PuVVNL-₹ 78.00 crore, MVVNL-₹ 83.59 crore, DVVNL-₹ 28.36 crore and PVVNL-₹ 10.40 crore.

59 Calculated after excluding an initial period of 30 days.

60 PuVVNL- ₹ 1.68 crore, MVVNL - ₹ 0.95 crore, DVVNL - ₹ 0.66 crore and PVVNL - ₹ 0.28 crore.

The loss has, however, been calculated for the period beyond the procedural delay of 30 days. Moreover, DISCOMs did not claim the loss of interest though DISCOMs were in heavy losses and day to day working was managed through borrowed funds.

Thus, DISCOMs suffered a loss of ₹ 3.57 crore due to non-claiming of interest on delayed reimbursement of funds by the State Government.

The matter was reported to the Government (May 2013); their reply has not been received (December 2013).

3.12 Role of Uttar Pradesh Power Corporation Limited as Fund Manager of Power Distribution Companies and Fund Management in Purvanchal Vidyut Vitran Nigam Limited

Introduction

3.12.1 Under Section 23 of the Uttar Pradesh Electricity Reforms Act, 1999, the State Government directed (20 September 2002) the Uttar Pradesh Power Corporation Limited (UPPCL) to incorporate four Power Distribution Companies[61] (DISCOMs), as fully owned Subsidiary Companies. UPPCL incorporated (1 May 2003) four DISCOMs under Section 617 of the Companies Act, 1956 to take over the function of distribution of electricity from UPPCL. Another DISCOM i.e. KESCO[62] was incorporated and started functioning from 14 January 2000. The distribution function of UPPCL was taken over by DISCOMs from 12 August 2003.

The Government of Uttar Pradesh (GoUP) assigned (September 2002) the following role to UPPCL in functioning of DISCOMs:

- Chairman-cum-Managing Director (CMD), UPPCL would be the Chairman of DISCOMs.
- UPPCL would purchase power from Power Generating Companies for bulk supply to DISCOMs. In order to discharge the commercial liability of power purchase, UPPCL would receive all revenue of DISCOMs under ESCROW arrangement and allot funds to DISCOMs as per their requirement. In case of shortfall in payment of dues to UPPCL, DISCOMs would arrange loan from the market or would make a commercial agreement with UPPCL for deferment of dues.
- UPPCL would provide the services of Corporate Finance, Corporate Planning, Equator[63], Material Management, Human Resource Development, Service Commission and Enquiry Commission.

Director (Finance), UPPCL is the head of the Finance Wing and is assisted by General Manager (Finance and Accounts) and General Manager (Administration and Audit) in the day to day financial functions of the UPPCL. The Director (Finance) controls the financial management functions of UPPCL and directs UPPCL and DISCOMs on various financial issues. He also oversees generation, collection and transfer of revenue by DISCOMs and controls the release of funds to DISCOMs, payments made by UPPCL for power purchases etc.

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[61] Purvanchal Vidyut Vitran Nigam Limited (PuVVNL), Paschimanchal Vidyut Vitran Nigam Limited (PVVNL), Madhyanchal Vidyut Vitran Nigam Limited (MVVNL) and Dakshinanchal Vidyut Vitran Nigam Limited (DVVNL).

[62] Kanpur Electricity Supply Company Limited.

[63] Equator performs the function of pre-dispatch quality inspection of equipments.

Fund Management involves projection of fund inflow/outflow and financing needs coupled with establishing a sound system of cash and credit control and efficient transfer of revenue collected so as to ascertain the need for additional borrowings including working capital requirement or to invest surplus funds to ensure maximum returns. The main sources of fund inflow of DISCOMs are revenue from sale of power, service connection charges, subsidy from State/Central Government, Share Capital and borrowing from State Government/Banks/Financial Institutions (FIs) etc. Fund outflow mainly comprises expenditure incurred on establishment expenses, capital works, stores and stock, repayment of loan and interest and energy purchase. Revenue from sale of energy by DISCOMs is kept by UPPCL as all revenue income collected by Electricity Distribution Divisions (EDDs) of DISCOMs is directly sent to UPPCL for adjustment against the dues for power purchase by UPPCL.

We conducted audit of Fund Management in Purvanchal Vidyut Vitran Nigam Limited (PuVVNL) for the period 2008-09 to 2012-13. Records were seen at the Corporate office of PuVVNL and its 13 EDDs[64]. As the UPPCL is the fund manager of all DISCOMs, hence audit of fund management function of UPPCL for the period 2008-09 to 2012-13 was also conducted to assess the impact of the decisions of the Fund Manager on DISCOMs including PuVVNL. The role of UPPCL is discussed first as the same limits the fund management functions at PuVVNL level.

UPPCL as Fund Manager

UPPCL is entrusted with the functions of fund manager of DISCOMs by the State Government.

3.12.2 UPPCL, on behalf of DISCOMs, performs the functions of preparation and filing of Annual Revenue Requirement (ARR) with the Uttar Pradesh Electricity Regulatory Commission (UPERC), lodging claims for subsidy with the State Government and receiving payment of electricity dues centrally from State Government Departments[65] and adjusting the same with DISCOMs by issue of Work Memo Credit Receipt[66] (WMCR). On the advice of UPPCL, DISCOMs take loans from Rural Electrification Corporation (REC), Power Finance Corporation (PFC) and other Financial Institutions (FIs) for discharge of power purchase liabilities. Our examination of records revealed that the function of Corporate Finance of UPPCL was deficient as revenue generation was adversely affected due to delay in filing of ARR, non designing of rural tariff to the extent of compensation to be received by DISCOMs and failure in reduction of cost of funds by raising loan at cheaper rates etc. as discussed below:

Delay in filing of Annual Revenue Requirement

3.12.3 The Annual Revenue Requirement (ARR) is filed by UPPCL with UPERC, on behalf of all DISCOMs. The UPERC approves the tariff structure based on the ARR after due process.

We noticed that the UPPCL delayed the filing of ARR of DISCOMs resulting in delayed issue of Tariff Order. The table below shows the due date of filing of ARR, actual date of filing of ARR by UPPCL, effective date of the revised

[64] EDD-I Azamgarh, EDD-II Azamgarh, EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Mau, EDD-II Mau, EDD Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur, EDD Dumariaganj and EUDD-I Varanasi.

[65] Irrigation Department, Medical and Health Department and Urban Development Department.

[66] Revenue from sale of power to State Government Departments by DISCOMs is received centrally by UPPCL and credit of revenue receipt against each DISCOMs is passed on by UPPCL to them by issue of WMCR.

tariff, average increase in tariff and loss of revenue due to delay in filing of ARR:

Table No. 3.4

(₹in crore)

Year	Due date of filing of ARR	Actual date of filing of ARR by UPPCL	Delay in filing of ARR (days)	Date of Tariff Order	Effective date of Tariff Order	Average increase in tariff (in *per cent*)	Revenue from sale of power (As per Audited Accounts)	Revenue lost due to delay[67]
2008-09		*The revenue loss pertaining to these years has already been featured in Audit Report for the year ended 31 March 2011*						
2009-10								
2010-11	30-11-2009	25-03-2011	480	19-10-2012	01-10-2012	17.81	15,784.99[68]	2,811.31
2011-12	30-11-2010	25-03-2011	115	19-10-2012	01-10-2012	17.81	17,343.05[69]	3,088.80
2012-13	30-11-2011	21-02-2012	83	19-10-2012	01-10-2012	17.81	Not Available	
Total								**5,900.11**

Source: Data furnished by Regulatory Affairs Unit, UPPCL.

ARRs were filed with a delay ranging between 83 and 480 days.

From the above table it would be seen that there was a delay of 83 to 480 days during the last three years in filing of ARR by UPPCL, hence, the tariff order was made effective from 1 October 2012. The main reasons for delay in filing of ARR as intimated to UPERC by UPPCL were delay in preparation of Annual Accounts and delayed/non receipt of directions from the State Government regarding tariff and related matters (subsidy).

We observed that there was no provision in the Electricity Act, 2003 under which directions from the State Government were required[70] for filing of ARR. The UPPCL/DISCOMs, however, while seeking extension of time for filing of tariff petitions with UPERC, frequently mentioned that State Government directives were awaited. Thus, due to delay on the part of UPPCL/DISCOMs in filing of ARRs for the years 2010-11 to 2012-13, issue of Tariff Order was delayed which resulted in loss of revenue of ₹ 5,900.11 crore during 2010-11 and 2011-12. Although the delayed filing of ARR between 2006-07 and 2009-10 was reported in the Audit Report[71] of the Comptroller and Auditor General of India for the year ended 31 March 2011, no corrective action was taken.

We noticed that the reasons for delay in filing of ARR were controllable, but the UPPCL and DISCOMs prepared the Annual Accounts for the years 2010-11 and 2011-12 with a delay of eight to 36 months from the due dates. The delay in preparation of Annual Accounts also indicated the absence of internal control.

The Management of UPPCL accepted (September 2013) that the delay in filing of ARR was mainly due to delay in preparation of Annual Accounts.

We recommend that Annual Accounts of UPPCL and DISCOMs should be prepared in time to ensure timely filing of ARR.

Non receipt of compensation for supply of energy at reduced rates

3.12.4 Section 65 of the Electricity Act, 2003 (Act) stipulates that if the State Government requires to grant any subsidy to any consumer or class of

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67 Calculated on the basis of delay in implementation of Tariff Order, subject to maximum of one year.

68 PuVVNL (₹ 3,199.50 crore), MVVNL (₹ 2,870.29 crore), PVVNL (₹ 5,729.90 crore), DVVNL (₹ 3,092 crore) and KESCO (₹ 893.30 crore).

69 PuVVNL (₹ 3,422.01 crore), MVVNL (₹ 3,062.78 crore), PVVNL (₹ 6,407.42 crore), DVVNL (₹ 3,434.08 crore) and KESCO (₹ 1,016.76 crore).

70 The State Government is empowered to issue directives only to UPERC under Section 108 of the Electricity Act, 2003 to discharge its function but the Electricity Act, 2003 does not provide for any directives to be issued by the State Government directly to the Licensees.

71 Para 2.68 "Tariff Fixation".

consumers in the tariff determined by the State Commission[72] under section 62 of the Act, the State Government shall compensate the Licensee, by paying in advance, the amount of subsidy, in the manner, the State Commission may direct. It further provided that no such direction of the State Government shall be operative if the payment is not made in accordance with the provisions contained in this Section and the tariff fixed by the State Commission shall be applicable from the date of issue of orders by the Commission in this regard.

On behalf of all DISCOMs, the UPPCL lodges the claim for expected loss due to supply of energy to Rural Schedule at reduced rates with the State Government, every year. The details of claim lodged with the State Government for loss due to supply of electricity at reduced rates in rural areas, subsidy received from the State Government and net loss suffered on this account are detailed in table below:

Table No. 3.5

(₹ in crore)

Year	Claim lodged for loss due to supply of electricity at reduced rate to rural areas	Subsidy provided by the Government	Short receipt of compensation under Section 65 of the Act	Basis of claim
2008-09	3369.94	1,531.80	1838.14	On estimate basis
2009-10	4,974.01	1,831.80	3,142.21	On actual
2010-11	4,741.10	2,040.00	2,701.10	On actual
2011-12	8,242.06	3,640.08	4,601.98	On actual
2012-13	7860.03	4,690.00	3170.03	On actual
Total	**29,187.14**	**13,733.68**	**15,453.46**	

We noticed that:

- The UPPCL lodged a claim of ₹ 3,369.94 crore for expected loss for the year 2008-09 on estimate basis.
- For the year 2009-10 and onwards, the UPPCL lodged claims for expected loss on actual basis, in view of the directions of the Chief Secretary (14 January 2009), which stated that, if UPPCL, after installation of meters on all rural feeders and on the basis of meter readings thereof, submits the details of electricity supplied, then actual compensation would be provided.

Against the claim of ₹ 29,187.14 crore for rural subsidy, the Government provided ₹ 13,733.68 crore only.

- The State Government gave no specific directions to UPPCL to design tariff for Rural Schedule at a reduced rate but provided ₹ 13,733.68 crore rural subsidy against claims of ₹ 29,187.14 crore during the five years from 2008-09 to 2012-13. Thus, Section 65 of the Act was not complied with as the State Government neither provided the rural subsidy in advance nor after final claim as required under Section 65 of the Act. There were no reasons on records for providing partial subsidy.

The Management accepted (September 2013) the facts and stated that the State Government has not been able to provide adequate subsidy to cover the losses incurred due to lower tariff. It further stated that UPPCL and DISCOMs are under the control of State Government, therefore the losses due to lower tariff were ultimately borne by the State Government.

The fact remains that the UPPCL/DISCOMs were formed to operate on commercial principle, hence, the contention of the Management that losses were ultimately borne by the State Government, was against sound commercial principles and hence, is not acceptable.

[72] Uttar Pradesh Electricity Regulatory Commission.

Loss due to not availing credit facilities for purchase of power from Indian Energy Exchange (IEX)

3.12.5 Rural Electrification Corporation (REC) introduced (January 2010) a scheme for financing power purchase from IEX for existing borrowers. Under the scheme, a credit facility of ₹ 50 crore would be extended to each DISCOM, for a period of 90 days, at interest rate of 8.50 *per cent* per annum, for power purchase through IEX.

We noticed that between June 2011 and March 2013, UPPCL purchased power of ₹ 710.50 crore for the five DISCOMs (PuVVNL, PVVNL, MVVNL, DVVNL and KESCO) from IEX. UPPCL/DISCOMs discharged the liabilities of power purchase bills by taking loans from FIs/Banks at interest rates ranging from 12 *per cent* to 14 *per cent* between June 2011 and March 2013.

We noticed that UPPCL, in the capacity of Fund Manager of DISCOMs, did not avail credit facility of ₹ 250 crore (₹ 50 crore to each DISCOM), offered by the REC at lower interest rates, for payment of power purchased through IEX and hence, failed to reduce interest liability to the extent of ₹ 6.13 crore[73].

The Management stated (September 2013) that REC had never circulated any scheme for purchase of power through IEX.

The reply confirms that UPPCL did not exercise due diligence to identify the sources from which loans at lowest interest rates were available. Besides, details regarding the aforesaid scheme (for existing borrowers like UPPCL) were available on the website of REC.

Thus, UPPCL/DISCOMs paid higher interest of ₹ 6.13 crore due to not availing the credit facility offered by REC for purchase of power from IEX.

Imprudent management of borrowings increased interest burden by ₹8.82 crore.

Avoidable cost of funds to discharge power purchase bills

3.12.6 Rural Electrification Corporation (REC) provides loans to Power Sector Companies. It categorises the borrowers in three categories viz., Category A, B and C, and charges interest (lowest for Category A borrowers) as per the categorisation. Between June 2009 and February 2013, the UPPCL was categorised as a Category B borrower whereas PuVVNL, MVVNL and DVVNL were categorised as Category C borrowers during the period June 2009 to August 2011, August 2011 to February 2013 and August 2011 to February 2013 respectively. The rate of interest on short term loans for Category B borrowers was lower by 0.25 *per cent* per annum as compared to Category C borrowers.

We noticed that three DISCOMs[74] took nine short term loans of ₹ 775 crore from REC during the period September 2009 to February 2013 for payment of power purchase bills so that the UPPCL could discharge its power purchase liability. These DISCOMs paid interest of ₹ 121.16 crore on these loans at the rate of 11 *per cent* to 13.50 *per cent*. We observed that since UPPCL had not exhausted its borrowing limits[75], the drawl of loan by UPPCL would have entailed interest burden of only ₹ 118.47 crore at the rate of 10.75 *per cent* to 13.25 *per cent* as compared to interest burden of ₹ 121.16 crore at the rate of

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[73] Calculated at 3.50 *per cent* per annum being differential rate of 12 *per cent* i.e. lowest during the period and 8.50 *per cent* i.e. applicable on credit facility offered by REC.

[74] PuVVNL, MVVNL and DVVNL.

[75] Between September 2009 to February 2013, UPPCL had borrowings ranging from ₹ 11,666.23 crore to ₹ 24,508.96 crore against its Borrowing limit of ₹ 60,000 crore.

11 *per cent* to 13.50 *per cent* incurred by these DISCOMs. Hence, Fund Management of UPPCL was deficient to this extent and resulted in increase in interest burden of these DISCOMs by ₹ 2.69 crore.

The Management stated (September 2013) that as per Clause 7 of the letter[76] dated 20 September 2002, UPPCL shall make the payment of bulk supply of power given to DISCOMs. In some cases the revenue realised by DISCOMs may be less than the bulk supply given to them by the UPPCL. To compensate this shortfall DISCOMs will arrange loan from the market. Since revenue realised by DISCOMs was much less than the power supplied to them, DISCOMs borrowed funds from market at prevailing rates.

The reply is not acceptable as the aforesaid Clause 7 of the letter[77] does not restrain UPPCL (Fund Manager) from borrowing at cheaper rates to reduce the interest burden of DISCOMs. In fact, Clause 7 states that UPPCL can make commercial arrangements with DISCOMs for dues of power purchase in case of any shortfall and as fund manager it was the duty of the UPPCL to ensure borrowing at lowest cost.

Fund Management of Restructured APDRP

3.12.7 Restructured APDRP[78] (R-APDRP) was launched (July 2008) by the Government of India (GoI) to carry out further reforms in the power sector. The R-APDRP scheme comprises Part A and B. Part A was dedicated to establishment of Information Technology (IT) enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA[79]/Distribution Management System whereas Part B of the scheme deals with strengthening of regular sub-transmission and distribution system and up-gradation projects.

Drawl of loan without requirement

3.12.8 The details of loans sanctioned (at interest rate of 11.50 *per cent)*, funds drawn, funds utilised, funds unutilised, *per cent* of unutilised funds and interest liability on unutilised funds under R-APDRP Part A (including SCADA towns) in respect of three DISCOMs[80] are given below:

Table No. 3.6

(₹ in crore)

DISCOM	Year	Loans sanctioned (Date)	Funds drawn (Date)	Funds utilised	Funds unutilised	*Per cent* of unutilised funds	Interest on unutilised funds[81]
1	2	3	4	5	6	7	8
PuVVNL	2009-10	108.97 (June 2009)	32.69 (September 2009)	0.05	32.64	100	2.12
	2010-11	--	--	13.45	19.19	59	3.00
	2011-12	74.11 (November 2011)	--	7.02	12.17	37	1.13
	2012-13	--	22.23 (September 2012)	12.49	21.91	99	1.48
	Sub-Total	**183.08**	**54.92**	**33.01**	**21.91**		**7.73**

76 Government of Uttar Pradesh letter No. 1777P-2/2002-61(M)E800 dated 20 September 2002 mentioning guidelines for the functioning of DISCOMs.

