

CHAPTER-III

3 Transaction Audit Observations

The Chapter includes one long paragraph and 12 paragraphs based on test check of transactions of the State Government Companies.

Government Companies

Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited

3.1 Long Paragraph on Implementation of Financial Restructuring Plan of State Government in Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited

3.1.1 Introduction

The Government of Madhya Pradesh (GoMP), in view of the poor financial health of Power Distribution Companies (Discoms) in the state and to make them financially viable and self-sustainable, approved (July 2011) the Financial Restructuring Plan (FRP) for three years period upto 2013-14 with the targeted financial revival period of six years up to 2016-17.

We examined the implementation of FRP in Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (the Discom) and its impact on the financial health of the Discom.

3.1.2 Organisational Setup

The Management of the Discom is vested with Board of Directors. The Managing Director of holding company (Madhya Pradesh Power Management Company Limited) is the Chairman of the Discom. The Managing Director of the Discom is the Chief Executive Officer (CEO) who is assisted by Executive Director (Works), Chief General Manager (HRD & Admn), Chief General Manager (RAPDRP), Chief General Managers (ADB/RGGVY), Chief General Manager (Purchases), Chief General Manager (Commercial) and Chief Finance Officer (Finance and Accounts). The organizational chart of Discom is given in *Annexure-3.1*.

3.1.3 Audit Objectives

The objectives of audit were to assess whether:

- Suitable linkages were established between the financial assistance provided under FRP and improvement in the financial health of the Discom and financial performance of the Discom improved after implementation of FRP;
- Discom was able to achieve the targeted level of Average Rate of Revenue Realisation (ARRR) in FRP and wipe off the gap between ARRR and Average Cost of Supply (ACS);
- Discom complied with the targets of Aggregate Technical and Commercial (AT&C) losses set by Madhya Pradesh Electricity Regulatory Commission (MPERC);

- Discom improved collection efficiency and submitted proposals for recovery of arrears as specified in extended FRP; and
- Retendering and execution of left over works of Feeder Separation Programme were completed as per targets given in FRP.

3.1.4 Scope and methodology of audit

We reviewed (April -May 2015) the records for the period from 2010-11 to 2014-15 relating to Financial Restructuring Plan of GoMP at Headquarters of the Discom. Audit findings were reported to the Discom and Government in July 2015. Replies of the Government/Discom were received in October 2015 and audit findings were discussed with Principal Secretary and Managing Director of the Discom in exit conference held on 16 October 2015. Replies and views of the Discom and Government have been suitably incorporated in the Report.

3.1.5 Audit Criteria

The audit findings are based on the criteria drawn from the following sources:

- Financial Restructuring Plan approved by GoMP,
- Guidelines/orders/directions of GoMP and MPERC in relation to Financial Restructuring, and
- Tariff orders with reference to Annual Revenue Requirement (ARR) Proposals and True-up petitions issued by MPERC.

3.1.6 Implementation of Financial Restructuring Plan in the Discom

Under the Financial Restructuring Plan, Government of Madhya Pradesh was to provide financial assistance by conversion of working and capital loan outstanding as on 31 March 2011 along with interest, electricity duty/cess payable to Government and cost of electricity purchased from Sardar Sarovar Project during 2011-12 to 2013-14 into perpetual loan with moratorium period of three years for interest. However, no targets for improvement in operational and financial performance were fixed under this phase of FRP.