77 In order to discharge the commercial liability of power purchase, UPPCL would receive all revenue of DISCOMs under ESCROW arrangement and allot fund to DISCOMs as per their requirement. In case of shortfall in payment of dues to UPPCL, DISCOMs would arrange loan from market and otherwise would make a commercial agreement for deferment of dues with UPPCL.

78 Accelerated Power Development and Reform Programme.

79 Supervisory Control And Data Acquisition – It generally refers to industrial control systems: computer systems that monitor and control industrial, infrastructure or facility-based processes.

80 Fund Management of R-APDRP Part A of PVVNL has already featured in Para 2.31 of Audit Report (Commercial) for the year ended 31 March 2011. R-APDRP was not implemented in KESCO.

81 Calculated at the rate of 11.50 *per cent* per annum.

1	2	3	4	5	6	7	8
MVVNL	2009-10	230.86 (February and June 2009)	69.26 (October 2009)	--	69.26	100	3.32
	2010-11	--	--	62.96	6.30	9	5.72
	2011-12	14.15 (November 2011)	60.33 (September and December 2011)	34.83	31.80	53	1.75
	2012-13	--	14.19 (September 2012)	32.85	13.14	93	1.32
	Sub-Total	**245.01**	**143.78**	**130.64**	**13.14**		**12.11**
DVVNL	2009-10	122.66 (June 2009)	27.37 (October 2009)	--	27.37	100	1.31
	2010-11	--	--	12.94	14.43	53	2.24
	2011-12	--	--	12.76	1.67	6	1.07
	2012-13	--	13.91 (September 2012)	3.87	11.71	84	1.08
	Sub-Total	**122.66**	**41.28**	**29.57**	**11.71**		**5.70**
	Total	**550.75**	**239.98**	**193.22**	**46.76**		**25.54**

Source: Information furnished by DISCOMs.

We noticed that during 2009-13, Power Finance Corporation (PFC) sanctioned loans of ₹ 550.75 crore against which the three DISCOMs drew ₹ 239.98 crore but utilised ₹ 193.22 crore only. The unutilised funds ranged between six *per cent* and 100 *per cent* which shows that the funds were drawn without requirement.

We further observed that:

- Drawl of loan (in September / October 2009) before the award of work (February 2010) and slow progress of work were the main reasons for delayed utilisation of funds.

- On these un-utilised funds, DISCOMs had to pay interest of ₹ 25.54 crore to PFC and the interest earned on these unutilised funds by DISCOMs was ₹ 7.60 crore[82]. Hence, drawl of funds without corresponding requirement has placed an additional burden of ₹ 17.94 crore[83] by way of interest on DISCOMs.

The Management informed (September 2013) that the scheme required enormous work at field level which required considerable time. For start of these works, funds were required and received during 2009-10 which were utilised gradually as per the need of work upto 2012-13.

The fact remains that DISCOMs did not assess the actual requirement of funds before drawl of the same, leaving substantial funds unutilised leading to an unnecessary interest burden.

Diversion of Loan Fund

3.12.9 The details of loans sanctioned (at interest rate of 11.50 *per cent),* funds drawn, funds utilised, funds unutilised, *per cent* of unutilised funds and interest liability on unutilised funds under R-APDRP Part B (including SCADA towns) in respect of three DISCOMs[84] are given below:

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82 PuVVNL : ₹ 4.09 crore, MVVNL: ₹ 3.05 crore and DVVNL: ₹ 0.46 crore.

83 Interest payable to PFC: ₹ 25.54 crore *minus* interest earned ₹ 7.60 crore.

84 Fund Management of R-APDRP Part B of PVVNL has already featured in Para 2.31 of Audit Report (Commercial) for the year ended 31 March 2011. R-APDRP was not implemented in KESCO.

Table No. 3.7

(₹ in crore)

DISCOM	Year	Loan Sanctioned	Fund drawn	Fund utilised	Fund unutilised	*Per cent* remain unutilised	Interest on unutilised Fund
PuVVNL	2010-11	87.71	52.63	--	52.63	100	0.02
	2011-12	--	--	--	52.63	100	6.05
	2012-13	--	--	--	52.63	100	6.05
	Sub-Total	**87.71**	**52.63**	--	**52.63**		**12.12**
MVVNL	2010-11	117.73	70.64	--	70.64	100	0
	2011-12	148.75	--	--	70.64	100	8.12
	2012-13	79.90	89.25	36.42	123.47	77	11.37
	Sub-Total	**346.38**	**159.89**	**36.42**	**123.47**		**19.49**
DVVNL	2010-11	133.95	80.37	--	80.37	100	0.03
	2011-12	129.05	--	--	80.37	100	9.24
	2012-13	--	77.43	53.74	104.06	66	11.18
	Sub-Total	**263.00**	**157.80**	**53.74**	**104.06**		**20.45**
	Total	**697.09**	**370.32**	**90.16**	**280.16**		**52.06**

DISCOMs drew loan of ₹ 370.32 crore without requirement of funds on the direction of UPPCL and diverted ₹ 203.64 crore to UPPCL.

The PFC sanctioned loans of ₹ 697.09 crore under Part B of R-APDRP to DISCOMs against which DISCOMs drew ₹ 370.32 crore (₹ 203.64 crore for Non-SCADA towns and ₹ 166.68 crore for SCADA towns in March 2011 and September 2012 respectively) without any requirement of funds. The Director (Finance), UPPCL had directed (March 2011) DISCOMs to divert the whole amount drawn in March 2011under Part B of R-APDRP to UPPCL. In view of above, DISCOMs diverted the amount of ₹ 203.64 crore drawn in March 2011 relating to Non-SCADA towns to UPPCL on the same day.

We observed that UPPCL being the Fund Manager did not utilise the amount for strengthening of regular sub-transmission and distribution system and upgradation of projects and diverted (March 2011) the loan fund for discharge of its power purchase liabilities. Thus, the objective of drawing the loans was not fulfilled. Besides, DISCOMs also incurred avoidable interest liability of ₹ 52.06 crore during the period 2010-11 to 2012-13.

The Management of UPPCL accepted (September 2013) the aforesaid facts and stated that funds of the scheme were diverted as there was delay in finalisation of tenders of the scheme.

The fact remains that dedicated loan funds taken under Part-B of R-APDRP scheme meant for strengthening of regular sub-transmission and distribution system and upgradation of projects were diverted and used for another purpose.

Supply of energy to Power Looms

3.12.10 The State Government directed (June 2006) DISCOMs that while providing new connections to power loom consumers, meters should be installed to ensure that the final claim of revenue subsidy is based on meter readings, but meter cost should not be charged from the consumers. Further, DISCOMs were directed to submit details regarding total subsidy requirement (difference of billed amount and amount recovered from the consumers) on yearly basis. UPERC reviewed the directions issued (June 2006) by the State Government and directed (July 2006) the State Government to provide Capital subsidy for cost of meters installed at the premises of new power loom consumers and revenue subsidy for the difference of payment made by the consumers and billed amount as per tariff order. We noticed the following points in this regard:

Short receipt of subsidy for supply of energy

Government provided ₹ 355 crore of subsidy against claim of ₹ 662.15 crore.

3.12.11 DISCOMs supplied energy to power loom consumers on concessional rate and claimed subsidy of ₹ 662.15 crore[85] for the period 2008-09 to 2012-13 from the State Government through UPPCL against which the State Government provided ₹ 355 crore[84] only. Thus, DISCOMs suffered a revenue loss of ₹ 307.15 crore due to short receipt of subsidy from the Government for energy supplied to power loom consumers at concessional rates. The UPPCL did not pursue the issue with the State Government to obtain the balance amount of subsidy.

The Management accepted (September 2013) the aforesaid facts and stated that UPPCL was regularly submitting the demand for balance subsidy but the same was not provided by the State Government.

We, however, noticed that no specific pursuance was made by UPPCL except two routine letters issued in November 2011 and August 2013.

In-action to claim Capital Cost

3.12.12 During 2008-09 to 2012-13, PuVVNL issued 27,182 new connections to power loom consumers with installation of meters but did not lodge claim for capital subsidy of ₹ three crore (calculated at the rate of ₹ 1,000 per meter for 8,719 connections released during 2008-2010 and at the rate of ₹ 1,150 per meter for 18,463 connections released during the remaining period) with the State Government.

The Management of PuVVNL stated (September 2013) that no instructions from UPPCL/Government were received for lodging the claim for cost of meter.

The reply is not acceptable as UPERC directives (June 2006) which were available in the records of PuVVNL, clearly directed the State Government to provide cost of meters, for which PuVVNL did not lodge any claim.

Fund Management in PuVVNL

3.12.13 Purvanchal Vidyut Vitran Nigam Limited (PuVVNL) has six zones[86] covering 21 districts of eastern Uttar Pradesh. A total of 60 Electricity Distribution Divisions (EDDs) in six zones carry out work of distribution of energy, operation and maintenance of distribution network, billing and collection of energy charges.

PuVVNL met its day to day cash needs out of funds raised through equity and loan and remittances from UPPCL, as the total revenue generated was less than the energy purchase bills. The PuVVNL has been incurring losses continuously and the accumulated loss has reached ₹ 8,482.92 crore against paid up capital of ₹ 2,849.84 crore as on 31 March 2012[87] and the net worth of the PuVVNL has, thus, become negative.

Our examination of records related to fund management in 13 EDDs of PuVVNL and Headquarters of the PuVVNL revealed the following:

[85] Subsidy Claimed (Provided by the Government): ₹ 57.96 crore (₹ 50 crore) in 2008-09, ₹ 77.97 crore (₹ 50 crore) in 2009-10, ₹ 112.56 crore (₹ 85 crore) in 2010-11, ₹ 161.79 crore (₹ 85 crore) in 2011-12 and ₹ 251.87 crore (₹ 85 crore) in 2012-13.

[86] Varanasi, Allahabad, Mirzapur, Azamgarh, Gorakhpur and Basti.

[87] Figures for 2012-13 are not available.

Banking Issues

3.12.14 PuVVNL maintains mainly three current bank accounts to keep the funds viz. (i) Current Account for Capital Receipts (ii) Current Account for Expenditure and (iii) Current Account for Revenue Receipts. We observed that the PuVVNL did not prepare fund inflow/outflow budget. Funds of the PuVVNL were blocked at various levels and at the same time it borrowed funds and paid interest on the same.

Few cases of deficiencies in the fund management are discussed below:

Non remittance of Capital Receipts to PuVVNL headquarters

3.12.15 As per directions issued by the UPPCL in October/November 2005, all money received in Capital Receipt Account on account of System Loading Charges (SLC)[88], Service connection charges, Security etc. from consumers should be transferred to the Headquarters twice a month i.e. on 5th and on 20th of each month.

12 Divisions of PuVVNL did not follow directions of transfer of Capital Receipt to PuVVNL headquarters and kept the funds in current account resulting in avoidable payment of interest of ₹ 1.39 crore during 2008-13.

We noticed that 12 EDDs[89] out of 13 test checked, neither followed the directions nor issued any standing instructions to Banks for transfer of the entire fund to the Headquarters on due dates. As a result, balances ranging between ₹ 0.44 crore and ₹ 7.73 crore remained in current accounts during the period 2008-09 to 2012-13. The PuVVNL, however, did not evolve any mechanism to ensure transfer of entire funds from EDDs to its main account in the headquarters and as a result paid interest on short term loans taken from REC/PFC for meeting its day to day requirement. Interest payment of ₹ 1.39 crore[90] on loan from REC/PFC could have been avoided by timely transfer of funds by these 12 EDDs alone.

The Management accepted (September 2013) and stated that instructions have been issued to ensure timely transfer of funds.

Non availing flexi facility for expenditure account

3.12.16 The EDDs maintain current bank accounts to keep funds transferred from the Headquarters for payment to suppliers/contractors, salary to employees etc. Banks provide flexi facility with current accounts, in which amounts in excess of mutually agreed amount is automatically converted into fixed deposits. This provides an opportunity to maximise interest yield as well as keeps intact the liquidity of funds by not restricting withdrawals.

We noticed that 12[91] of the 13 EDDs test checked in audit kept balances ranging between ₹ 1.25 crore and ₹ 5.27 crore in current accounts but did not avail flexi facility. As a result, PuVVNL suffered loss of interest of ₹ 0.72 crore[92] during 2008-13 in these 12 EDDs alone. Electricity Urban Distribution

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[88] A charge levied on consumer on initial connection or increase of load for improvement in distribution system of electricity.

[89] EDD-I Azamgarh, EDD-II Azamgarh, EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Mau, EDD- Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur, EDD Dumariaganj, and EUDD-I Varanasi.

[90] Calculated at the lowest rate of 11 *per cent*, 9 *per cent*, 11 *per cent*, 12.25 *per cent* and 12.25 *per cent* per annum on short term loans during the years 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 respectively.

[91] EDD-I Azamgarh, EDD-II Azamgarh, EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Mau, EDD-II Mau, EDD-Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur and EDD Dumariaganj.

[92] Calculated at the rate of 4.50 *per cent* per annum on balances above ₹ two lakh.

Division-I, Varanasi did not maintain Bank Statement of expenditure account for the same period.

The Management accepted (September 2013) the audit observation and stated that flexi deposit scheme will be managed and implemented in ensuing months.

Delay in remittances from revenue account

3.12.17 EDDs maintain current bank accounts to collect revenue from sale of power and its onward transfer to UPPCL. Managing Director, UPPCL instructed (September 2007/January 2009) DISCOMs that the revenue collected should not be held up at the EDDs. All the Executive Engineers were instructed to ensure that the amount is remitted on daily basis to UPPCL in nearest round of thousand and no amount is withheld unduly.

We noticed that while EDD-I, Azamgarh and EDD-II, Mau did not maintain Bank Statements of revenue account, in the remaining 11 EDDs[93], there were no standing instructions to banks and no monitoring was done to ensure that the banks remitted the entire amount lying in revenue account at the close of business hour, to UPPCL, on daily basis. Non-transfer of entire revenue at the close of business hours resulted in non-remittance of available funds to UPPCL. As UPPCL was using these funds to meet the power purchase costs, non/short receipt of funds, would have a cascading effect of higher borrowings**.** As a result, funds up to a maximum balance of ₹ 1.43 crore were not remitted to UPPCL during 2012-13. The EDDs did not demand this interest from Banks.

The Management accepted (September 2013) our observation and has issued instructions to Divisions to lodge claims with banks.

Operational Issues

3.12.18 Efficient fund inflow requires timely and accurately raising the bills for sale of energy and its prompt collection. Proper metering of energy sold, by installation of meters on new connections, replacement of meter, if defective and ensuring billing on the basis of actual meter reading etc. should be done to maximise inflow of fund.

Management of fund inflow was deficient as bills for energy charges were either not raised or raised incorrectly i.e. without meter readings etc., monitoring of dues was weak, appropriate action was not taken for timely recovery of outstanding dues and recovery through issuance of recovery certificates was not effective as discussed in the succeeding paragraphs.

Deficient application of Tariff Order

3.12.19 PuVVNL did not have an effective control mechanism to ensure application of concerned tariff approved by UPERC and realisation of revenue accordingly. Consequently, PuVVNL suffered loss on account of non/short realisation of revenue. The cases noticed are detailed in table below:

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[93] EDD-II Azamgarh, EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Mau, EDD- Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur, EDD Dumariaganj, and EUDD-I Varanasi.

Table No. 3.8

Sl. No.	Nature of irregularity	Provisions	Result of non/wrong application
(i)	Non/short levy of Electricity Duty	State Government notified (September 2012) that Electricity Duty (ED) at the rate of 7.5 *per cent* of rate of charge would be charged from metered consumers with effect from 13 September 2012.	Nine EDDs[94] did not apply the notified rates of ED in respect of 137 HV-2, two HV-4 and two LMV-4 consumers and charged ED at the old rate of nine paise per unit. As a result, 141 consumers were short charged by ₹ 1.16 crore on account of non levy of revised rate of ED during September 2012 to June 2013.
(ii)		State Government notified (January1997 and September 2012) that Electricity Duty (ED) at the rate of nine paise per unit with effect from 3 January 1997 and at the rate of 7.5 *per cent* of rate of charge from 13 September 2012 would be charged from metered consumers.	EDD-I Ballia did not charge ED to a HV-2 consumer (Power Grid Corporation of India Limited). As a result, ED of ₹ 10.95 lakh was not charged during April 2009 to June 2013.
(iii)		State Government notified (January 1997 and September 2012) that ED at the rate of 20 *per cent* of rate of charge (fixed charge) would be charged from un-metered consumers.	Eight EDDs[95] did not levy/short levied ED amounting to ₹ 10.87 crore on LMV-8[96] and ₹ 13.03 lakh on LMV-3 un-metered consumers during April 2008 to March 2013.
(iv)	Non levy of demand charges	Billable Demand: As per the provisions of the Rate Schedule effective from 15 April 2010, the billed demand during a month shall be the actual maximum demand as indicated by the TVM/TOD meter or 75 *per cent* of the contracted load, whichever is higher. Charges for exceeding Contracted Load: As per the provisions of aforesaid Rate Schedule, if the actual maximum demand in any month of a consumer having TVM/TOD meters exceed the contracted load, such excess demand will be charged additionally as follows: (i) At normal rates if such excess demand does not exceed 10 *per cent* of the contracted load; (ii) At twice the normal rates if such excess demand exceeds the contracted load by more than 10 *per cent.*	(i) EDD-I, Mau did not charge the normal rate on the maximum demand recorded by the meters of five HV-2 consumers and restricted the demand charge to the contracted demand. As a result, five consumers were short charged by ₹1.92 lakh. (ii) EDD-I, Ghazipur did not charge excess demand when it exceeded contracted demand recorded by meter upto 10 *per cent* and beyond 10 *per cent* of nine HV-2 consumers. As a result, nine consumers were short charged by ₹ 3.17 lakh. (iii) EDD, Saidpur did not charge total excess demand at twice the normal rate when it exceeded beyond 10 *per cent* contracted demand recorded by meter. As a result, consumer (Executive Engineer, Sone Mechanical Construction Division, Varanasi for Deokali Pump Canal) was short charged by ₹ 17.14 lakh.
(v)	Non-application of rate schedule	The fixed charge for LMV-8 consumers was to be charged at the rate of ₹ 1000/BHP/ month with effect from 15 April 2010 and at the rate of ₹ 1200/BHP/month with effect from 1 October 2012.	EDD-I, Ghazipur did not apply these rates and short charged consumer by ₹ 1.41 crore. EDD-I, Mau did not apply enhanced fixed charge to consumer during October 2012 to March 2013 and short charged ₹ 13.01 lakh. This resulted in loss of revenue to the PuVVNL amounting to ₹ 1.54 crore.
(vi)	Non-billing as per billing cycle	Annexure 3.1 of Electricity Supply Code 2005 stipulated that billing cycle for HV- 4 consumers would be monthly.	EDD Dumariaganj did not raise the energy bills of ₹ 0.84 crore for one HV-4 consumer (having contracted load of 1200 KVA) during June 2012 to July 2013. This resulted in loss of revenue of ₹ 0.84 crore to PuVVNL due to non-charging of the consumer.
(vii)	Non-inclusion of unverified arrears	Para 6.15 (b) of Supply Code provides that no sum due from any consumer shall be recoverable after a period of two years from the date when such sum became first due unless such sum has been shown continuously as recoverable as arrear of charges of electricity supplied.	(i) During 2008-13, five EDDs[97] raised energy bills with ED and Capacitor Surcharge of ₹ 7.38 crore to Executive Engineer, Tube Well Divisions[98] but the amount of ED and shunt capacitor surcharge was not verified by the consumer. (ii) EDD Saidpur raised the energy bills of ₹ 81.50 crore for the period October 2008 to February 2013 to Executive Engineer, Sone Mechanical Construction Division, Varanasi for Deokali Pump Canal (consumer) against which ₹ 13.61 crore was not verified by the consumer. EDDs did not include the unverified amount in the subsequent bill. As a result, the amount remained un-recovered.

The Management accepted (September 2013) our observations and stated that bills are being raised. Out of ₹ 35.86 crore of non/short realisation of revenue pointed out by us, only ₹ 0.76 lakh has been recovered.

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[94] EDD-II Jaunpur, EDD-I Azamgarh, EDD-II Azamgarh, EDD-II Mau, EDD Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia and EDD-I Gorakhpur.

[95] EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Azamgarh, EDD-II Azamgarh, EDD-I Ghazipur, EDD-I Ballia, EDD Chandauli and EDD-I Gorakhpur.

[96] State Tube Well, World bank Tube Well and Laghu Dal Nahar.

[97] EDD-I Jaunpur, EDD-II Jaunpur, EDD-II Mau, EDD-I Ghazipur and EDD Chandauli.

[98] Executive Engineer, Nalkoop Khand, Jaunpur; Executive Engineer, Laghu Dal Nahar, Jaunpur; Executive Engineer, Minor Lift Canal Division, Ghazipur and Executive Engineer, State Tubewell Division, Chandauli.

Non levy of Late Payment Surcharge on unpaid Government dues

3.12.20 The Tariff Order stipulates that if a consumer fails to pay his electricity bill by the due date specified therein, a late payment surcharge at 1.25 *per cent* per month up to first three months and subsequently at the rate of 1.5 *per cent* per month shall be levied.

EDDs of the PuVVNL raised bills for supply of energy to Government Consumers[99]on monthly/quarterly basis and the UPPCL received payments against these bills centrally. After receipt of payment, Work Memo Credit Receipt (WMCR) was issued by UPPCL to the concerned EDDs to adjust the dues of the respective consumers. We noticed that the payments received by UPPCL from the Government against these dues were very irregular. UPPCL received the payments against these bills belatedly but late payment surcharge was neither levied by the EDDs nor by UPPCL which received payment centrally. As a result, surcharge of ₹ 304.33 crore (**Annexure-18**) on the bill amounts for delayed payment was neither levied nor recovered against the bills raised during 2003-04 to 2011-12 and payment received during 2008-09 to 2012-13, despite the fact that no exemption was given to Government consumers by UPERC in its Tariff Orders.

The PuVVNL stated (September 2013) that there was no delay on the part of the State Government in releasing the payments but the accounting was delayed at UPPCL level. The reply is not acceptable as we have considered only those cases where payment was actually delayed by the Government and the delays ranged from five months to 92 months.

Deficient application of Electricity Supply Code, 2005

3.12.21 Section 50 of the Electricity Act, 2003 stipulates that the State Commission shall specify an Electricity Supply Code to provide for recovery of electricity charges, intervals for billing of electricity charges, disconnection of supply of electricity for non-payment thereof, restoration of supply of electricity, tampering, distress or damage to electrical plant, electric lines or meter, entry of distribution licensee or any person acting on his behalf for disconnecting supply and removing the meter, entry for replacing, altering or maintaining electric lines or electrical plant or meter. Accordingly, UPERC notified (February 2005) the Electricity Supply Code, 2005 (Supply Code) addressing the aforesaid issues. Supply Code is applicable on all Licensees in the State.

PuVVNL did not apply the Supply Code effectively and failed to tap the leakage of revenue as detailed in table below:

Table No. 3.9

Sl. No.	Provision of Supply Code	Result of non application
(i)	Clause 5.1 of Supply Code provides that no new connection and supply of electricity shall be given without meter.	During 2008-09 to 2012-13, 12 EDDs[100] in violation of clause 5.1 of the Supply Code, released 62,612 connections to LMV-1 and LMV-2 consumers without installing meters and these connections were being billed at flat rate per connection per month. This unmetered supply deprived the PuVVNL of ₹ 178.62 crore[101] as it could not bill the consumers against actual energy consumed.

99 Public Lighting (LMV-3), Public Water works (LMV-7) and State Tubewells, Panchayati Raj Tube well and Pump Canal (LMV-8).

100 EDD-I Azamgarh, EDD-II Azamgarh, EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Mau, EDD-II Mau, EDD-Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur and EDD Dumariaganj.

101 Worked out on the basis of differential units per KW of unmetered connections (units per KW booked against the unmetered connections) and metered connections (units as recorded in meter) during 2008-09 to 2012-13.

Sl. No.	Provision of Supply Code	Result of non application
(ii)	As per para 4.20 (a) of Supply Code, security deposit equivalent to two months' estimated power consumption bill shall be made by all the consumers.	PuVVNL did not raise bills of/recover additional security of ₹ 67.05 crore and ₹ 105.05 crore in 2010-11 and 2011-12 respectively to reduce loan funds to that extent. As a result, the PuVVNL was not only deprived off the benefit of soft funds to avoid interest burden of ₹ 8.61 crore but also did not ensure recovery of security deposits as per the Supply Code.
(iii)	Clause 5.1 of Supply Code provides that no new connection shall be given without meter and all un-metered connections shall be metered by the licensee. The Company should replace the defective meter promptly to ensure proper assessment and revenue realisation from consumers.	We noticed that in 12 EDDs[102], 0.21 to 13.37 *per cent*[103] consumers under LMV-1, LMV-2, LMV-4, LMV-5 and LMV-6, were not billed and 5.82 to 83.21 *per cent* consumers were billed on NA/NR/IDF/ADF or RDF[104] basis which indicated that defective meters were not replaced promptly. This adversely affected revenue realisation from consumers and fund inflow of the PuVVNL as the consumers did not pay the bills if they were raised without meter reading and pursued the EDDs to rectify the bills.

The Management accepted (September 2013) our observations at (ii) and (iii) above and for (i) stated that billing was made as per tariff and there was no loss of revenue. However, instructions have been issued to install meters and to ensure to give connections on installation of meters only. Management's contention that there is no loss of revenue is not acceptable as billing for unmetered connections was done at flat rate and in the absence of meters, actual recovery for energy consumption was not being made which led to loss of revenue to the Company.

Poor monitoring of outstanding dues

3.12.22 The PuVVNL billed the consumers for sale of energy as per the provisions of the Supply Code and it is obligatory on the part of the consumer to pay his electricity bill on or before the due date of payment. Further, electricity supply in respect of defaulting consumers is required to be disconnected after the due date of payment as the bill issued by PuVVNL is bill cum disconnection notice. The table below indicates the assessment and realisation of dues on account of sale of energy to consumers by PuVVNL during the four years from 2008-09 to 2011-12[105].

Table No. 3.10

(₹ in crore)

Sl. No	Particulars	2008-09	2009-10	2010-11	2011-12	Total
1.	Balance outstanding at the beginning of the year	4,297.05	4,814.01	5,782.40	6,984.61	
2.	Revenue assessed/billed during the year	2,085.40	2,805.59	3,199.50	3,410.64	11,501.13
3.	Total amount due for realisation (1+2)	6,382.45	7,619.60	8,981.90	10,395.25	
4.	Total Amount realised during the year	1,568.44	1,837.20	1,997.29	2,197.24	7,600.17
5.	Amount realised against current assessment	1,369.84	1,679.56	1,989.13	2,169.76	7,208.29
6.	Percentage of amount realised against current assessment (5/2*100)	65.69	59.86	62.17	63.61	
7.	Balance outstanding at the end of the year (3-4)	4,814.01	5,782.40	6,984.61	8,198.01	
8.	Percentage of amount realised to total dues (4/3*100)	24.57	24.11	22.24	21.14	
9.	Arrears in terms of no. of months assessment (7/2*12 months)	27.70	24.73	26.19	28.84	

Source: Information furnished by PuVVNL on the basis of audited Annual Accounts.

[102] EDD-I Azamgarh, EDD-II Azamgarh, EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Mau, EDD-II Mau, EDD-Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur and EUDD-I Varanasi.
[103] EUDD-I Varanasi issued all the bills.
[104] NA-No Access, NR-No Reading, IDF-Informed Defective, ADF-Appears Defective and RDF-Reading defective.
[105] Accounts for 2012-13 have not yet been prepared.

The above table indicates that the realisation of dues to total dues was in the range 21 to 25 *per cent* whereas realisation against current assessment was below 66 *per cent*. Hence, the arrears were increasing every year. We noticed that increase in dues was due to non-enforcement of procedure prescribed for recovery of dues like disconnection of supply, prompt issue of recovery notices and regular pursuance to consumer for payment of dues. Accumulation of outstanding dues adversely affected the fund position of the PuVVNL and therefore, power purchase liabilities to UPPCL could not be discharged in time.

The Management accepted (September 2013) the facts and stated that remedial steps are being taken up to improve the results.

Poor recovery through Recovery Certificates

3.12.23 Section 56 of the Electricity Act, 2003 stipulates that where a consumer neglects the payment of electricity dues, fifteen days' notice should be given before disconnecting the supply. A demand notice under Section 3 of the Uttar Pradesh Government Electrical Undertakings (Dues Recovery) Act, 1958 is to be sent to recover the dues. If payment is not received even after issue of demand notice, Recovery Certificates (RCs) under Section 5 of the said Act is to be sent to the District Authorities to recover the dues as arrears of land revenue.

We noticed that in 11 EDDs[106] 22,399 RCs amounting to ₹ 84.06 crore of private consumers were pending as on April 2008 and 8,499 RCs of ₹ 43.37 crore were further issued during the period 2008-09 to 2012-13. Against above 2,597 RCs of ₹ 5.10 crore (4 *per cent* of amount of RCs issued up to 2012-13) only were realised and 7,260 RCs of ₹ 27.70 crore (21.73 *per cent*) were returned with remarks that consumers were not traceable, hence, dues were not recoverable. Thus, 21,041 RCs of ₹ 94.63 crore were still pending for realisation as on March 2013. The PuVVNL failed to trace the defaulting consumers in respect of whom RCs were returned and had not made effective efforts for recovery of pending RCs with District Authorities, due to which, alone ₹ 94.63 crore remained un-recovered and ₹ 27.70 crore was unrecoverable for these 11 divisions. Such unrecovered amounts added to the already heavy revenue deficit of PuVVNL[107].

The Management accepted (September 2013) the aforesaid facts and stated that instructions have been issued to all Zones to ensure recovery through RCs in co-ordination with the District Authorities.

Weak Internal Controls

3.12.24 Internal control is a process designed for obtaining reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes so that management's objectives can be achieved in an efficient and effective manner. Internal control comprises distribution of work among the employees to ensure accuracy and reliability in the work, management information system and internal audit.

Our observations in paras 3.12.15, 3.12.16, 3.12.17, 3.12.19, 3.12.20 and 3.12.21 indicate lack of financial internal control in PuVVNL. In addition, we

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106 EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Azamgarh, EDD-I Mau, EDD-II Mau EDD- Chandauli, EDD Dumariaganj, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur and EUDD-I Varanasi. EDD-I Ghazipur and EDD-II Azamgarh did not maintain records of RCs.

107 Ranging between 164.20 crore and 1,480.93 crore during the period from 2008-09 to 2011-12.

noticed the following which also reflect absence of control mechanisms in PuVVNL:

- Miscellaneous advances amounting to ₹ 54.19 lakh against 22 employees were outstanding for four to 37 years in EDD-II, Azamgarh as on March 2013. Records relating to the present status of their service and reasons for non-recovery were not available with the Division.

- Eleven[108] out 13 EDDs test checked did not reconcile their bank accounts with the cash book regularly. As on March 2013, there was delay of seven to 61 months in bank reconciliation. In eight EDDs[109] capital receipt account was not reconciled since inception. EDD Dumariaganj did not prepare Bank Reconciliation Statements since its inception.

- In 10[110] out of 13 EDDs test checked, cheques amounting to ₹ 1.31 crore were deposited in banks during April 1992 to January 2012 but were not credited into the accounts of the PuVVNL by the banks which indicated the lack of systemic controls to track un-credited amounts.

- In all 13 EDDs[111], cash balances in the chest on a particular day ranged between ₹ 64.84 lakh and ₹ 5.15 crore while the amount for which the chest was insured ranged between ₹ 6.50 lakh and ₹ 52.00 lakh. Under/non-insurance of the cash chest left EDDs vulnerable in case of theft of cash as in such cases the insurance company would not entertain the full claim.

The Management accepted (September 2013) the aforesaid facts and stated that action for recovery from employees, preparation of Bank Reconciliation Statements and crediting of cheques has been initiated.

Conclusion

Efficient fund management serves as a tool for decision making, for optimum utilisation of available resources and borrowings at favourable terms at appropriate time. There were lacunae in functioning of UPPCL as fund manager for DISCOMs and in arranging funds at lower rates to reduce the interest burden; loan funds were drawn without assessing requirement and there was diversion of dedicated scheme funds leading to delayed work of the scheme. There were considerable delays in filing of ARRs leading to loss of revenue. In PuVVNL, there were delays in transfer of revenue earned and funds were parked in non-interest bearing accounts. Deficient application of tariff orders and lack of prompt action in recovery of dues adversely affected the cash inflow of PuVVNL.

The matter was reported to the Government (July 2013); their reply has not been received (December 2013).

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[108] EDD-I Azamgarh, EDD-II Azamgarh, EDD-I Jaunpur, EDD-II Jaunpur, EDD-I Mau, EDD- Chandauli, EDD-I Ghazipur, EDD Saidpur, EDD-I Ballia, EDD-I Gorakhpur and EUDD-I Varanasi.

[109] EDD-I Azamgarh, EDD-I Mau, EDD-II Mau, EDD- Chandauli, EDD-I Ghazipur, EDD-I Ballia, EDD-I Gorakhpur and EUDD-I Varanasi.

[110] EDD-I Jaunpur, EDD-II Jaunpur, EDD-II Azamgarh, EDD-II Mau, EUDD-I Varanasi, EDD- Chandauli, EDD-I Ghazipur, EDD, Saidpur, EDD-I Ballia and EDD-I, Gorakhpur.

[111] In EDD Dumariaganj there was no insurance of cash chest.

Uttar Pradesh Power Corporation Limited

3.13 Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs)

Introduction

3.13.1 The Government of India (GoI), with a view to supply reliable and quality power to all by 2012 and increase in per capita availability of electricity to over 1,000 units by 2012, formulated the National Electricity Policy (NEP) in February 2005. In order to achieve the objectives enshrined in the NEP, the Government of Uttar Pradesh (GoUP) issued a revised Energy Policy in 2009. The Policy envisaged supply of reliable and quality power to all by 2014 at reasonable rates and to increase per capita availability of electricity to over 1,000 units by 2017. To increase the availability of power, the Energy Policy, 2009 focused on establishment of generating stations of 250 MW and above by Independent Power Producers (IPPs) through Memorandum of Understanding (MOU) with GoUP and purchase of power upto 50 *per cent* from such generating stations at a price to be decided by the Uttar Pradesh Electricity Regulatory Commission (UPERC).

Growth of demand and availability of power

3.13.2 The demand and availability of power during the five years from 2008-09 to 2012-13 is given below:

Table No. 3.11

Sl. No	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13 (Provisional)
1.	Demand of Power (MUs)	70189.50	76102.50	77854.50	82088.50	91651.50
2.	Availability of Power (MUs)					
2.1	Availability through Generation by State Utilities (Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited and Uttar Pradesh Jal Vidyut Nigam Limited)	20680.62	21066.99	19496.20	19369.64	17295.88
2.2	Availability through Power Purchase from National Thermal Power Corporation (NTPC), IPPs, Co-generators and Unscheduled Interchange (UI) etc.	35671.12	39611.94	45879.22	55109.97	46280.40
2.3	Total availability of power (MUs)	56351.74	60678.93	65375.42	74479.61	63576.28
3.	Shortfall in MUs (Demand - Availability of power) (1-2.3)	13837.76	15423.57	12479.08	7608.89	28075.22
4.	Shortfall in percentage (Row 3/Row 1 x 100)	20	20	16	9	31
5.	Percentage of power purchase to total availability of power (2.2/2.3 x 100)	63	65	70	74	73

Source: Information collected from the records of Uttar Pradesh Power Corporation Limited

It is apparent from the above table that there has been a gap between demand and availability of power, which, reduced from 20 *per cent* in 2008-09 to 9 *per cent* in 2011-12 but increased to 31 *per cent* in 2012-13 due to increase in demand as well as sharp decline in purchase of power over previous year. Although purchase of power with reference to total availability of power has increased from 63 *per cent* (2008-09) to 73 *per cent* (2012-13), it could not match the increase in demand.

Process of finalisation of Memorandums of Understanding (MOUs), Power Purchase Agreements (PPAs) with Independent Power Producers (IPPs) and fixation of power purchase price[112]

3.13.3 The Uttar Pradesh Power Corporation Limited (Company), incorporated in November 1999 under the Companies Act, 1956 is under the administrative control of the Energy Department of the GoUP. The Company being the State agency enters into the Power Purchase Agreements (PPAs) with the IPPs for purchase of power for onward sale to the Distribution Companies (DISCOMs)[113].

3.13.4 In order to fill the gap between demand and availability of power, the Company invited (November 2009) Expression of Interest (EOI) from the IPPs intending to establish generating stations through the MoU route under the State Energy Policy, 2009 (SEP). The EoIs duly vetted by the Company were sent to the Energy Task Force (ETF)[114] for final approval. The Energy Department, GoUP entered into 12 Memorandums of Understanding (MOUs) with IPPs. In response to these MoUs, the Company entered into 18 PPAs/Supplementary PPAs (SPPAs)[115] with IPPs during 2008-09 to 2012-13 for establishment of 18 Thermal Power Projects (TPPs) of 15,290 MW capacity including 16 PPAs /SPPAs (Capacity: 11,990 MW) through the MoU[116] route and two PPAs (Capacity: 3,300 MW) through competitive bidding process[117]. The PPAs were governed by the revised Energy Policy of 2009 and UPERC's (Terms and Conditions of Generation Tariff) Regulations, 2004 and revised Regulations of 2009. The details of all projects are given in **Annexure-19**.