3.1.6.1 Extension of Financial Restructuring Plan (FRP)

As the Discom did not improve its financial health on completion of three years period of FRP by 31 March 2014, GoMP approved (November 2014) extension of the existing FRP for another three years from 2014-15 to 2016-17. Under the extended FRP, the GoMP set the following targets for compliance by the Discom:

- Discom shall achieve the Average Rate of Revenue Realisation¹ (ARRR) at ₹ 3.59 per unit of electricity for 2014-15, ₹ 4.02 per unit for the year 2015-16 and ₹ 4.63 per unit for the year 2016-17 with an increase of 8 per cent, 12 per cent and 15 per cent respectively,

¹ Per unit revenue realized against input units

- Discom shall reduce aggregate technical and commercial (AT&C) losses² to the prescribed levels fixed by MPERC,
- Discom shall improve its collection efficiency³ at least to an extent of 95 per cent,
- Discom shall submit a proposal to the Finance Department by the end of November 2014 for recovery of arrears as at the end of 2013-14 and the recovery shall be made as per the targets fixed by the Finance Department.
- Re-tendering process in respect of feeder separation works where the contracts were terminated, shall be taken up to ensure that the works are completed within 18 months from the date of work order and in other cases the works are to be completed by the end of October 2015.

3.1.6.2 Financial Assistance to Discom under Financial Restructuring Plan

As provided in the FRP, the Discom converted outstanding short term and capital loans of GoMP, interest on loans, electricity duty and power purchase cost from Sardar Sarover Project as perpetual loan during 2011-12 to 2014-15 as shown in the following **Table 3.1.1**.

Table 3.1.1

Year	Short Term GoMP Loan	Capital Loan	Interest on Loans	Total Loan	Electricity duty amount	Power purchase cost of Sardar Sarover project	Total
2011-12	1271.12	1685.03	348.86	3305.01	464.49	-	3769.50
2012-13	-	-	-	-	382.84	265.05	647.89
2013-14	-	-	-	-	461.56	133.95	595.51
Total for three years							5012.90
2014-15	2214.38	382.66	367.20	2964.24	515.97	108.80	3589.01
Total for four years	3485.50	2067.70	716.05	6269.25	1824.85	507.80	8601.91

- Source: Information provided by the Discom

The financial position and working results of the Discom during the five years ending 31 March 2015 are given in the **Annexure 3.2**.

3.1.7. Audit findings

Audit findings relating to implementation and impact of FRP in the Discom have been discussed in following paragraphs.

3.1.8 Absence of linkages between FRP and financial improvement under first phase of FRP

GoMP did not set any targets for the Discom to improve operational and financial performance by utilising the financial assistance provided in the first phase of FRP

² [1-(billing efficiency*collection efficiency)]*100%. Billing efficiency= units sold/input units and collection efficiency = collected amount/billed amount.

³ Amount collected excluding arrears/amount billed for units sold.

during 2011-12 to 2013-14. GoMP provided financial assistance of ₹ 5012.90 crore during this phase as detailed in **Table 3.1.1**.

As no targets for improvement in operational efficiency were set under first phase of FRP, there was no commitment for the Discom to improve its financial health through its operating activities. We observed that yearly losses of the Discoms increased from ₹ 973.80 crore in 2010-11 (before the year of FRP) to ₹ 1887.15 crore in 2013-14 (**Annexure 3.2**). The continuous yearly losses increased the negative net worth of the Discom from ₹ 2334.30 crore in 2010-11 to ₹ 5805.34 crore in 2013-14.

Due to non-fixation of targets under first phase of FRP, there was no onus on Discom to improve its financial health thereby GoMP had to release short term loan of ₹ 2214.38 crore besides financial assistance under FRP.

Consequently, GoMP had to release short term loan of ₹ 2214.38 crore to Discom during 2011-12 to 2013-14 to meet its working capital requirements indicating the Discom's continued dependence on the GoMP. Thus the objective of FRP to improve financial health of the Discom could not be achieved.

3.1.9 Persistent gap between Average Rate of Revenue Realisation and Average Cost of Supply

As per extended FRP, the Discom shall achieve the Average Rate of Revenue Realisation at ₹ 3.59 per unit of electricity for 2014-15, ₹ 4.02 per unit for the year 2015-16 and ₹ 4.63 per unit for the year 2016-17. However, no target was fixed for reduction in gap between Average Rate of Revenue Realisation (ARRR) and Average Cost of Supply (ACS).

The details of ARRR, ACS and gap between ARRR and ACS are given in the **Table 3.1.2** below.

Table 3.1.2

Sl. No	Description	2010-11	2011-12	2012-13	2013-14	2014-15 (Pro.)
1	Input units (in MUs)	10563	11749	13371	14526	16106
2	Billed units (in MUs)	7231	8178	9892	11087	12613
3	Total Income including revenue from sale of power (₹ in crore)	3363.90	3960.10	5268.07	5845.34	6952.64
4	Total expenses including value of purchase of power (₹ in crore)	4337.70	5182.40	6782.55	7898.16	8344.82
5	ARRR with reference to total income (3/1) ₹ per unit	3.18	3.37	3.94	4.02	4.32
6	ACS with reference to total expenses (4/1) ₹ per unit	4.11	4.41	5.07	5.44	5.18
7	Gap between ARRR and ACS per unit (5-6) ₹ per unit	(-) 0.93	(-) 1.04	(-) 1.07	(-) 1.42	(-) 0.86

It can be seen from above that the Discom achieved ARRR at ₹ 4.32 per unit against the envisaged target of ₹ 3.59 per unit of electricity for 2014-15. However, the gap between ARRR and ACS per unit increased from (-) ₹ 0.93 per unit in 2010-11 to (-) ₹ 1.42 per unit in 2013-14 due to substantial increase in total expenses including cost of power purchase compared to the increase in total income, however the same decreased to (-) ₹ 0.86 per unit in 2014-15 due to reduction in AT&C losses and improvement in collection efficiency. This indicated that gap between ARRR and ACS persisted over the years. Thus, fixing the ARRR target in terms of rupee per unit without linking to ACS in the extended FRP was not justified.

The gap between ARRR and ACS persisted over years in the absence of target under FRP.

In exit conference, Government accepted (October 2015) that linking of ARRR with ACS is required to bring down the gap to zero level and further stated that ACS was beyond the control of Discom as Central Electricity Regulatory Commission regulations on generation and transmission, coal pricing, lower grade of coal, and market conditions impacted the ACS. Hence Government decided to set targets for ARRR.

Fact remains that due to non linking the ARRR with ACS, there was no responsibility fixed on the Discom to reduce the gap between ARRR and ACS to zero level.

Recommendation:

The Government should fix the target for reduction in gap between ARRR and ACS in the remaining period of FRP to give impetus to improvement in operational performance of the Discom.

3.1.10 Non-achievement of target of reduction in AT&C losses

As per extended FRP, the Discom was to reduce AT&C losses to the levels fixed by MPERC. **Table 3.1.3** below indicates the AT&C losses of the Discom against targets fixed by MPERC for five years period from 2010-11 to 2014-15.

Table 3.1.3

Year	Total input units (MU)	Purchase cost of electricity ⁴ (₹)	Target fixed by MPERC (%)	Average achievement (%)	Loss absorbed by Discom (%) (5-4)	Value of absorbed loss (₹ in crore) (2*6)*3
1	2	3	4	5	6	7
2010-11	10563	2.70	30	34.87	4.87	138.89
2011-12	11749	3.37	27	31.76	4.76	188.47
2012-13	13371	3.84	24	26.02	2.02	103.72
2013-14	14526	4.01	23	23.68	0.68	39.61
2014-15	16106	4.12	20	21.69	1.69	112.14
Total						582.83

Source: Information provided by the discom

As may be seen from the above table that the Discom could not reduce AT&C losses up to the levels of target fixed by MPERC. The main reasons for high AT&C losses were theft of power, non-installation of meters for all consumers in rural areas and poor rate revenue realisation. As MPERC determines revenue requirement on the basis of specified AT&C losses, excess AT&C losses over targets valued at ₹ 582.83 crore for the five years up to 2014-15 had to be absorbed by the Discom.