Out of the 16 PPAs/SPPAs through the MoU route, two PPAs/SPPAs entered into with Rosa Power Supply Company Limited and five PPAs entered into with Bajaj Energy Private Limited, for establishment of two and five TPPs respectively (depicted at Sl. No. 2, 3 and 1 respectively in **Annexure-19**), were the only projects scheduled for completion by 2012-13 and had actually commenced commercial operation[118] up to 2012-13. Hence, we selected these PPAs/SPPAs for our audit examination. Two PPAs finalised through bidding process were examined by us in 2011-2012. Our comments on one PPA[119] had featured in the CAG's Audit Report (Public Sector Undertakings) for the year ending on 31 March 2012. The second PPA was not commented upon, as there was a stay on acquisition of land for the Project by the Hon'ble High Court.

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112 Power purchase price is referred to as tariff in the Tariff Regulations

113 Madhyanchal Vidyut Vitran Nigam Limited, Purvanchal Vidyut Vitran Nigam Limited, Paschimanchal Vidyut Vitran Nigam Limited, Dakshinanchal Vidyut Vitran Nigam Limited and Kanpur Electricity Supply Company (KESCO).

114 Composition of ETF: Infrastructure and Industrial Development Commissioner (Chairman), Principal Secretary (Finance), Principal Secretary (Energy), Principal Secretary (Irrigation), Principal Secretary (Planning), Principal Secretary (Environment), Principal Secretary (Nyaya), Chairman, Uttar Pradesh Power Corporation Limited, Managing Director Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Managing Director, Uttar Pradesh Power Corporation Limited.

115 Supplementary PPA was executed for ROSA Power Project Stage-II. This was an extension to the initial PPA executed for ROSA Power Project Stage-I.

116 Under the MoU route power projects, the tariff payable to the IPPs is decided by the UPERC.

117 For the Power Projects under the bidding process, tariff payable to IPPs is finalised on the basis of competitive bidding.

118 ROSA (Stage-I: 2 x 300 = 600 MW and Stage-II: 2 x 3 = 600 MW) and Bajaj Power Projects (5 x 2 x 45 MW capacity). Projects against other nine PPAs (10,340 MW capacity) were scheduled to be commissioned during 2014-2015 to 2017-2018 and, therefore, these projects were not selected for detailed audit.

119 Bara project of 1,980 MW capacity, Para 3.4.1of CAG's Audit Report (PSUs) for the year ending on 31 March 2012.

UPERC's (Terms and Conditions of Generation Tariff) Regulations, 2004 (Tariff Regulations, 2004) came into effect from 7 June 2005 for a period of three years (up to 2007-08). After a gap of one year, UPERC's (Terms and Conditions of Generation Tariff) Regulations, 2009 (Tariff Regulations, 2009) came into force from 1 April 2009 till 31 March 2014. Regulation No. 5 of both the Regulations provides that application for determination of power purchase cost shall be filed for a period of three years (upto 2007-08) and five years (upto March 2014) respectively by the IPPs, hence it was a Multi Year Tariff (MYT).

UPERC's (Terms and Conditions of Generation Tariff) Regulations, 2009

3.13.5 Regulation 15 of Tariff Regulations, 2009 provides for two tier tariff for Thermal Power Generating Companies i.e. Fixed Charges and Variable Charges:

Fixed charges comprise of five elements viz. Interest on loan capital, Return on Equity (RoE), Depreciation (including advance against depreciation), Operation and Maintenance Expenses (O&M expenses) and Interest on working capital. The first two components viz. interest on loan and RoE were directly related to the Capital cost of the project admitted by UPERC. Any increase/decrease in the capital cost would result in increase/decrease in the tariff and would ultimately impact financial position of the Company. The Power Generating Companies (PGCs) were required to claim such fixed charges as allowed by UPERC.

Variable charges cover the fuel cost (landed cost of coal and oil), which were to be claimed by the PGCs as per the actual cost of fuel.

Audit Findings

Power projects (Stage I and II) developed by ROSA Power Supply Company Limited (RPSCL)

3.13.6 The GoUP entered into (November 1993) an MoU with RPSCL, a special purpose vehicle (SPV) of Aditya Birla Power Company Limited (ABPCL) for setting up of 567 MW TPP. RPSCL was taken over (1 November 2006) by Reliance Energy Generation Limited (rechristened as Reliance Power Limited). Under the above MOU, the Company executed (12 November 2006) a PPA with RPSCL for ROSA Stage-I (Unit I and II each of 300 MW) power project for purchase of 100 *per cent* power to be produced by RPSCL for a period of 25 years. A supplementary PPA was executed (September 2009) between RPSCL and the Company for ROSA Stage II power project (Unit III and IV each of 300 MW).

The PPA being a legal contract under the provisions of the Indian Contract Act, 1872, was binding upon the parties entering into the contract. Any change in the terms and conditions of the contract was permissible only with the mutual consent of the parties to the agreement. On scrutiny of the PPA/SPPA executed with RPSCL, we noticed the following deficiencies:

Deficiencies in PPA

Stage - I

- No model PPA for thermal power projects was approved either by the GoUP or by the UPERC for the projects being set up by the IPPs under the MoU route.

- There was no explicit clause either for determination of benchmark/ceiling (upper limit) on capital cost of the project or for establishing control over capital cost with the provision that the agreed ceiling on capital cost or actual capital cost (whichever is lower) shall be considered for determination of tariff.
- There was no provision for scrutiny of the capital cost by an Independent Agency to ensure transparency and adherence to agreed mechanism of cost control in order to restrict the final capital expenditure within the ceiling/ benchmarked capital cost.
- There was no overriding clause in the PPA with regard to applicability of the Tariff Regulations of UPERC on the whole PPA. Further, there was no mention as to which provision will prevail in case of contradictions between the provisions of Tariff Regulation and PPA.
- A provision for deemed energy[120] was included in the PPA, whereas, there was no such provision in the regulations of CERC[121] and UPERC. Inclusion of such provision resulted into avoidable liability on the Company as discussed in the para no. 3.13.13 (a) and 3.13.13 (b) *infra*.

Stage-II

PPA for Stage–II was a supplementary agreement hence provisions of Stage-I PPA (other than specifically mentioned in Stage-II PPA) were applicable. In addition to deficiencies pointed out in the PPA (Stage-I), the PPA of Stage-II project was also deficient to the following extent:

- Unlike the PPA for Stage-I, the PPA for Stage-II did not contain any ceiling on capital cost. There was also no mechanism to keep control over the capital cost. Thus, the capital cost was open ended with no contractual grounds for protest by the Company against any increase in capital cost.
- Due to non-provision for ceiling on capital cost/ control over capital cost in the PPA, the Company could not appeal against the approval (June 2012) of additional capital cost of ₹ 550.02 crore by UPERC, as discussed in succeeding para no. 3.13.9

Capital cost of the project and its impact on cost of power purchase[122]

3.13.7 The projects under MoU route are based on capital cost, as provided in PPAs approved by UPERC, after open hearings. As per Regulation No. 20 of the Tariff Regulations, 2009, Capital cost funded in debt-equity ratio of 70:30 is to be considered for determination of cost of power purchase and where the actual equity employed is less than 30 *per cent*, the actual debt and equity shall have to be considered for determination of tariff. In case equity employed is more than 30 *per cent* it is to be restricted to 30 *per cent* and balance is to be considered as normative loan by IPPs. The cost of power purchase comprising of fixed charges and variable charges is determined by UPERC, as per the provisions of the Tariff Regulations, 2009. The computation of fixed charges is done on the basis of five elements viz. interest

[120] As per PPA, deemed energy shall mean the number of units of energy which ROSA was in a position to generate with reference to actual level of generation then existing and with reference to the Daily Declared Capacity, but did not generate as a result of (i) dispatch instructions from UPPCL or (ii) failure to take delivery of electricity by UPPCL due to grid disturbance attributable to UPPCL or (iii) payment default by UPPCL.

[121] CERC: Central Electricity Regulatory Commission.

[122] Cost of power purchase is referred to as Tariff in the Tariff Regulations.

on loan, Depreciation, Return on Equity (RoE), Operation and Maintenance (O&M) expenses and Interest on working capital. While O&M expenses are provided in the Tariff Regulations, 2009 as per the capacity of the Thermal Power Projects (TPPs), the other four elements viz. Interest on loan, Depreciation, Return on Equity (RoE) and Interest on working capital are based on the actual capital cost of the project. Therefore, any increase/decrease in capital cost accordingly results in increase/decrease in these four elements which, in turn, affects the cost of power purchase and the financial interest of the Company.

Extra financial burden due to allowance of additional capital cost
Stage – I

3.13.8 Regulation No. 17 of the Tariff Regulations, 2004 provided that where the PPA provides a ceiling on capital expenditure, the actual capital expenditure shall not exceed such ceiling for determination of tariff and if the actual capital expenditure exceeds such ceiling, such increase shall be decided by UPERC on case to case basis on an application filed by IPPs.

The PPA (November 2006) for Rosa Power Project, Stage-I executed between the Company and RPSCL was governed under the Tariff Regulations, 2004. In the PPA the capital cost of ₹ 2,641.63 crore for Rosa Stage –I power project was earlier approved by UPERC, specifying that this cost would be ceiling/upper limit of capital cost for the purpose of determination of tariff. UPERC approved (April 2009) additional capital cost of ₹ 470.88 crore against the claim of ₹ 564.80 crore by RPSCL. The allowance of the additional capital cost was not in accordance with the provisions of PPA and also in view of the fact that the PPA was governed by Tariff Regulations, 2004.

Inaction of the Company to appeal against the additional capital cost approved by UPERC led to financial burden of ₹ 137.01 crore up to March 2013, which will continue to increase during the remaining contractual period.

We noticed that the Company, during public hearing (March 2009) conducted by UPERC for deciding the same, protested the allowance of additional capital cost with reference to CERC Regulations 2009[123]. The Company requested the UPERC that the cost may be got audited by nominee of the Company. The UPERC did not agree with the Company's view stating that "completion cost of the project would be subject to prudence check by it and as considered necessary at the time of such prudence check, it may appoint independent auditor and/or technical expert to ascertain the cost as such the Company should not insist on audit by its nominee." The same has not been done till date. Further, the Company was at liberty to appeal before the Appellate Tribunal of Electricity (APTEL) within 45 days of receipt of order.

We further noticed that the provision in PPA (clause no 1.1) for ceiling on capital cost was binding upon both the parties (RPSCL and the Company) which could not be changed without the consent of the concerned parties. Though the Company had sufficient legal grounds to appeal before APTEL, as allowance of additional capital cost was against the financial interest of the Company, it, however, did not make appeal.

Thus, failure of the Company to file and pursue an appeal resulted in extra financial burden on the Company to the tune of ₹ 137.01 crore[124] for the period upto March 2013. As the PPA is for 25 years, this financial burden will

[123] Regulation No. 7, last para of CERC (Terms and Conditions of Tariff) Regulations, 2009 notified on 19 January 2009 by Central Electricity Regulatory Commission provides that where PPA entered into between the generating Company and the beneficiaries provide for ceiling of actual expenditure, the capital expenditure admitted by the Commission shall take into consideration such ceiling for determination of tariff.

[124] [₹ 56.88 crore **(Annexure-20)** + ₹ 80.13 crore **(Annexure-21)**] = ₹137.01 crore.

increase at the rate of ₹ 54.47 crore per year for the remaining 22 years[125] of the contract as detailed in **Annexure-20** and **21.**

The Management stated (August 2013) that they had submitted to the UPERC that where the PPA provides a ceiling on capital cost, such ceiling should not be allowed to be reopened for the purpose of tariff determination. The Company further stated that they had opposed the revision of cost of project in the light of earlier agreed cost in PPA as ceiling cost and also requested UPERC for audit of actual cost by the nominee of the Company. However, the views of the Company were not agreed to and UPERC had taken decision at their own prudence.

The fact remains that the Company failed to take steps to safeguard its financial interest by making an appeal to APTEL.

Stage-II

3.13.9 Similarly, UPERC approved (June 2009) capital cost of ₹ 3,098.60 crore for Rosa Power Project Stage-II (2 x 300 MW) without specifying any ceiling on the cost.

We noticed that the Company did not make effort to get approval of UPERC for ceiling on capital cost as fixed in case of Stage-I project or attempt to finalize a mutually agreed mechanism for establishment of cost control. UPERC approved (June 2012) additional cost of ₹ 550.02 crore (18 *per cent*) for Stage-II. The Company had no contractual grounds to appeal against the allowance of additional cost in the absence of any ceiling on capital cost in the PPA.

Consideration of higher O&M expenses in Multi Year Tariff

Inaction of the Company to apprise UPERC of the O&M expenses considered in DPR of RPSCL led to fixation of higher O&M expenses with consequential financial burden of ₹ 105.16 crore up to March 2013, which will continue to increase during the remaining contractual period.

3.13.10 The Operation and Maintenance (O&M) expenses of ₹ 12.17 lakh per MW for the year 2009-10 were considered by RPSCL in the Detailed Project Report (DPR) of May 2005 for the ROSA Power Project which was available with the Company. Regulation No. 21 (IV) of the Tariff Regulations, 2009, however, provided O&M expenses for the year 2009-10 at ₹ 16 lakh per MW to be increased by 5.72 *per cent* per annum in subsequent years. We noticed that even though the Company was aware of the lower O&M expenses considered by RPSCL in their DPR , it did not apprise these facts to UPERC during public hearing held (March 2009) for finalisation of Tariff Regulations, 2009. Therefore, the O&M expenses fixed as per the Tariff Regulations, 2009 were found to be higher by 31.47 *per cent*.

Thus, failure of the Company to apprise UPERC of the fact of lower O&M expenses considered by RPSCL in their DPR, led to hike in tariff with consequential extra financial burden of ₹ 105.16 crore up to March 2013. As the PPA is for 25 years, this financial burden will increase at the rate of ₹ 54.36 crore (Stage-I: ₹ 27.18 crore + Stage-II: ₹ 27.18 crore) per year for the remaining 22 years[126] (Stage-I) and 23 years and nine months[127] (Stage-II) of the contract[128], as detailed in **Annexure-22.**

The Management stated (August 2013) that the O&M expenses mentioned in the DPR prepared by the consultants were merely indicative and on the basis

[125] Base rate of 2012-13-₹ 54.47 crore (RoE- ₹ 22.61 + Interest on loan ₹ 31.86 crore) x 22 years = ₹ 1,198.34 crore.
[126] Base rate of 2012-13-₹ 27.18 crore x 22 years = ₹ 597.96 crore.
[127] Base rate of 2012-13-₹ 27.18 crore x 23 years and 9 months = ₹ 645.52 crore.
[128] Stage-I: ₹ 597.96 crore + Stage-II: ₹ 645.53 crore = ₹ 1,243.49 crore.

of preliminary stage conceptual planning. The data provided in DPR may undergo changes at the time of actual implementation of the project.

We do not agree with the reply as the DPR is the most important document for ascertainment of the financial feasibility and funding of the project. The Company, therefore, failed in its responsibility to bring these facts to the notice of UPERC during finalisation of Tariff Regulations, 2009.

Cost Benefit Analysis not done for Return on Equity rate

3.13.11 Tariff Regulations, 2004 provided Return on Equity (RoE) at 14 *per cent* and Plant Load Factor (PLF)[129] at 80 *per cent*. The Tariff Regulations, 2009 provided RoE of 16 *per cent* (including 0.5 *per cent* incentive RoE) and PLF 85 *per cent* for the projects commissioned on or after 01 April 2009. Regulation No. 2(5) of Tariff Regulations, 2009 provides that these Regulations are in addition to and not in derogation to the terms and condition of determination of tariff approved in PPA.

PPA (November 2006) followed by the SPPA (September 2009) accordingly incorporated RoE at 14 *per cent* per annum and PLF at 80 *per cent*. RPSCL in their petitions[130] for Multi Year Tariff - MYT (2009-10 to 2013-14) claimed RoE at the rate of 16 *per cent* with PLF of 80 *per cent*. UPERC, allowed (March 2011) RoE of 16 *per cent* and PLF of 85 *per cent* (w.e.f. April 2011) in the above MYT. We noticed that the Company accepted the PLF of 85 *per cent* but asked for RoE at the rate of 14 *per cent* and not for RoE with matching PLF. UPERC rejected the claim of Company stating that the norms should be either from PPA or from Regulations and not partially from both. The Company sought opinion from the Additional Advocate General of Uttar Pradesh, who opined (January 2011) that the PPA having been entered between the parties and the RoE fixed by agreement of the parties, was not liable to be changed or amended only because of the promulgation of the Tariff Regulations, 2009. Hence the RoE with matching PLF as provided in PPA formed the legally tenable ground.

We further noticed that the Company filed (April 2011) a Review Petition with UPERC in response to latter's order for MYT (March 2011) again requesting for consideration of RoE at the rate of 14 *per cent* per annum and PLF of 85 *per cent*. UPERC rejected the Review Petition in April 2012.

Failure of the Company to conduct Cost- Benefit-Analysis coupled with the arbitrary decision of CMD not to file an appeal before APTEL against increased RoE led to financial burden of ₹ 40.98 crore upto March 2013 , which will continue to increase during the remaining contractual period.

In this regard**,** we observed that the Review petition was not maintainable as per Code of Civil Procedure (CPC) order XLVII Rule 1[131]. This view was also opined by the Additional Advocate General (June 2011) who strongly recommended the Company to withdraw the Review Petition and to file appeal before APTEL. However, the Company did not act upon the advice of the Additional Advocate General and the Chairman-cum-Managing Director (CMD) of the Company decided to go ahead with the Review petition.

The decision of the CMD to not file an appeal was not in the interest of the Company and led to increase in cost of power purchase by Company with consequential extra financial burden on the Company to the tune of ₹ 40.98 crore[132] up to March 2013. As the PPA is for 25 years, this financial burden will increase at the rate of ₹ 25.40 crore (Stage-I: ₹ 12.70 crore + Stage-II:

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[129] PLF stands for percentage of sent out energy corresponding to installed capacity.

[130] Filed with UPERC in accordance with Regulation No. 5 of UPERC's (Terms and Conditions of Generation Tariff) Regulations, 2009.

[131] Review Petition can be filed only when there was a mistake or error apparent on the face of record. The instant case did not contain such grounds. Hence, the Review petition was not legally maintainable.

[132] ₹ 25.10 crore (Stage-I) + ₹ 15.88 crore (Stage-II) = ₹ 40.98 crore.

₹ 12.70 crore) per year for the remaining 22 years[133] (Stage-I) and 23 years and nine months[134] (Stage-II) of the contract[135], as detailed in **Annexure-23**.