Government replied (October 2015) that there was continuous reduction in AT&C losses year after year and efforts are being made to reduce it to the levels fixed by the commission. Fact remains that the Discom was not able to reduce AT&C losses to the levels fixed by the MPERC and thereby the Discom had to absorb the excess AT&C losses impacting the financial health of the Discom.

Discom was not able to reduce AT&C losses to the levels fixed by the MPERC and thereby the Discom had to absorb the excess AT&C losses of ₹ 582.83 crore impacting the financial health of the Discom.

⁴ Purchase of electricity value/input units

Recommendation:

The discom should take concrete steps for controlling theft of power and improving billing efficiency to reduce AT&C losses to the level fixed by MPERC.

3.1.11 Status of collection efficiency

One of the conditions of extended FRP was that the Discom shall improve its collection efficiency at least to 95 per cent of the billed amount.

The details of net trade receivables and collection efficiency for the five years up to 2014-15 are given in **Table 3.1.4**.

Table 3.1.4 (₹ in crore)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue from sale of power	3133.73	3753.65	5040.73	5645.64	6669.96
2	Gross receivables	3067.65	3022.56	3334.83	3432.28	3975.13
3	Provision for bad and doubtful debts	733.60	878.13	994.83	806.67	992.68
4	Net receivables	2334.05	2144.43	2340.00	2625.61	2982.45
5	Bad and doubtful debts written off during the year	49.98	35.81	305.55	585.06	9.27
6	Collection efficiency in percentage ⁵	94.53	105.05	96.12	94.94	94.65

Source: Information provided by the discom

There was accumulation of revenue arrears of ₹ 2982.45 crore due to non-initiation of concrete action for their realization.

It can be seen above that the collection efficiency set in extended FRP was almost achieved but net receivables (arrears of revenue) increased from ₹ 2334.05 crore in 2010-11 to ₹ 2982.45 crore in 2014-15 indicating accumulation of arrears of revenue. This was due to non-initiation of concrete action against the defaulting consumers by disconnecting the supply of power, initiating action under Revenue Recovery Act, etc. This adversely impacted the liquidity position of the Discom.

We further noticed that Discom had written off ₹ 985.61 crore for five years up to 2014-15 towards bad debts against which MPERC in the tariff orders for the years 2010-11 to 2014-15 admitted nil amount for 2010-11 and 2011-12, only ₹ one crore each for 2012-13 and 2013-14 and ₹ two crore for 2014-15 due to non furnishing of details of bad and doubtful debts as sought by MPERC. Thus, the Discom had to absorb loss on account of bad debt of ₹ 981.61 crore which adversely affected the financial condition of the Discom.

In exit conference, Government stated that due to non realisation of billed amount in rural areas and certain long pending amounts from the permanently disconnected parties, the arrears could not be realised forcing the Discom to write off certain amounts.

The reply is not acceptable as due to non-furnishing of the requisite data to MPERC, the Discom had to absorb the disallowed amount.

⁵ (total revenue + last year net trade receivables–current year net trade receivable)/ total revenue*100

Recommendation:

The Discom should take effective action for recovery of arrears in a time bound manner to avoid huge accumulation of arrears and resultant bad debts.

3.1.12 Delay in preparation of proposal to recover arrears of revenue

The Discom submitted the proposal for realisation of arrears to Finance Department after the delay of 10 months.

As per extended FRP the Discom was to prepare a proposal for recovery of arrears of revenue and submit to Finance Department for approval by November 2014. At the end of the base year (2013-14) the arrears of revenue stood at ₹ 2625.61 crore. We observed that the Discom belatedly submitted the proposal in August 2015 after a delay of 10 months but approval of the same from Finance Department was yet to be received (October 2015).

Government replied (October 2015) that proposal was forwarded to Finance Department in August 2015 and approval was awaited. Fact remains that the Discom submitted the proposal belatedly resulting in delay in approval from Finance Department and in the meantime effective steps could not be taken for recovery of arrears amount.

3.1.13 Delay in completion of feeder separation works

As per extended FRP, the Discom was to complete the works of Feeder Separation Programme (FSP) by the end of October 2015. The Discom was also required to re-award all terminated contracts and complete the works within 18 months from date of award.

The Discom launched FSP in 2010 with the main objective of separating the agricultural feeders from common feeders to reduce AT&C losses. Accordingly, the works of separation of 1589 feeders of 11 KV line were awarded (November 2010 and August 2011) in 21 packages on turnkey basis with the completion period of 18 months i.e to be completed during May 2012 to February 2013.

Due to non-completion of Feeder Separation works, the objective of reduction in AT&C losses was not achieved.

The Discom terminated (December 2014) eight packages due to delay in execution of works, of which two packages were re-awarded in April 2015 and balance six packages were yet to be re-awarded (October 2015). Further, due to delay in execution of works by the turnkey contractors, the works of 477 feeders could not be taken up at all whereas works in respect of 300 feeders were partially completed as of October 2015. This resulted in non-completion of works in respect of 777 feeders defeating the objective of reduction in AT&C losses.

Government replied (October 2015) that due to paucity of funds and shortage of labour, the contractors could not complete the works on time. In exit conference, Government further stated that some contractors left works without execution. Fact remains that delay in re-awarding the left over works in terminated packages and delay in execution of works in on going packages resulted in non achievement of objective of reduction in AT&C losses.

Recommendation:

The Discom should ensure completion of Feeder separation project in a time bound manner by removing bottlenecks.

3.1.14 Non-achievement of envisaged objectives of FRP.

The Discom could not achieve the main objectives of efficiency gains to become commercially viable, progressively self-sustainable and less dependent on the Government as envisaged under FRP even after receipt of financial assistance of ₹ 8601.91 crore during first four years period (2011-12 to 2014-15) of implementation of FRP in the form of conversion of short term/long term liabilities payables to the Government into perpetual loan.

Discom failed to attain the envisaged objectives of FRP of improvement in financial health and becoming self sustainable.

Since the Discom is not able to improve its own resources, it is meeting its revenue expenditure by utilising its capital including the capital receipts of the perpetual loan provided under FRP. Consequently, the negative net worth of the Discom increased from ₹ 2334.30 crore in 2010-11 to ₹ 6714.21 crore in 2014-15 and accumulated loss increased from ₹ 4338.22 crore in 2010-11 to ₹ 10074.46 crore in 2014-15 indicating the Discom's un-sustainability on its own resources. Thus the objectives of FRP to make the Discom self-sustainable and commercially viable could not be attained.

Recommendation:

The Discom should improve its operational and financial performance for becoming commercially and financially viable without depending on State Government.

Conclusion and Recommendations

- In the first phase of Financial Restructuring Programme (FRP) implemented during 2011-12 to 2013-14, the Government of Madhya Pradesh (GoMP) did not set any targets for the Discom to improve its operational and financial performance. As a result, due to poor financial health of the Discom, GoMP had to release short term loan of ₹ 2214.38 crore besides financial assistance of ₹ 5012.90 crore under FRP.

- In the extended FRP (2014-17), GoMP fixed target for Average Rate of Revenue Realisation (ARRR) without linking it to reduction in gap between ARRR and Average Cost of Supply (ACS). As a result, gap between ARRR and ACS persisted even after implementation of FRP.

The Government should fix the target for reduction in gap between ARRR and ACS in the remaining period of FRP to give impetus to improvement in operational performance of the Discom.

- The Discom failed to reduce AT&C losses to the level fixed by Madhya Pradesh Electricity Regulatory Commission (MPERC) as stipulated in extended FRP. Resultantly, the Discom had to absorb the excess AT&C losses of ₹ 582.83 crore which adversely affected its financial condition.

The discom should take concrete steps for controlling theft of power and improving billing efficiency to reduce AT&C losses to the level fixed by MPERC.