The Management stated (August 2013) that they had not contested against allowance of 85 *per cent* PLF as five *per cent* extra guaranteed capacity was available without any payment of extra fixed charges. It further stated that RoE at the rate of 16 *per cent* was contested but UPERC did not agree.

The Management's reply indicates that the protest and Review petition filed to UPERC was not based on any legally and financially tenable basis as the Company had not conducted any cost-benefit analysis. We also noticed that RoE of 14 *per cent* with PLF of 80 *per cent* as provided in PPA was beneficial to the Company to the tune of ₹ 622 crore (**Annexure-23**) during the contractual period (Stage-I and II projects) as per cost benefit analysis worked out by us.

Besides, it also failed to file an appeal before the APTEL despite legal advice in this regard by Additional Advocate General.

Inadmissible allowance of incentive return

3.13.12 The PPA executed in November 2006 for ROSA Stage-I projects (Unit - I and II), was governed by the provisions of Tariff Regulations, 2004 wherein, there was no provision for incentive return for the projects completed within scheduled time. UPERC approved (November 2006) timeline of 41 months (unit-I) and 44 months (unit-II) for completion of the project. Tariff Regulations, 2009 included a provision for incentive return at the rate of 0.5 *per cent* for the projects completed within the timeline of 33 and 37 months. UPERC allowed 0.5 *per cent* incentive return for Rosa Stage I project in the MYT (March 2011) on the grounds of commissioning of the Unit–I and II within a timeline of 41 months and 44 months.

Failure of the Company to prefer appeal before APTEL against the in admissible incentive return led to extra financial burden of ₹ 13.28 crore upto March 2013 which will continue to increase during the remaining contractual period.

We noticed that in view of the specific timeline of 33 and 37 months, as per the Tariff Regulations, 2009, incentive return was not admissible in the instant case. In the public hearing before UPERC on MYT, the Company did not point out that as per Tariff Regulations of 2004, no incentive for completion of project during timeline was allowable. Moreover, the timelines allowed in Tariff Regulations of 2009, were 33 and 37 months as against 41 and 44 months allowed for the project by UPERC. Moreover, as the allowance of incentive return by UPERC was not in the financial interest of the Company, an appeal should have been filed before the APTEL. We noticed that no appeal was filed.

Thus, not preferring appeal before APTEL led to avoidable financial burden of ₹ 13.28[136] crore upto March 2013 with consequential impact on the cost of power purchase. As the PPA is for 25 years, this financial burden will increase at the rate of ₹ 4.67 crore per year for the remaining 22 years[137] of the contract.

The Management stated (August 2013) that they had opposed the additional return of 0.5 *per cent* on the ground that the Generating Companies may avail the windfall gain even without any provision in PPA. Subsequently this issue

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[133] Base rate of 2012-13-₹ 12.70 crore x 22 years = ₹ 279.40 crore.
[134] Base rate of 2012-13-₹ 12.70 crore x 23 years and 9 months = ₹ 301.62 crore.
[135] Stage-I: ₹ 279.40 crore + Stage-II: ₹ 301.62 crore = ₹ 581.02 crore.
[136] As per MYT approved by UPERC-₹ 0.12 crore (2009-10) + ₹ 3.89 crore (2010-11) + ₹ 4.60 crore (2011-12) + ₹ 4.67 crore (2012-13).
[137] Base rate of 2012-13-₹ 4.67 crore x 22 years = ₹ 102.74 crore.

was again challenged through Review Petition filed (April 2011) before UPERC against the MYT order but UPERC did not agree.

As the essence of admissibility of additional return was the time line (33 and 37 months) specified in the Tariff Regulations, 2009, the Company failed in its duty to protest the above issue before UPERC by specifically pointing out that the incentive return allowed in case of Rosa Power Project (Stage-I) was based on higher timeline of 41 and 44 months. Moreover, the Company did not appeal before APTEL.

Extra financial burden on account of Deemed Generation

3.13.13 We noticed that the PPA, in contravention to the provisions of CERC and UPERC Regulations, incorporated a provision for deemed energy. As per provisions of PPA, in case of claim for deemed generation, the Company was liable to pay fixed charges to RPSCL, though no energy was actually received by the Company. We noticed that RPSCL had claimed for deemed generation in the following two cases:

Liability of deemed generation due to transmission constraints/tripping

(a) According to Clause 9.1 (d) of the PPA, the Company was required to construct six transmission lines and other inter-connection facilities 90 days prior to scheduled synchronisation dates of Unit-I and II of Stage- I projects viz., 30 September 2009 and 31 December 2009, respectively. The PPA further provided that in case of deemed generation[138], the Company was liable to pay the fixed charges to RPSCL, though no energy was actually received by the Company.

Inclusion of provision of deemed generation in PPA created avoidable liability of ₹ 31.50 crore on the Company due to transmission constraints/tripping.

We noticed that Unit I and II (Stage I) were commissioned on 12 March 2010 and 30 June 2010 but the Company could complete only two out of the agreed six transmission lines between November 2006 to March/June 2010. As the remaining four transmission lines were not completed, the Company could not evacuate the capacity power generated by RPSCL due to transmission constraints/trippings.

RPSCL claimed ₹ 31.50 crore on account of deemed generation on account of 91 incidences of transmission constraints/tripping between 13 March 2010 to 30 March 2011. UPERC, in their order (07 December 2011) issued instructions to settle the issue mutually within one month of the above order. The matter, however, could not be resolved mutually within the time given by UPERC. Hence, RPSCL again filed (07 December 2012) a petition with UPERC, the order of UPERC was awaited (December 2013).

Thus, unwarranted inclusion of provision in PPA for deemed generation and failure of the Company to timely construct the required transmission lines resulted in avoidable liability of ₹ 31.50 crore on account of deemed generation.

The Management stated (August 2013) that due to multiple Right of Way (ROW) problems, completion of two transmission lines was delayed and against 91 incidences of deemed energy (₹ 31.50 crore) as claimed by RPSCL,

[138] PPA (November 2006) stipulates that deemed energy shall mean, for any operating period, the number of units of energy (kWh) which RPSCL was in a position to generate during such operating period, with reference to actual level of generation then existing and with reference to the daily declared capacity or the most recent modification thereto as last modified and indicated to the Company, but did not generate as a result of (i) dispatch instruction from the Company or (ii) failure to take delivery of electricity by the Company due to grid disturbance attributable to Company as determined by Northern Regional Electricity Board but not due to any force majeure event or (iii) payment default by the Company including any failure to provide/sustain agreed security package.

the High Power Committee constituted by the Company had recommended deemed energy for only 22 incidences. The High Power Committee report had been sent to UPERC and the UPERC's order was awaited.

The fact remains that inclusion of provisions of deemed generation in violation to CERC and UPERC Regulations and failure of the Company to construct six transmission lines in 37 months from the date of signing of PPA (November 2006), made the Company liable for payments for deemed generation.

Liability for deemed generation due to payment default

(b) The Company was liable to make payments against the bills raised by RPSCL as per the provisions[139] of the PPA. However, due to the Company's failure to make timely payments, it was not only put to extra financial burden of ₹ 79 crore in terms of late payment surcharge but also created avoidable liability on account of deemed generation, as discussed below:

Due to payment default by the Company, RPSCL kept the Units of Stage–I and II under shut down between 5 July 2012 and 31 July 2012, as detailed below:

Table No. 3.12

Period of shut down	Stage-I	Stage-II	Availability of power at 85 *per cent* PLF during July 2012 (MUs)	Actual availability of power due to frequent shut down of units (MUs)	Short availability of power (MUs)
05.07.12 to 06.07.12	Both units	Both units	677.58	411.31	266.27
07.07.12	Both units	One unit			
08.07.12 to 21.07.12	One unit	One unit			
22.07.12 to 31.07.12	One unit	Nil			

Source: Information furnished by the Company

Inclusion of provision of deemed generation in PPA created avoidable liability of ₹ 50.57 crore on the Company due to payment default.

We noticed that the due to closure of the Units by RPSCL, the Company could not get the assured power of 266.27 MUs and had to meet this shortage through short term purchase/Unscheduled Interchange (UI) at higher cost. On the other hand, the Company also incurred an avoidable liability for payment of fixed charges of ₹ 50.57 crore (Stage I: ₹ 24.59 crore and Stage-II: ₹ 25.98 crore) as claimed by RPSCL on account of deemed generation as per order of UPERC (March 2013). The Company had filed (May 2013) a protest against this order in APTEL.

The Management intimated (December 2013) that they have withdrawn the appeal filed before APTEL as it had agreed to settle the claim of RPSCL in light of the specific provision of the PPA, in the meeting held with RPSCL on 22 August 2013.

The fact remains that the inclusion of provision of deemed generation in PPA which was in contravention of CERC and UPERC Regulations has resulted in the Company becoming liable for payment of ₹ 50.57 crore to RPSCL on account of deemed generation without receipt of energy.

[139] As per the provisions of the PPA (November 2006), due date of payment shall mean in relation to any amount the 30th day after the receipt of invoice of that amount by the Company. Clause 12.17 of the PPA further provided that for payment of bills of fixed charges and variable charges through a letter of credit on presentation, a rebate of two *per cent* shall be allowed. If the payments are made by a mode other than through the letter of credit but within a period of one month of presentation of bills by RPSCL, the rebate of one *per cent* shall be allowed. In case the payment of bills of fixed charges and variable charges by the Company is delayed beyond a period of one month from the date of billings, a late payment surcharge at the rate of 1.25 *per cent* per month shall be levied by RPSCL on outstanding amount of the bills.

Payment of power purchase bills without verification

3.13.14 As per the terms[140] of the PPA, payment against power purchase bills was to be verified/made for Fixed Charges (as per tariff) and Variable Charges (coal, oil and transportation charges) as per actual on the basis of supporting bills/ documents. The Company had no mechanism for verification/ adjustment of bills as per actual expenditure incurred by RPSCL.

We noticed that the Company did not exercise the right available as per PPA to obtain the source documents for verification of bills of fuel charges. The Company had also not devised any mechanism for annual verification/ adjustment of bills as per actual expenditure incurred by RPSCL based on source documents. We noticed that this failure of internal control led to payment of ₹ 1,812.56 crore[141] towards fuel, against actual expenditure of ₹ 1,688.18 crore[142] incurred by RPSCL during the years 2010-11 and 2011-12. This led to extra expenditure of ₹ 124.38 crore on purchase of power by the Company.

The Management agreed (August 2013) with our observation and assured action to verify the variable cost details from the source documents. The outcome of recovery/adjustment was awaited (December 2013).

Loss due to non-claim of the benefit of gain on foreign currency transaction

3.13.15 As per Clause 12.12(a)[143] of the PPA (November 2006) read with Regulation No. 9 of Tariff Regulations, 2009, as soon as the fact of Foreign Exchange Rate Variation (FERV) comes to the notice of RPSCL, they shall submit to the Company (i) in the event, such variation is a positive number, a supplementary bill for an amount equal to such variation or (ii) in the event, such difference is negative, a statement setting forth the amount of such variation as credit in the power purchase bill for the next operating month of RPSCL.

Inaction of the Company led to non-recovery/ adjustment of ₹ 56 crore on account of FERV derived by RPSCL

We noticed that the RPSCL had derived net benefit of ₹ 56 crore on account of FERV during the period 2008-09 to 2010-2011, as per their audited accounts. However, despite being mandatory, this net gain aggregating to ₹ 56 crore derived by RPSCL on account of FERV was neither reflected as credit in the power purchase bill submitted by RPSCL to the Company nor was claimed by the Company. Thus, due to not ensuring the compliance with the provisions of Clause 12.12 (a) of the PPA as well as Regulation No. 9 of the Tariff Regulations, 2009, the Company failed to claim the net gain of ₹ 56 crore.

The Management agreed (August 2013) with our observation and stated that they have referred (12 July 2013) the matter to RPSCL. Action for recovery/adjustment was awaited (December 2013).

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[140] Clause 12.5 (b) of the PPA (November 2006) stipulates that either party shall have the right, upon reasonable prior written notice to the other party, to examine and/or make copies of the records and data of the other party relating to this agreement (including without intimation, all records and data relating to or sustaining any payments made by or to ROSA) at any time during normal business hours.

[141] ₹ 560.10 crore (2010-11) *plus* ₹ 1,252.46 crore (2011-12) claimed by RPSCL and verified by the Company.

[142] ₹ 559.65 crore (2010-11) *plus* ₹ 1,128.53 crore (2011-12) based on audited accounts of RPSCL.

[143] Clause 12.12 (a) of the PPA read with the Tariff Regulations, 2009 provides that extra rupee liability towards interest payment and loan repayment corresponding to the foreign debt, in the relevant year shall be permissible provided it directly arises out of foreign exchange rate variations (FERV). RPSCL is allowed to receive foreign exchange rate variation on year to year basis as income or expenditure in the period in which it arises. Recovery of FERV was to be done directly by the Generation Company from the beneficiary (the Company).

Deficient planning in scheduling of generation

Short scheduling of generation led to payment of fixed charges of ₹ 65.18 crore without procurement of power.

3.13.16 The gap in demand and supply leads to variation between actual generation and scheduled generation which is met out through Unscheduled Interchange (UI)[144] and accounted as UI charges, worked out by State Load Dispatch Centre (SLDC) for each 15 minutes time block.

While the Company should judiciously plan the scheduled generation (SG) at par with the Declared Capacity (DC) offered by RPSCL, we noticed that the Company had short scheduled 396.96 MUs (160.52 MUs in 2011-12 and 236.44 MUs in 2012-13) against the DC offered by RPSCL. As there was short availability of power in State, the Company met requirement through UI at a higher cost[145].

Besides, the Company had also to pay the committed fixed charges of ₹ 65.18[146] crore during 2011-12 and 2012-13 on such excess DC.

Power Projects installed by Bajaj Energy Private Limited (BEPL)

3.13.17 According to the Energy Policy, 2009[147], power projects of 250 MW and above capacity were permitted for establishment by IPPs through the MoU route. Bajaj Hindustan Limited (BHL)[148] offered (26 November 2009) the Company to set up five TPPs of 80 MW each at five locations[149], which was not permissible in view of the aforesaid policy. The GoUP, on the proposal (1 December 2009) of the Company for change in the Power Policy and on the recommendation (8 December 2009) of Energy Task Force (ETF), amended (24 December 2009) the Power Policy which permitted the co-generators to set up TPPs not exceeding 100 MW capacity and gave the State Government/ its nominee the right to purchase up to 50 *per cent* of power generated at the tariff fixed by UPERC. In this regard, we noticed the failure of the Company in putting forth the facts of DPR to UPERC/not pointing out the deficiencies in figures of the tariff petition filed by BEPL, as discussed in the succeeding paragraphs:

Norms taken in DPR not intimated to UPERC

3.13.18 Bajaj Hindustan Limited entered into (22 April 2010) an MoU with GoUP for establishment of generating power plants of 90 MW capacity (2 x 45MW) at each of the five locations for purchase of 90 *per cent* of power generated by BHL. It was subsequently revised to 100 *per cent* by the Secretary, Energy Department, GoUP in May 2011. The Company entered into (10 December 2010) five PPAs with BHL for purchase of power from above power projects for a period of 25 years at the power purchase cost to be determined by UPERC. The units were commissioned during March-April 2012.

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[144] UI stands for unscheduled drawl of power from Grid to meet the demand of power.

[145] Average cost of UI for 2011-12 and 2012-13 was ₹ 5.07 and ₹ 6.46 per unit respectively as against average cost of power purchase from RPSCL of ₹ 4.79 and ₹ 5.37 per unit respectively i.e. higher by ₹ 0.28 per unit in 2011-12 and ₹ 1.09 per unit in 2012-13.

[146] (160.52 MUs x ₹ 1.63) + (236.44 MUs x ₹ 1.65) = ₹ 26.17 crore + ₹ 39.01 crore = ₹ 65.18 crore.

[147] Notified by the GoUP on 23 October 2009.

[148] Subsequently, these TPPs were assigned by BHL to its subsidiary company Bajaj Energy Private Limited (BEPL) as per approval accorded by the GoUP on 11 June 2010.

[149] Barkhera (Pilibhit), Kundarkhi(Gonda), Khambharkhera (Lakhimpur), Maqsuadpur (Shahjahanpur) and Atraula (Balrampur).

The Norms of Operation (NOPs) comprising of Gross Station Heat Rate (GSHR), Operation and Maintenance (O&M) expenses and Auxiliary consumption in respect of TPPs of 45 MW were not initially fixed in the Tariff Regulations, 2009 as the TPPs of such small size had not been in existence in the State[150]. Hence, before fixing the NOPs in respect of 45 MW TPPs, UPERC called for (September 2010 and February 2011) relevant information for 45 MW capacity TPPs from the Company, Central Electricity Authority (CEA) and National Thermal Power Corporation (NTPC). UPERC did not receive any information from the Company, CEA or NTPC on the NOPs. BEPL, however, submitted an affidavit containing information on GSHR. Thus, UPERC fixed (July 2011) the NOPs viz. GSHR (2,900 kCal/kWh) on the basis of affidavit submitted by BEPL. O&M expenses were fixed at ₹ 20.34 lakh/per MW for 2011-12 (to be escalated by 5.72 *per cent* in subsequent years) on the basis of Obra TPP[151] (which was more than 37 years old) and Auxiliary consumption was fixed at 11 *per cent.*

We, however, noticed that in the DPR of January 2010, BEPL had considered the NOPs viz. GSHR (2675 Kcal/kWh), O&M Expenses (₹12.00 lakh/MW for 2009-10 to be escalated by 5.72 *per cent* in subsequent years) and Auxiliary consumption (10 *per cent*) at significantly lower rates. This DPR, which was the basis of ascertainment of the financial feasibility and funding of the project, was available with the Company. However, the Company did not bring the fact to the notice of UPERC. The Company did not submit any comment during public hearing conducted by UPERC for finalisation of the NOPs for 45 MW TPPs. This inaction by the Company led to inadequate input to UPERC and resulted in fixation of higher NOPs with consequential extra financial burden on the Company, as summarised in the table below:

Norms taken in DPR were not intimated to UPERC which led to fixation of higher NoPs with consequential extra financial burden of ₹ 115.16 crore during 2012-13, which will further increase every year during the remaining contractual period of 24 years.

Table No. 3.13

(₹ in crore)

Particulars	NOPs fixed for 45 MW in Tariff Regulations, 2009	NOPs for 45 MW as per DPR	Financial impact on comparison of NOPs of Regulations, 2009 for 45 MW to those of DPR
GSHR	2900 kCal/kWh	2675 kCal/kWh	1677.70[152]
Auxiliary consumption	11 *per cent*	10 *per cent*	377.79[153]
O&M Expenses	₹ 21.50 lakh/ MW (2012-13) to be escalated by 5.72 *per cent* in subsequent years	₹ 14.18 lakh/ MW (2012-13) to be escalated by 5.72 *per cent* in subsequent years	823.50[154]
Total			**2,878.99**

Source: UPERC (Terms and Conditions of Generation Tariff) Regulations, 2009 as amended from time to time

Hence, the Company failed to protect its financial interest, which led to hike in power purchase cost with consequential extra financial burden on the Company of ₹ 115.16 crore during 2012-13. As the PPA is for 25 years, this financial burden will increase at the rate of ₹ 115.16 crore per year for the remaining 24 years[155] of the contract.