- The revenue arrears of the Discom increased from ₹ 2334.05 crore in 2010-11 to ₹ 2982.45 crore in 2014-15 due to non-initiation of concrete action for recovery of arrears. Further, out of ₹ 985.61 crore written off as bad debts by the Discom.

MPERC did not allow ₹ 981.61 crore in the tariff orders due to failure of discom to provide details thereof.

The Discom should take effective action for recovery of arrears in a time bound manner to avoid huge accumulation of arrears and resultant bad debts.

- As against the condition of FRP, the Discom failed to complete the feeder separation works in 777 feeders out of 1589 feeders due to delay in re-awarding the terminated works and delay in execution of ongoing works under Feeder Separation Programme (FSP).

The Discom should ensure completion of Feeder Separation Programme in a time bound manner by removing bottlenecks.

- The Discom could not achieve the objectives of improvement in financial health and becoming commercially viable even after completion of four years period of FRP. As a result, the Discom continued to be dependent on GoMP despite receipt of financial assistance of ₹ 8602 crore during 2011-12 to 2014-15.

The Discom should improve its operational and financial performance for becoming commercially and financially viable without depending on State Government.

3.2 Short recovery of liquidated damages

Adoption of incorrect methodology resulted in short recovery of liquidated damages amounting to ₹ 4.47 crore from the contractor

Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (Company) awarded (February 2009 to September 2012) the works of construction of new 11 KV line, low tension (LT) line distribution substations and extension of service lines including house wiring for Below Poverty Line (BPL) consumers in Chhatarpur, Tikamgarh, Panna and Sagar Districts to five contractors on turnkey basis under Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) at the total cost of ₹ 200.48 crore. The scope of the work included joint survey of lines, construction of new 11 KV line and installation of distribution transformers including house wiring for BPL households in the villages.

As per the terms and conditions of the agreements, the contractors were to complete the work within 18 months from the date of award of work. The contractor were liable to pay liquidated damages (LD) at the rate of half *per cent* of the contract price for each calendar week of delay in completion of the work, limited to a maximum of five *per cent* of the total contract price.

We observed that the contractors could not complete the work within the stipulated time of 18 months and the works remained incomplete as of March 2015. As, all the contractors had delayed the execution of the work for more than 10 weeks, LD at the rate of five *per cent* of the contract price amounting to ₹ 10.02 crore was recoverable from the contractors. The Company, however, recovered (up to August 2015) LD amounting to ₹ 5.55 crore only worked out on the basis of five *per cent* of the value of bills submitted by the contractors for the work executed instead of five *per cent* on the total contract price. Thus, due to

incorrect methodology adopted for recovery, LD amounting to ₹ 4.47 crore was short recovered from the contractors (*Annexure-3.3*).

The Management replied (September 2015) that as per the clause of LD given in the contract, a sum of half *per cent* of the contract price for each calendar week of delay or part thereof shall be paid by the contractor as LD and accordingly they had recovered.

The reply is not correct as the Company imposed LD at the rate of five *per cent* of the amount of bills submitted by the contractor instead of the contract value.

Thus, due to adoption of incorrect methodology, LD amounting to ₹ 4.47 crore was short recovered from the contractor.

The matter was reported to the Government in May 2015; their reply had not been received (October 2015).

3.3 Loss of interest due to not opting for Corporate Liquid Term Deposit (CLTD) Scheme

By not opting for CLTD in the current account and consequently due to idle surplus funds in the current account, the Company lost interest income of ₹ 1.98 crore

Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited, (Company) has been maintaining nine Current Accounts to meet both capital and revenue expenditures including seven accounts with State Bank of India. The State Bank of India offers Corporate Liquid Term Deposit (CLTD) Scheme for Institutions having current account in the bank. As per CLTD, a minimum deposit of ₹ 50000 is required to be maintained in CLTD at all times. Interest is paid at the basic term deposit interest rates for the number of days of CLTD subject to the minimum period of 7 days. In case of need, the required amount is automatically withdrawn from CLTD in multiples of ₹ 5000 without limit on the number of withdrawals and credited to the current account to honour cheques/payments. Thus, in view of the provisions of CLTD, no minimum balance was required in current account except ₹ 50000 in CLTD.