150 Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited had phased out its nine projects of 50 to 100 MW capacity after the year 2007.

151 Obra Thermal Power Plant established by Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited.

152 Value of excess consumption of coal due to higher GSHR- 450 x 1,000 x 24 x 365 x 85 *per cent* x 25 = 83,767.50 MUs x 225 (2,900-2,675)/3,750 (average GCV of coal) x 3,338 (average price of coal per MT)= ₹ 1,677.70 crore. (Where 450 is the capacity (45 MW x 10 units), 1,000 is number of units per MW, 24 is hours, 365 is number of days in a year, 85 *per cent* is the plant load factor and 25 is the number of years of the PPA).

153 83,767.50 x 1 *per cent* (11-10) x ₹ 4.51 (unit rate approved by UPERC) = ₹ 377.79 crore.

154 Excess O&M = ₹ 7.32 lakh/MW (₹ 21.50 lakh/MW - ₹ 14.18 lakh/MW) x 450 x 25= ₹ 823.50 crore.

155 Base rate of 2012-13-₹ 115.16 crore x 24 years = ₹ 2,763.84 crore.

Moreover, purchase of 100 *per cent* power from BEPL was against the provisions of the Energy Policy, 2009 which provided for purchase of power upto 50 *per cent* only. The Company incurred an extra financial burden (₹ 1,439.50 crore) on account of the permission for purchase of extra 50 *per cent* power from a costlier source.

The Management stated (August 2013) that small sized coal based power plants below 100 MW were set up as per the Energy Policy, 2009 as installation of such plants on the surplus land available in Sugar Mills will definitely take comparatively lesser gestation period and the State will be benefited by augmenting the capacity addition in lesser time. It was added that in two other States (Chhattisgarh and Madhya Pradesh) also, such small projects were being installed.

The reply of the Management does not address the audit observations on purchase of 100 *per cent* power from a costlier source and that the Company had failed to apprise UPERC of the NOPs of DPR available with the Company. The Company and the Energy Department, GoUP did not give any comment to UPERC nor did they contest the NOPs during public hearing convened for finalisation of NOPs for 45 MW TPPs, despite the comments invited by the UPERC.

Discrepancies in power purchase cost petition filed by BEPL

3.13.19 Regulation No. 5(3) of the Tariff Regulations, 2009 provides for approval of provisional power purchase cost. The provisional power purchase cost was to be charged from the date of commercial operation (COD) of the respective units of the Generating station. The Generating company shall make a fresh application for determination of final tariff based on the actual expenditure incurred upto the date of COD[156] of generating station. In line with CERC's notification dated 2 May 2011[157], UPERC approved (May 2013) the provisional power purchase cost for the period 2011-12 to 2013-14 (being 95 *per cent* of the fixed charges) as claimed by BEPL in power purchase cost petition (September 2012). UPERC also directed the Company and BEPL to arrive at an agreed/admitted capital cost in three months to facilitate fixation of final fixed charges. We noticed that the agreed capital cost had not been decided (September 2013).

We further noticed that the Company did not exercise due diligence to examine the data contained in the tariff petition filed by BEPL (September 2012). The Company, while submitting their comments on the power purchase cost petition in October 2012, November 2012, January 2013 and February 2013, stated that as capital cost was not finalised, the power purchase cost may be based on 95 *per cent* of capital cost claimed by BEPL. We noticed the following discrepancies in the power purchase cost petition filed by BEPL which were not examined by the Company:

Consideration of incorrect amount of debt and equity

3.13.20 The total capital cost of the project considered for determination of provisional fixed charges was claimed as ₹ 2,569.80 crore (as per Annexure A

[156] Regulation 14(xii) *inter-alia* provides that in relation to the generating station, COD means the COD of the last unit or block of the generating stations.

[157] Where application for determination of tariff of an existing or a new project has been filed before the Commission in accordance with clauses (1) and (2) of this Regulation, the Commission may consider in its discretion to grant provisional tariff up to 95 *per cent* of the annual fixed cost of the project claimed in the application. CERC Notification No. L-7/145(160)/2008-CERC dated 2 May 2011.

to Form-1 attached with tariff petition) comprising loan amount of ₹ 1,798.85 crore and equity to the tune of ₹ 770.95 crore. Figures given in Annexure-A to Form -1 should necessarily match with those given in Forms -6, 13 and 16 of the tariff petition filed by BEPL. We noticed that the actual amount of loan was ₹ 1,937.25 crore as per Forms-6, 13 and 16 of the above power purchase cost petition. Since the capital cost was ₹ 2,569.80 crore and the loan amount was ₹ 1,937.25 crore, accordingly, the amount of equity works to ₹ 632.55 crore[158], which was less than 30 *per cent* of the capital cost claimed by BEPL. As per Regulation No. 20 of the Tariff Regulations, 2009 in case of equity being less than 30 *per cent*, the actual debt and equity should have been considered for determination of power purchase cost. Actual loan was ₹ 1,937.25 crore and equity was ₹ 632.55 crore and not the amounts (₹ 1,798.85 crore and ₹ 770.95 crore respectively) claimed by BEPL. This fact was not pointed out by the Company to UPERC.

Thus, acceptance of incorrectly claimed amount of debt and equity led to excess financial burden on the Company to the tune of ₹ 10.90 crore during 2012-13. As the PPA is for 25 years, this financial burden will increase at the rate of ₹ 10.90 crore **(Annexure-24)** per year for the remaining 24 years[159] of the contract.

The Management stated (August 2013) that the loan and equity position shown in Annexure-A to Form-1 was the cost actually incurred upto COD and the position shown in Forms-6, 13 and 16 includes additional capital expenditure after COD and up to cut-off date.

The reply is not based on facts as the figures shown in Forms 6, 13 and 16 also depict the position of capital cost as on COD. The figures of Annexure-A to Form-1 are the summary of the figures in Forms-6, 13 and 16[160] as on COD. Moreover, it was in the financial interest of the Company to point out to UPERC that the figures shown in Annexure-A to Form-1 and those shown in Forms-6, 13 and 16 of the petition filed by BEPL were different. The Company, however, failed to verify the figures independently and point out the above discrepancies before UPERC.

Consideration of inflated Interest during construction

3.13.21 The BEPL claimed (September 2012) in their tariff petition, ₹ 293.28 crore as Interest during construction (IDC) for the period upto 25 August 2012. As per Regulation No.17 of Tariff Regulations, 2009, IDC was to be taken only upto the date of commercial operation (COD). The COD was March 2012 (for three TPPs) and April 2012 (for two TPPs) of these generating stations. The correct amount[161] of IDC up to the COD of the each of the TPPs works out to ₹ 186.13 crore.

Thus, the excess amount of IDC of ₹ 107.15 crore (₹ 293.28 crore- ₹ 186.13 crore) claimed by BEPL, resulted in extra financial burden of ₹ 15.64 crore during 2012-13 on the Company. As the PPA is for 25 years, this financial

[158] ₹ 2,569.80 crore - ₹ 1,937.25 crore = ₹ 632.55 crore.

[159] Base rate of 2012-13-₹ 10.90 crore x 24 years = ₹ 261.60 crore.

[160] Annexure A to Form-1 depicts the summary of Capital Cost, Debt, Equity, Equity considered for RoE, Rate of RoE and Rate of Interest on Loan etc. gets its figures from Forms 6, 13 and 16.
Form-6 depicts the position of means of the Cost of the project up to COD viz. total loan, equity and debt-equity ratio. Form-13 depicts the calculation of weighted average rate of interest on actual loan.

[161] IDC amount claimed in petition ₹ 293.28 crore up to 25 August 2012, reduced pro rata upto actual COD.

burden will increase at the rate of ₹ 15.64 crore **(Annexure-24)** per year for the remaining 24 years[162] of the contract.

The Management stated (August 2013) that the Statutory Auditors' certificate clearly mentioned that the project cost included IDC incurred upto respective COD only.

We do not agree with the reply in view of the fact that Form-5 B[163] forming part of tariff petition of BEPL and certificate of the Statutory Auditors of BEPL (attached with the tariff petition filed with UPERC) indicated IDC (₹ 107.15 crore) incurred up to 25 August 2012 i.e. beyond the COD of March and April 2012.

Allowance of increased rate of Return on Equity

3.13.22 The Return on Equity (RoE) of 14 *per cent* per annum and 80 *per cent* PLF fixed in the Tariff Regulations, 2004 was increased to 15.5 *per cent* per annum with PLF of 85 *per cent* by UPERC as per Tariff Regulations, 2009 with an additional incentive return at the rate of 0.5 *per cent* per annum provided the projects were commissioned on or after 01 April 2009 and completed within the time line.

We noticed that at the time of public hearing (March 2009) conducted by UPERC for finalisation of the Tariff Regulations, 2009, the Company did not submit to UPERC any objections against above proposed increase. The RoE of 14 *per cent* was justified in view of prevailing cost of funds[164] (interest on loan). Moreover, the cost benefit analysis (CBA) based on RoE of 14 *per cent* with PLF of 80 *per cent* compared with RoE of 15.5 *per cent* with PLF of 85 *per cent* shows that ROE of 14 *per cent* with PLF of 80 *per cent* was beneficial to the Company in the instant case, similar to what has already been pointed out in para no.3.13.11

The Company, however, instead of pointing out the prevailing cost of funds, supporting 14 *per cent* RoE with 80 *per cent* PLF as per CBA, submitted before UPERC that the Regulations should be compatible with those of CERC.

Thus, non-protest for increase in RoE supported with CBA resulted in financial burden on the Company to the tune of ₹ 14.40[165] crore in 2012-13 in respect of BEPL. This would increase at the rate of ₹ 14.40 crore per year for the remaining 24 years of the contract. This non-protest has also raised a further committed financial burden on the Company to the tune of ₹ 3177.75[166] crore in respect of eight other projects[167] where MOUs and PPAs have already been executed by the GoUP and the Company respectively.

The Management stated (August 2013) that the UPERC followed the principle and methodology adopted by the CERC in compliance with the powers

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162 Base rate of 2012-13-₹ 15.64 crore x 24 years = ₹ 375.36 crore.

163 Form 5 B contains break up of Capital Cost including construction and pre-commissioning expenses and Interest during construction etc.

164 Where interest rate payable on loan was 11.60 to 14 *per cent* thereby RoE of 14 *per cent* was reasonable.

165 ₹18.79 crore (RoE claimed by BEPL @ 16 *per cent*) - ₹ 4.39 crore {(450 x 1000 x 24 x 365-11 *per cent*) x 5 *per cent* x 25 paise per unit} = ₹ 14.40 crore.

166 ₹ 46,758.52 crore (capital cost of eight projects) x 30 *per cent* (equity portion) x 1.5 *per cent* (15.5-14) = ₹ 210.41 crore- ₹ 83.30 crore{(8360 x 1000 x 24 x 365-9 *per cent*) x 5 *per cent* x 25 paise per unit}= ₹ 127.11crore x 25 years.

167 Lalitpur TPP, Bhognipur TPP (Phase-I), Bhognipur TPP (Phase-II), Murka TPP, Barabanki TPP, Auraiya TPP, Sandila TPP and Mirjapur TPP.

conferred to them under Section 61(a) of the Electricity Act, 2003 and decided the same RoE at the rate of 16 *per cent* (15.5 *per cent* plus 0.5 *per cent*).

The fact remains that the Company did not conduct any cost benefit analysis and file relevant comments/objections with UPERC in response to the proposed increase of RoE from 14 *per cent* with 80 *per cent* PLF to 16 *per cent* with 85 *per cent* PLF.

Monitoring by Energy Department, GoUP

3.13.23 The Energy Department, GoUP was signatory to the MoUs and the administrative Department of UPPCL. We noticed that the Department took no steps to monitor the action of the Company and did not issue any directions to the UPPCL with respect to filing of comments/objections on petitions filed by IPPs with UPERC, regarding fixation of norms of operation, finalisation of Tariff Regulations, 2009, filing of appeals with APTEL and due diligence to be done on the DPRs, bills presented by IPPs etc. We noticed that despite the fact that these points were critical for determining the power purchase payments being made by a cash starved UPPCL, the Department did not monitor the actions of UPPCL on any of the above issues pointed out by us in the preceding paragraphs.

Conclusion

Procurement of power at reasonable/economical cost to meet the demand of power is the responsibility of the Company/Energy Department, GoUP. Our audit of Power Purchase Agreements with Independent Power Producers revealed that the Company failed in its duty to file logical comments based on cost benefit analysis, DPR norms etc. against petitions filed by IPPs to UPERC. The Company failed to file appeal with APTEL to protect its financial interest. The Company did not evolve any mechanism to verify data given in the petition by the IPPs and to verify amount of power purchase bills submitted by IPPs. Besides, the Energy Department, GoUP also failed to monitor the action taken by the Company in this regard.

The matter was reported to the Government (August 2013); their reply has not been received (December 2013).

Statutory corporations

Uttar Pradesh Jal Nigam

3.14 Short retrieval of GI pipes in rebore of hand pumps

The Nigam suffered a loss of ₹ 18.99 crore due to short retrieval of GI pipes in rebore of hand pumps.

Uttar Pradesh Jal Nigam (Nigam) is the executing agency for installation of new and reboring of hand pumps in the State. In case of rebore of hand pumps, the quantity of new Galvanised Iron (GI) pipes to be used should be less as compared to new hand pumps as some quantity of serviceable pipes is retrieved from the existing hand pumps[168] which is reused in rebore. Further, unserviceable GI pipe is also retrieved which is sold as scrap. It was the responsibility of the Nigam to execute the works within the sanctioned cost for which it was required to develop a system to ensure retrieval of GI pipes (both serviceable and unserviceable) as per the quantities on the basis of which estimates are prepared and sanctioned.

[168] The quantity of new GI pipe to be used in case of rebore of hand pumps is provided for in the estimate after considering the expected quantity of retrieval of reusable pipes.

We noticed that 24 Divisions[169] of the Nigam rebored 1.31 lakh hand pumps during the period March 2007 to December 2012 against which they were required to retrieve 33.34 lakh meters[170] GI pipe as per the estimates prepared by the concerned Divisions of the Nigam. The Divisions, however, actually retrieved 8.97 lakh meters[171] GI pipe only resulting in short retrieval of 24.37 lakh meters[172] GI pipes. This resulted in loss of ₹ 18.99 crore (₹ 9.58 crore[173] due to excess consumption of new pipes on account of short retrieval of serviceable pipes and ₹ 9.41 crore[174] due to short availability of unserviceable pipes for sale as scrap) to the Nigam as detailed in **Annexure-25**.

Short retrieval of GI pipes on such a large scale reflects lack of internal control over consumption and retrieval of pipes during reboring of hand pumps by the Nigam. We recommend that the Nigam should develop a system by which the reasons for large variation between the estimated and actual retrieved quantity can be cross checked and history of repair of hand pumps be recorded.

The matter was reported to the Government and Nigam in June 2013; their replies have not been received (December 2013).

3.15 Avoidable payment of Excise Duty on procurement of PVC pipes

The Nigam failed to avail exemption of Excise Duty of ₹ 42.62 lakh on procurement of PVC pipes intended to be used in water supply projects.

The Central Government notified (March 2006[175]) exemption of Excise Duty on pipes needed for delivery of water from its source to the plant and from there to the storage facility. To avail exemption of Excise Duty, the procuring unit was required to provide the supplier, a certificate under the signature of the respective District Magistrate, to the effect that the procurement of material specified in the exempted list is to be obtained for the intended purpose i.e. for delivery of water from its source to the plant and from there to the storage facility. The scope of the exemption was widened (March 2007[176]) to include pipes of outer diameter exceeding 20 cm if such pipes were integral part of water supply projects. The restriction of 20 cm was further relaxed to 10 cm in December 2009[177].

[169] Construction Division, Lakhimpur; Construction Division, Hardoi; VI[th] Construction Division, Varanasi; Construction Division, Jaunpur; III[rd] Maintenance Division, Jaunpur; Construction Division, Deoria; Construction Division, Fatehpur; II[nd] Construction Division, Lucknow; XI[th] Division, Moradabad; Construction Unit, Unnao; Construction Division, Unnao; Construction Division, Bijnore; Construction Division, Gonda; 10[th] Division, Gorakhpur; 1[st] Project Division, Gorakhpur; 1[st] Division, Meerut; Electrical and Mechanical Unit, Meerut; Scarcity Division, Mirzapur; Construction Division, Firozabad; Construction Division, Aligarh; UNICEF Project Unit (E&M), Sonebhadra; Construction Division, Sitapur; Construction Division, Faizabad and Construction Division, Hathras.

[170] Serviceable - 14.47 lakh meters and Unserviceable – 18.87 lakh meters.

[171] Serviceable – 8.20 lakh meters and Unserviceable – 0.77 lakh meters as per the quantity recorded in the Store Registers of the concerned Divisions.

[172] Serviceable – 6.27 lakh meters and Unserviceable – 18.10 lakh meters.

[173] Calculated at the average rate per meter (₹ 146.18 for 2007-08; ₹ 163.21 for 2008-09; ₹ 137.57 for 2009-10; ₹ 162.80 for 2010-11; ₹ 154.30 for 2011-12 and ₹ 172.03 for 2012-13) of new GI pipes purchased by the Nigam during the respective year.

[174] Calculated at the average sale price per MT of scrap sold during the respective/previous year after allowing corrosion at the rate of 10 *per cent* (₹ 16,662.91 for 2007-08, ₹ 20,000.00 for 2008-09, ₹ 18,862.81 for 2009-10, ₹ 21,660.65 for 2010-11, ₹ 18,322.01 for 2011-12 and ₹ 18,322.01 for 2012-13).

[175] Notification no. 6/2006- Central excise dated 1 March 2006.

[176] Notification no. 6/2007- Central excise dated 1 March 2007.

[177] Notification No. 26/2009- Central Excise dated 4 December 2009.

Uttar Pradesh Jal Nigam (Nigam) executes the work of installation of hand pumps and urban/ rural piped water supply projects under different water supply schemes of the Central and State Government. Ductile Iron (DI) pipes, Asbestos Cement (AC) pressure pipes and PVC pipes are used in execution of the aforesaid schemes. The Nigam after inviting tenders for supply of pipes, finalises the supplier and issues allocation orders to the supplier centrally from its Headquarters, specifying the terms and conditions of supply and quantity to be supplied by the firm to its various Units. The Units then place supply orders as per their requirement and obtain the supply of pipes according to their requirement and make the payment to the firm.

We noticed (July 2012) that the Nigam while issuing allocation orders to the suppliers for supply of DI pipes and AC pressure pipes clearly mentioned that Excise Duty exemption certificate as per Government notification no. 6/2006 dated 1 March 2006 and 06/2007 dated 1 March 2007 issued by District Magistrate will be provided by the consignees[178], hence, Excise Duty would be nil. Though in case of DI pipes and AC pressure pipes, the Nigam mentioned that exemption certificate shall be provided, it however failed to include similar clause in case of allocation orders for supply of PVC pipes. In the absence of any instructions regarding exemption of Excise Duty on PVC pipes, the Units of the Nigam procuring PVC pipes could not avail the Excise Duty exemption.

The Management stated (November 2013) that due to payment of Excise Duty on PVC pipes the suppliers got the benefit of MODVAT credit which was passed on to the Nigam as the price of PVC pipes were reduced accordingly by the suppliers, hence, there was very nominal loss to the Nigam on account of payment of Excise Duty. Moreover, tenders for PVC pipes are now being invited with excise duty exemption as well as without excise duty exemption.

We do not accept the reply of the Management as despite receiving the benefit of MODVAT credit the Nigam had to make avoidable payment of Excise Duty of ₹ 42.62 lakh[179]as the Excise Duty paid on PVC pipes was higher than the benefit of MODVAT credit passed on to the Nigam by the supplier.

The matter was reported to the Government in July 2013; the reply has not been received (December 2013).

3.16 Installation of Tank Type Stand Posts in Agra district

Under the National Rural Drinking Water Supply Scheme, the Construction Division (CD) and Maintenance Division (MD), Agra of Uttar Pradesh Jal Nigam (Nigam) constructed 3,841 (CD – 2,293 and MD – 1,548) Tank Type Stand Posts[180] (TTSPs) during 2008-09 to 2012-13 (till December 2012) at the sanctioned cost of ₹ 220.09[181] crore. Responding to public complaints highlighted in the media regarding deficient functioning of the TTSPs, the

[178] Units procuring the pipes.

[179] On purchase of 31.21 lakh meters PVC pipes at a cost of ₹ 44.86 crore between December 2009 to March 2013 by 20 Units of the Corporation.

[180] Consisting of 10 kilolitre capacity "Sintex-make" tank, 2.5 meter staging, 100 meter bore, submersible pump and associated pipe line work.

[181]

Cost of one TTSP -	₹ 4.85 lakh
Add: Contingency at the rate of 5 *per cent*-	₹ 0.24 lakh
Total:	₹ 5.09 lakh
Add: Centage at the rate of 12.5 *per cent*	₹ 0.64 lakh
Total Cost of one TTSP	₹ 5.73 lakh
Sanctioned Cost of 3,841 TTSPs = ₹ 5.73 lakh x 3,841 =	₹ 220.09 crore.

Management of the Divisions surveyed (January 2013) the constructed TTSPs and found that out of 3,841 TTSPs, 1,893 TTSPs were in good condition and 1,948 TTSPs were not working. The main reasons attributed by the Management for non-functioning of TTSPs were failure of boring and non-working of submersible pumps.

We examined implementation and operation of the Scheme in Agra District and noticed several deficiencies which are discussed in the succeeding paragraphs.

Non-operation of TTSPs in absence of electric connection

3.16.1 Potable water in the outskirts of the village was to be pumped by a 2 Brake Horse Power (BHP) submersible pump; hence, obtaining electric connection or arrangement of alternate source of power was inevitable to ensure unhindered operation of TTSPs. Though the sanctioned cost of the 3,841 TTSPs included ₹ 11.52 crore (at the rate of 30,000 per TTSP), for obtaining electric connections, we observed that the Divisions did not obtain electric connections for any TTSP, which resulted in non-operation of the TTSPs. The consequent non-operation of the TTSPs for a long period resulted in failure of boring and non-working of submersible pumps. We noticed that 1,948 TTSPs out of 3,841 TTSPs (50.72 *per cent*) became non-functional. Thus, expenditure of ₹ 173.44 crore[182] incurred on construction of the TTSPs remained unfruitful as these could not be operated in absence of electricity.

The Management accepted (September 2013) that out of 3,841 TTSPs, 1,518 TTSPs[183] were not working due to minor faults which had now been repaired at a cost of ₹ 49.11 lakh. Electric connections for 102 TTSPs were obtained, requisite fee for 1,202 connections had been deposited and work was in process to take connections for remaining TTSPs.

Thus, the fact remains that the Nigam failed to synchronise obtaining of electric connections with completion of civil works. This indicates ill-conceived planning and resulted in non-operation of TTSPs defeating the purpose of construction of TTSPs. Moreover, an additional ₹ 49.11 lakh had to be spent to make them functional.

Irregularities in award/execution of works

3.16.2 We found various irregularities relating to finalisation of contracts and award/execution of works resulting in extra expenditure/excess payment/ unsanctioned expenditure of ₹ 15.54 crore as listed in table below:

Table No. 3.14

(₹ in crore)

Particulars	Amount
Award of work to contractors at the estimated cost without deducting five *per cent* in terms of the Government order of February 1997 The Government of Uttar Pradesh Order[184] (February 1997) *inter alia* stipulates that the Public Sector Undertakings executing deposit works shall be allowed centage at the rate of 12.5 *per cent* after deducting five *per cent* from the cost of work. We noticed that the Nigam claimed centage at the rate of 12.5 *per cent* on the total estimated cost of works without deducting the required five *per cent* from the cost of work, in the unit estimates prepared by it. Consequently, inflated estimates to that extent were put up and approved by the State Level Source Finding and Technical Committee[185].	7.29

[182] Awarded cost of installation of 3,841 TTSPs: ₹ 145.72 crore (2,293 TTSPs at the rate ₹ 3.81 lakh by CD and 1,548 TTSPs at the rate of ₹ 3.77 lakh by MD) *plus* Purchase cost of 3,841 tanks: ₹ 27.72 crore.

[183] CD - 898 and MD – 620.

[184] No. A-2-87/10-97/17(4)-75 dated 27 February 1997.

[185] The Committee authorised to sanction schemes under the National Rural Drinking Water Supply Programme.

Particulars	Amount
This was not rectified as even while inviting tenders, the Nigam intimated the estimated cost[186] of the Bill of Quantity (BOQ) in the Notice Inviting Tender (NIT) without deducting five *per cent* from the estimated cost. Consequently, the work was awarded at five *per cent* higher rates resulting in excess payment of ₹ 7.29 crore[187] to the contractors. The Management stated (September 2013) that deduction of five *per cent* from the cost of works was made in case of works in which the Nigam has expertise. As construction of TTSPs was a new project for the Nigam, preparation of estimates without deducting five *per cent* of the cost of works was justified. After continuous construction for more than four years estimates are now being prepared after deduction of five *per cent* of the cost of works. We do not accept the reply because as per the said Government Order five *per cent* was to be invariably deducted from the estimates.	
Award of work on selection basis instead of following tendering process The Divisions executed 461contracts (CD - 316 and MD - 145) during 2008-09 to 2012-13 for construction of 3,841 TTSPs. Out of these, only 42 contracts (CD - 8 and MD - 34) were finalised on tender basis. The remaining 419 contracts (CD - 308 and MD - 111) were awarded on selection basis at L-1 rates obtained in previous tenders without obtaining approval of the Headquarters as prescribed. Thus, due to award of work on selection basis in majority of the cases, competition was restricted. The Management stated (September 2013) that selection bonds were made at L-1 rates obtained in previous tenders to complete the work within time, as in tendering process the time may increase. We do not agree with the reply as there was no urgency because six months time was allowed to the contractors for completing the works and, therefore, it was not justified to deviate from the prescribed procedure.	
Variation in rates per TTSP awarded by CD and MD The rate awarded by CD (₹ 3,81,272 per TTSP) was higher by ₹ 4,473 than the rate awarded by MD (₹ 3,76,799 per TTSP). As the area of operation (Agra) of both Divisions was the same, the variation in rates awarded by them was not justified. Thus, by allowing higher rates in contracts, CD incurred extra expenditure of ₹ 4,473 per TTSP on installation of 2,293 TTSPs. The Management did not offer any comments.	1.03
Award of different rates for pump and cable by CD and MD The contracts executed by CD included supply of 2 BHP submersible pump and cable at ₹ 38,500 per TTSP. The MD, however, provided ₹ 32,000 per TTSP for supply of pump and cable in the contracts executed by it during the same period. Thus, by allowing higher rates in contracts, CD incurred extra expenditure of ₹ 6,500 per TTSP on installation of 2,293 TTSPs. The Management stated (September 2013) that in contracts executed by CD, "KSB make" pumps were to be installed which were costlier than other pumps being of better quality. We do not agree with the reply as the Management did not furnish any comparison of the technical features of both types of pumps used by CD and MD. Moreover, if branded pumps were necessary then both CD and MD (which worked under the same Superintending Engineer) should have used the same brand of pumps.	1.49
Award of higher rates due to splitting of work in packages Apart from contracts for construction of 3,841 TTSPs, two more tenders were finalised (6 September 2012 and 12 September 2012) by the MD for construction of 1,204 TTSPs[188] in eight Blocks[189] of the District. Each Block was split into more than one package and work was awarded at lowest rates obtained for the particular package. As same nature of work in same geographical area with similar conditions was to be done in each Block, the benchmark for awarding of work should have been the lowest rate obtained in a particular Block as per the practice adopted earlier[190], instead of the lowest rate obtained for the particular package. We compared the rates awarded with the lowest rate of the particular Block and found that rates awarded were up to 12 *per cent* higher than the lowest rate obtained in the particular Block. The Management stated (September 2013) that due to urgency and being new work, expert and capable contractors were not available; therefore, to save time the work had been divided in small packages; also the big contractors were not available to expedite the newly introduced and scattered work. We do not agree with the reply as the work was not new; rather it was being done since 2008-09 and many contractors were available.	1.64
Excess payment due to double provision for transportation cost In the unit estimates prepared by the CD, an amount of ₹ 1,000 was provided for transportation of materials. However, in BOQ of the contracts, provision of ₹ 1,000 for transportation of materials was made twice. This double provision for transportation of materials resulted in excess payment[191] to the contractors. The Management stated (September 2013) that tank was supplied from the Nigam's stores; hence, transportation to the specific site had been included in BOQ. We do not agree with the reply as provision of ₹ 1,000 for transportation of materials should have been made only once as done by MD in its contracts.	0.23

[186] CD - ₹ 3.81 lakh per TTSP and MD - ₹ 3.77 lakh per TTSP.
[187] (₹ 3.81 lakh x 5 *per cent* x 2,293 = ₹ 4,36,81,650) + (₹ 3.77 lakh x 5 *per cent* x 1,548 = ₹ 2,91,79,800) = ₹ 7,28,61,400.
[188] Under the same Scheme i.e. National Rural Drinking Water Supply Scheme.
[189] Akola, Bichpuri, Batauli Aheer, Shamshabad, Fatehabad, Bah, Jaitpur Kala and Pinahat.
[190] In all the eight Blocks (Akola, Bichpuri, Batauli Aheer, Shamshabad, Fatehabad, Bah, Jaitpur Kala and Pinahat) during 2009-10 to 2012-13 (till August 2012).
[191] 2,293 TTSPs x ₹ 1,000 = ₹ 22.93 lakh.

Particulars	Amount
Purchase of GI pipes at rates higher than the rates at which the Divisions purchased themselves The contracts executed by the Divisions included supply of 60 meter 32 mm dia medium GI pipes at the rate of ₹ 202.90 per meter. We noticed that average rate of GI pipes purchased by the Divisions during 2008-09 to 2012-13 was ₹ 160.18 per meter [192]. Since purchase rates of the Divisions were lower than the rate provided in the estimates, it would have been prudent to issue the required quantity of GI pipes from its own purchases (as was already being done in case of 10 kilolitre tanks) rather than to include the supply of GI pipes in the BOQ of the contractors. Thus, by not supplying GI pipes to the contractors from its own purchases, extra expenditure[193] was incurred. The Management stated (September 2013) that supply of GI pipes to the contractors at the rate of ₹ 202.90 per meter was also approved in the estimates prepared for installation of hand pumps. We do not accept the reply because issue rate of ₹ 202.90 per meter was fixed on the basis of actual purchase rate which changed from time to time. However, in case of TTSP contracts the rates of G.I. pipes remained fixed at ₹ 202.90 per meter throughout the period 2008-09 to 2012-13.	0.98
Unsanctioned expenditure on SMC boxes and stabilisers The Divisions installed SMC[194] boxes at all TTSPs and stabilizers at 362 TTSPs at a cost of ₹ 2.51 crore and ₹ 37.23 lakh respectively which were not provided/sanctioned in the unit estimates. Thus, expenditure on these items was unsanctioned. The Management stated (September 2013) that SMC boxes and stabilizers were not included in unit estimates but were installed to check voltage fluctuations. We do not accept the reply as these should have been installed after getting approval and funds from the Government to avoid financial burden on the Nigam.	2.88
Total	15.54

Non-ensurance of quality of water - Water quality testing

3.16.3 The CD and MD did not test the water quality of 1,000 TTSPs (26.03 *per cent)* out of the total 3,841 TTSPs constructed during 2008-09 to 2012-13.

The Management stated (September 2013) that testing of water quality of remaining TTSPs was in process. The reply itself confirms that water testing was not done immediately after commissioning of TTSPs.

Handing over of TTSPs to Gram Panchayat

3.16.4 The terms and conditions of contracts stipulated that contractors shall maintain the TTSPs for one year after commissioning and, then, hand over to the Nigam or to the body nominated by the Nigam. Security of the contractors (10 *per cent* of the contract value) was to be released after handing over of TTSPs to the Gram Panchayats. We found following deficiencies:

- Out of 3,841 TTSPs, handing over notes in respect of only 1,632 TTSPs were shown as available by the Divisions in the contract bond wise statement. We found various deficiencies in the handing over notes which have been summarised in **Annexure-26**.
- Further, 2,209 TTSPs were not handed over for which liability for operation and maintenance remained with the Nigam.
- Completion reports were not prepared for any TTSP. Therefore, genuineness of final payments made to contractors could not be ascertained.
- All the handing over notes were signed undated by the Gram Pradhans; therefore, follow up of maintenance period of one year by the contractors after one year of commissioning of TTSP could also not be ascertained.

The Management accepted (September 2013) our observations and assured of compliance in future. It further stated that the incomplete handing over notes

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[192] Amount of purchase / quantity purchased (₹ 8,58,27,396/5,35,806 meter = ₹ 160.18 per meter).
[193] 3,841 x 60 m x (₹ 202.90 - ₹ 160.18) = ₹ 0.98 crore.
[194] Sheet Moulding Compound.

are under process of completion and the remaining TTSPs will be handed over to the Gram Pradhans with detail of inventory and dated signature.

Recommendations

We recommend that the Nigam should obtain electric connections for all the constructed TTSPs, repair all the remaining non-functional TTSPs and make necessary arrangements for funds required to operate the TTSPs, in order to ensure continuous supply of drinking water to the targeted beneficiaries. Further, the Nigam needs to design other water supply schemes in such a way so as to make them workable and sustainable.

Uttar Pradesh Avas Evam Vikas Parishad

3.17 Incorrect fixation of reserve price

The Parishad was deprived of revenue of ₹ 4.43 crore due to incorrect fixation of reserve price of plot sold to a builder.

Para 16.1 of the Costing Guidelines of the Uttar Pradesh Avas Evam Vikas Parishad (Parishad) provides that while fixing the reserve price of land being sold for commercial purposes, the price obtained in the auction of nearby plots is to be kept in view. The reserve price is to be fixed at double the prevalent land rate[195] of residential plots where auction of nearby plots had not taken place.

We noticed (April 2012) that the Parishad sold (March 2011) a group housing plot[196] at Sikandra Yojna, Agra measuring 10,619.12 sq.m. at ₹ 13,080 per sq.m through auction to a builder[197]. The prevalent land rate for residential plots of Sikandra Yojna, Agra was ₹ 7,000 per sq.m. and the reserve price of the plot was fixed at ₹ 12,936 per sq.m.[198] being 1.5 times the prevalent land rate instead of ₹ 17,248 per sq.m. [198] being twice the prevalent land rate as the activities of the builder were of commercial nature. This has resulted the Parishad being deprived of revenue of ₹ 4.43 crore[199].

The Management stated (April 2012) that the reserve price of the group housing plot was fixed at 1.5 time the normal prevalent land rates in accordance with its Office Order dated 21 March 2006 which prescribes that reserve price of group housing plots be fixed at 1.5 times the normal prevalent land rate.

We do not accept the reply, as the plot was not sold to a group housing society for use of its members, but to a builder who is constructing and selling hi-end flats on the plot. Since this is an activity of commercial nature, hence, the reserve price of the plot should have been fixed at twice the normal prevalent land rate as prescribed in the Costing Guidelines of the Parishad for plots being sold for commercial purposes instead of at 1.5 times the normal prevalent land rate (applicable to group housing) as prescribed in the Office Order of 21 March 2006.

The matter was reported to the Government and Management in June 2013; reply of the Government has not been received (December 2013).

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[195] The Parishad fixes the land rates for its schemes annually. Prevalent land rate refers to the land rate fixed by the Parishad for the particular scheme applicable during the concerned period.

[196] Plot No. GP-2, Sector-16.

[197] Shri Riddhi Siddhi Buildwell Private Limited, Agra.

[198] After adding freehold charges at the rate of 12 *per cent* and corner charges at the rate of 10 *per cent*.

[199] 10,619.12 sq.m. x (₹ 17,248 per sq.m. - ₹ 13,080 per sq.m.) = ₹ 4.43 crore.

Uttar Pradesh Forest Corporation

3.18 Avoidable payment of administrative charges

The Corporation made avoidable payment of ₹ 2.46 crore towards administrative charges to Employees Provident Fund Organisation.

As per the provisions of the Employee's Provident Fund Scheme, 1952 (EPF Scheme), every employer to whom this scheme is applicable has to deposit administrative charges along with employer and employee contribution to the provident fund every month.

Section 17 (1) of the Employees Provident Funds and Miscellaneous Provisions Act, 1952 (Act) provides that the appropriate Government may exempt from the operation of all or any of the provisions of the EPF Schemes framed under the Act, any establishment, if the employees are in enjoyment of benefits which on the whole are not less favourable to the employees than the benefits provided under the Act or Scheme. Section 17 (3) (a) of the Act further provides that the employer of the establishment so exempted shall maintain such accounts, submit such returns, make such investment, provide for such facilities for inspection and pay such inspection charges as the Central Government may direct. Appendix 'A' of the EPF Scheme which provides the terms and conditions for grant of exemption under Section 17 of the Act, further stipulates that the employer shall establish a Board of Trustees for management of the Provident Fund and bear all the expenses of the administration of the Provident Fund.

It is, thus, evident that an establishment which has been exempted under Section 17 (1) of the Act or has been relaxed under Paragraph 79[200] of the EPF Scheme has to bear all the expenses of the administration of the Provident Fund Trust established by it besides depositing inspection charges at the specified rates to the Employees Provident Fund Organisation (EPFO).

Uttar Pradesh Forest Corporation (Corporation) established (January 1978) a Trust[201] to administer the provident fund of its employees and applied (January 1979) for exemption under Section 17 (1) of the Act. The Regional Provident Fund Commissioner (RPFC) granted (July 1979) relaxation under Paragraph 79 of the EPF Scheme effective from 1 May 1979. In view of the relaxation granted by the RPFC, the Corporation was required to pay only inspection charges at the specified rates to the EPFO and payment of administrative charges was to be discontinued with effect from 1 May 1979. This was also clearly stated in the Relaxation Order issued by the RPFC. The Corporation, however, continued paying administrative charges besides inspection charges to the EPFO. Between March 2006 to March 2013, the Corporation made avoidable payment of ₹ 2.46[202] crore as administrative charges[203] to the EPFO.

The Management accepted (August 2013) our observation and requested (July 2013) the RPFC to refund ₹ 1.40 crore being the inadmissible administrative charges paid by the Corporation for the period April 2009 to March 2012.

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[200] Paragraph 79 of the EPF Scheme provides that the Commissioner may in relation to factory or other establishments in respect of which an application for exemption under Section 17 of the Act has been received, relax, pending the disposal of the application, the provisions of this Scheme.

[201] Known as "U.P. Forest Corporation Employee Provident Fund Trust ".

[202] ₹ 23.14 lakh for 2006-07; ₹ 30.24 lakh for 2007-08; ₹ 31.32 lakh for 2008-09; ₹ 34.42 lakh for 2009-10; ₹ 46.51 lakh for 2010-11; ₹ 58.65 lakh for 2011-12 and ₹ 21.54 lakh for 2012-13.

[203] At the rate of 1.10 *per cent* of total emoluments.

The request of the Corporation has not yet (October 2013) been accepted by the RPFC. Moreover, the Corporation has requested for refund of administrative charges for the period April 2009 to March 2012 only and no request has been made for refund of administrative charges paid for the period May 1979 to March 2009 and April 2012 to March 2013. Besides, the Corporation has suffered a loss of interest thereon of ₹ 0.89 crore[204] on the avoidable payments made between March 2006 and March 2013. This is indication of the absence of internal control system of the Corporation to detect the deviation from the provisions of the Act/Scheme, resulting in avoidable payment of administrative charges.

We recommend the Corporation to request the RPFC for refund of entire amount of inadmissible administrative charges paid since May 1979 and strengthen the internal control system of the Corporation.

The matter was reported to the Government in May 2013; the reply has not been received (December 2013).

Public Sector Undertakings[205]

3.19 Short deposit and Short deduction of Building and Other Construction Workers' Welfare Cess

PSUs made short deposit of Cess of ₹ 15.48 crore on works executed departmentally and made short deduction of Cess of ₹ 14.04 crore on works executed through sub-contractors during the period from February 2009 to March 2013 . Moreover, implementation of Cess Act was delayed.

3.19.1 The Government of India (GoI) enacted the Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Act, 1996 (Act) to regulate the employment and conditions of service of building and other construction workers and to provide for their safety, health and welfare measures and for other matters connected therewith or incidental thereto. The GoI enacted the Building and Other Construction Workers' Welfare Cess Act, 1996 (Cess Act) which provided for levy and collection of a cess on the cost of construction incurred by employers. The GoI also framed the Building and Other Construction Workers' Welfare Cess Rules, 1998 (Cess Rules) in exercise of the powers conferred by sub-section (1) of Section 14 of the Cess Act.

The aforesaid Acts and Rules were made applicable in the State of Uttar Pradesh with the notification (February 2009[206]) of the 'Uttar Pradesh Building and Construction Workers (Regulation of Employment and Condition of Service) Rules, 2009[207] (Rules) by the State Government. The State Government also constituted (November 2009[208]) the 'Uttar Pradesh Building and Other Construction Workers' Welfare Board' (Board) under Section 18 of the Act.

[204] Calculated at the rate of 10 *per cent* (being the rate of interest applicable on short term deposits), up to September 2013, on the amount of administrative charges paid during March 2006 to March 2013.

[205] Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN), Uttar Pradesh State Bridge Corporation Limited (UPSBCL), Uttar Pradesh Avas Evam Vikas Parishad (UPAVP) and Uttar Pradesh Jal Nigam (UPJN).

[206] Notification No. 143/36-2-2009-251 (एसएम)/95 dated 4 February 2009.

[207] Framed in exercise of powers conferred by Section 40 read with Section 62 of the Act.

[208] Notification No. 1411/36-2-2009-251(एसएम)/95 dated 20 November 2009.

There are two methods by which the State Government Public Sector Undertakings (PSUs) execute construction works:

- Directly without engaging contractors; and
- By engaging contractors.

In both the conditions it was the responsibility of the PSUs to deposit the Cess with the Board and deduct the same from the bills of the contractors wherever applicable.

We test checked the compliance to the provisions of the aforesaid Acts and Rules by selecting units of four PSUs[209] and noticed the following deficiencies:

Non-furnishing of returns

Rule 6 of the Cess Rules provides that every employer shall within 30 days of commencement of his work furnish information in Form-1[210].

We noticed that the UPSBCL and UPRNN did not furnish the required return in respect of any work which commenced during the period February 2009 to March 2013.

Non-maintenance of records

The Rules provide that every employer shall maintain the following records for facilitating compliance of Act/Rules:

- Building Workers Register in Form-6 (Rule-47).
- Muster Roll in Form-7, Wages Register in Form-8 or 9, Register for deductions on account of loss in Form-10, Register for fines/penalty in Form-11 and Advance Register in Form-12 (Rule-48).

We noticed that the UPSBCL and UPRNN did not maintain any records as prescribed by the Rules resulting in non-compliance of the Rules. Consequently, Audit could not verify compliance of the provisions of the Act/Rules.

Short deposit of Cess on works executed directly

3.19.2 Section 3 of the Cess Act provides that Cess at the rate of one *per cent* of the cost of construction incurred by an employer is to be levied and collected from the employer. Section 8 and 9 of the Cess Act provide that if the amount of Cess is not paid within the time specified in the assessment order, the employer shall be liable to pay interest[211] and penalty[212].

We noticed that the selected units of the four PSUs executed construction works of ₹ 5,235.69 crore, directly without engaging contractors, during the period February 2009 to March 2013 against which they were required to deposit Cess of ₹ 52.36 crore with the Board. The PSUs, however deposited Cess of ₹ 36.88 crore only resulting in short deposit of Cess of ₹ 15.48 crore as detailed in table below:

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[209] Uttar Pradesh Rajkiya Nirman Nigam Limited (UPRNN), Uttar Pradesh State Bridge Corporation Limited (UPSBCL), Uttar Pradesh Avas Evam Vikas Parishad (UPAVP) and Uttar Pradesh Jal Nigam (UPJN).

[210] Containing details of the establishment, work, estimated cost, period of work and payment of cess.

[211] At the rate of *2 per cent* per month.

[212] Not exceeding the amount of Cess.

Table No. 3.15

(₹ in crore)

Sl. No.	Name of the PSU	No. of Units	Construction works executed (including centage)	Cess to be deposited	Cess deposited	Cess short deposited
1.	UPRNN	30[213]	2293.92	22.94	13.32	9.62
2.	UPSBCL	29[214]	2463.71	24.64	21.80	2.84
3.	UPAVP	03[215]	118.15	1.18	0.71	0.47
4.	UPJN	05[216]	359.91	3.60	1.05	2.55
Total			**5235.69**	**52.36**	**36.88**	**15.48**

Source: Information furnished by the PSUs.

Failure of the PSUs to deposit Cess not only resulted in non-compliance of the provisions of the Cess Act and consequent shortfall in the resources of the Board but also made the PSUs liable to pay interest and penalty.

The UPSBCL stated (November/December 2013) that the turnover of the 29 Units examined by Audit was ₹ 2,189.96 crore against which it was required to deposit Cess of ₹ 21.80 crore, which has been duly deposited with the Board. It further stated that no interest was levied/claimed by the Board.

The reply is not correct as the turnover intimated by UPSBCL was excluding centage whereas as per clarification issued (October 2011) by Labour Welfare Board, Uttar Pradesh, Cess is to be paid on the total cost of works including centage. Further, delay in depositing Cess with the Board has made UPSBCL liable to pay interest and penalty as per the provisions of the Cess Act.

The UPAVP stated (November 2013) that directions for deposit of Cess were issued by the Government in February 2010 and necessary instructions for deposit of Cess were issued by the UPAVP to its field units in May 2010, hence, deposit of Cess pertaining to work done prior to issue of such directions/instructions was not possible. Further, no instructions regarding revision of estimates for payment of Cess pertaining to completed works were received from the Government. It further stated that Audit has included the cost of material also while calculating the Cess payable, whereas Cess is payable only on labour portion as material is provided free of cost by the UPAVP to the contractors.

We do not accept the reply as in Government issued directions of February 2010, the provisions were made applicable from February 2009, hence, the UPAVP was required to deposit Cess on the total cost of construction (including both labour and material cost) on work executed by it directly (without engaging contractors) after February 2009, for which estimates, wherever required, were to be revised.

Short deduction of Cess from bills of contractors

3.19.3 Rule 4 (3) of the Cess Rules provides that where the levy of cess pertains to building and other construction work of a Government or of a PSU, such Government or the PSU shall deduct or cause to be deducted the Cess

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213 Maintenance Unit, Lucknow; Saifai Unit-I; Sultanpur Unit; Gorakhpur Unit; MKRSS(E) Unit, Lucknow; Unit-11(Ex Unit-2), Lucknow; Unit-11 (Ex Udyan Unit), Lucknow; Unit-12 (Ex SPLM Gallery Unit), Lucknow; PGI Unit-I, Lucknow; Balrampur Hospital Unit, Lucknow; Unit-15, Lucknow; SUDA Unit-I, Lucknow; Engineering College Unit, Ambedkar Nagar; Unit-I, Ambedkar Nagar; Mirzapur Unit; Pratapgarh Unit; SUDA Unit, Mathura; Mainpuri Unit; Sodic Unit-2, Etawah; Saifai Unit, Etawah; Kanpur Unit-1A; SUDA Unit-I, Kanpur; Unit-II, Varanasi; SUDA Unit, Ghaziabad; Ghaziabad Unit; Unit-10, Lucknow; UPTU Unit, Lucknow; Unit-21, Lucknow; Greater Noida Unit and Unit-21A, Lucknow.

214 Agra; Aligarh; Allahabad; Azamgarh; Banda; Bareilly; Basti; BCU-I, Lucknow; BCU-2, Lucknow; Bulandshahar; Chitrakoot; Deoria; Etawah; Fatehpur; Ghaziabad; Gorakhpur; Jaunpur; Kannauj; Lakhimpur Kheri; Mathura; Meerut; Mirzapur; Orai; Pratapgarh; Rampur; Saharanpur; Sant Kabir Nagar; Sultanpur and Varanasi-I.

215 Construction Unit, Mahoba; Construction Division-19, Lucknow and Construction Division-26, Moradabad.

216 Unit-33, C&DS, Allahabad; Unit-45, C&DS, Noida; Unit-28, C&DS, Noida; Unit-16, C&DS, Bijnore and Yamuna Pollution Control Unit, Agra.

payable at the notified rates from the bills paid for such works. The State Government also clarified (February 2010[217]) that the amount of cess shall be deducted from the bills and deposited with the Welfare Board in the same manner and spirit as is done in case of income tax deducted at source.

We noticed that two PSUs (UPRNN and UPAVP)[218] executed works of ₹ 1,483.65 crore during the period February 2009 to March 2013 through contractors and were required to deduct Cess of ₹ 14.84 crore from the bills of the contractors. The PSUs, however deducted only ₹ 0.80 crore resulting in short deduction of Cess of ₹ 14.04 crore from the contractors as detailed in table below:

Table No. 3.16

(₹ in crore)

Sl. No.	Name of the PSU	No. of Units	Construction works executed through contractors	Cess to be deducted	Cess deducted	Cess short deducted
1.	UPRNN	10[219]	1245.67	12.46	--	12.46
2.	UPAVP	05[220]	237.98	2.38	0.80	1.58
Total			**1483.65**	**14.84**	**0.80**	**14.04**

Source: Information furnished by the PSUs.

Short deduction of Cess not only resulted in non-compliance of the provisions of the Act but also amounted to undue favour to the contractors to that extent.

The UPAVP stated (November 2013) that directions regarding deduction of Cess were issued by the Government in February 2010 and necessary instructions for deduction of Cess were issued by the UPAVP to its field units in May 2010. The Cess is being deposited regularly with the Board after deducting the same from the bills of the contractors since May 2010.

We do not accept the reply as Cess pertaining to work done after February 2009 was required to be deposited by the UPAVP with the Board after deducting the same from the bills of the contractors.

Delayed implementation of Cess Act and Cess Rules

3.19.4 We noticed that though the provisions of the Cess Act and Cess Rules were applicable from February 2009, the UPRNN and UPSBCL issued instructions to field units only in February 2010 and March 2010 respectively, leading to delay in implementation of the provisions of the Cess Act and Cess Rules. During the intervening period i.e. from February 2009 to January/February 2010 these PSUs did not prepare estimates/revised estimates to include Cess nor did they deposit the amount of Cess with the Board. These PSUs had executed works amounting to ₹ 4,988.87 crore[221] during the period February 2009 to March 2010.

The UPSBCL stated (November 2013) that it had made a provision of ₹ 4.45 crore for payment of Cess in the accounts of the year 2009-10 which was paid in the subsequent years. It further stated that the revised estimates of the works that were not completed and wherein provision for Cess was not made have either been submitted or are being submitted.

The reply is not acceptable as no reasons for the delayed implementation of the Cess Act and Cess Rules were furnished.

[217] Order No. – 392/36-2/2010 dated 26 February 2010.

[218] As UPSBCL executed all works directly without engaging contractors and UPJN deducted the required amount of Cess from the bills of the contractors, hence, these PSUs have not been included.

[219] PGI Unit-I, Lucknow; Unit-19, Lucknow; Eco Park Unit-2, Lucknow; Babasaheb Dr. Bhim Rao Ambedkar University Unit, Lucknow; Engineering College Unit, Ambedkar Nagar; MKRSS Entrance Plaza Unit, Lucknow; Unit-3, Noida; SUDA Unit-I, Meerut, Unit-10, Lucknow and Ghaziabad Unit.

[220] Construction Unit, Mahoba; Construction Division-23, Bareilly; Construction Division-19, Lucknow; Construction Division-34, Varanasi and Construction Division-26, Moradabad.

[221] UPRNN - ₹ 4,122.80 crore and UPSBCL - ₹ 866.07 crore.

The status of provision/payment and recovery of Cess against these works was not made available by UPRNN.

The matter was reported to the Government in June 2013; the reply has not been received (December 2013).

General

3.20 Follow up action on Audit Reports

3.20.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of Accounts and records maintained in various offices and departments of the Government. It is, therefore, necessary that they elicit appropriate and timely response from the Executive.

Audit Reports for the years 2007-08 to 2011-12 were placed in the State Legislature in February 2009, February 2010, August 2011, May 2012 and September 2013 respectively. Out of 108 Paragraphs/Performance Audits involving PSUs under 22 Departments featured in the Audit Reports (Commercial) for the years from 2007-08 to 2010-11 and Audit Report (Public Sector Undertakings) for the year 2011-12, no replies in respect of 81 Paragraphs/Performance Audits have been received from the Government by 30 September 2013 as indicated below:

Table No. 3.17

Year of Audit Report	Total Paragraphs/ Performance Audits in Audit Report	No. of departments involved	No. of paragraphs/ Performance Audits for which replies were not received
2007-08	33	9	16
2008-09	27	22	22
2009-10	16	7	12
2010-11	16[222]	7	15
2011-12	16	5	16
Total	**108**		**81**

Department wise analysis is given in **Annexure-27.** The Energy Department was largely responsible for non-submission of replies.

Compliance with the Reports of Committee on Public Undertakings (COPU)

3.20.2 In the Audit Reports (Commercial) for the years 1999-2000 to 2010-11 and Audit Report (Public Sector Undertakings) for the year 2011-12, 360 paragraphs and 51 Performance Audits were included. Out of these, 125 paragraphs and 22 Performance Audits had been discussed by COPU up to 30 September 2013. COPU had made recommendations in respect of 113 paragraphs and 20 Performance Audit of the Audit Reports for the years 1978-79 to 2006-07**.**

As per the working rules of the COPU[223], the concerned departments are required to submit Action Taken Notes (ATNs) to COPU on their recommendations within three months. The ATNs are, however, furnished by the departments to us, only at the time of discussion of ATNs by COPU.

Action taken on the cases of persistent irregularities featured in the Audit Reports

3.20.3 With a view to assist and facilitate discussions of the irregularities of persistent nature by the COPU, an exercise has been carried out to verify the extent of corrective action taken by the concerned audited entity. The results

[222] Includes standalone Performance Audit Report on Sale of Sugar Mills of Uttar Pradesh State Sugar Corporation Limited.

[223] Government notification No. 836/VS/Sansadiya/85 (C)/2005 dated 28 March 2005.

thereof in respect of Government Companies are given in **Annexure-28** and in respect of Statutory corporations are given in **Annexure-29.**

Response to Inspection Reports, Draft Paragraphs and Performance Audit

3.20.4 Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports within a period of four weeks. Inspection Reports issued up to March 2013 pertaining to 60 PSUs disclosed that 14,306 Paragraphs relating to 3,522 Inspection Reports remained outstanding at the end of September 2013. Department-wise break-up of Inspection Reports and audit observations outstanding at the end of 30 September 2013 are given in **Annexure-30**.

Similarly, Draft Paragraphs and Performance Audit on the working of PSUs are forwarded to the Principal Secretary, Finance and the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Out of 19 Draft Paragraphs and one Performance Audit Report forwarded to the various departments between May and October 2013, the Government has given reply of Performance Audit Report only and no reply has been given to any Draft Paragraph so far (December 2013), as detailed in **Annexure-31**.

We recommend that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to inspection reports/draft paragraphs/Performance Audit and Action Taken Notes on recommendation of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) the system of responding to audit observations is revamped.

Lucknow **(SMITA S. CHAUDHRI)**
The **Accountant General (Economic and Revenue Sector Audit),**
Uttar Pradesh

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
The **Comptroller and Auditor General of India**