We observed (May 2015) that in respect of one current account⁶ the Company did not opt for CLTD scheme, nor were the surplus funds transferred in short term deposits. As there was no restriction on number of withdrawals, the Company could have opted for CLTD scheme for the said current account which would have earned interest with liquidity of funds.

Due to not opting for such scheme, the minimum balances in the current account on a day in each of the month of the period i.e. April 2013 to March 2015 ranged between ₹ 0.57 crore to ₹ 37.86 crore. Similarly, the maximum balance in the current account on a day in each of the month of the same period ranged between ₹ 42.25 crore to ₹ 136.29 crore. The Company earned no interest on these fund lying in current account. Had the Company opted for CLTD scheme in the current

⁶ Current Account Number 00000010238007069

account, it would have earned interest income of ₹ 1.98 crore as worked out by audit.

Thus, as a result of not opting for CLTD in the current account and consequently due to idle surplus funds in the current account, the Company lost interest income of ₹ 1.98 crore⁷ (*Annexure 3.4*).

The Government stated (August 2015) that the concerned current account had since been converted (July 2015) into CLTD Scheme. The fact however, remains that due to delayed option for CLTD the Company lost interest income of ₹ 1.98 crore.

3.4 Loss of Revenue due to withdrawal of demand

The Company incurred loss of revenue of ₹ 3.85 crore due to withdrawal of minimum charges billed on a consumer

As per Rule 1.6 of the General Terms and Conditions of High Tension Tariff of Retail Supply Tariff order issued by Madhya Pradesh Electricity Regulatory Commission from time to time, the consumer shall be billed for guaranteed annual minimum consumption based on number of units per kVA of contract demand specified for his category, irrespective of whether any energy is consumed or not during the year.

Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited, (Company) entered (October 2008) into an agreement with Airport Authority of India (Consumer) at Khajurao, Madhya Pradesh for supply of electricity. According to the agreement, 33 KV dedicated line was constructed and notice was issued (June 2011) to the consumer informing construction of dedicated line and readiness for supply of required capacity of load/electricity.

As per clause 2 of the agreement, between the Company and consumer, commencement of the agreement shall, date either from the actual date on which the consumer has begun to take electrical energy or the day immediately following the expiry of specified notice period of intimation of 90 days, whichever is earlier. In the event of non availing the supply by the consumer as per the terms, he/it shall be liable to pay minimum charges as specified in the applicable tariff. As per clause 27, the agreement shall remain in force for a period of two years, unless terminated, it will be deemed to continue upon the same terms and conditions from year to year. Further, after the initial period of two years, the agreement shall be terminable by either party by giving at least one month notice.

We noticed (March 2015) that the consumer did not draw the load connected to the dedicated line even after completion (August 2011) of notice period of 90 days. The Company started billing on the basis of the minimum charges since September 2011 onwards. The consumer however did not pay the minimum charges billed by the Company. As a result the amount recoverable from consumer accumulated to ₹ 3.85 crore for the period September 2011 to January, 2015. Meanwhile, the CGM (Commercial) on the request (January 2014) of

⁷ At the rate of 6 per cent per annum for idle days.

Consumer, directed (October 2014) the Chief Engineer (CE) to cancel the sanctioned load along with the agreement and withdraw the entire minimum billing done. Accordingly, the CE cancelled (January 2015) the agreement of the consumer and withdrew the billing of entire amount of ₹ 3.85 crore.

The withdrawal of billing was thus against the provisions of the tariff order and the provisions of agreement. This resulted in loss to the Company and undue favour to the consumer to the extent of ₹ 3.85 crore.

The Management replied (May 2015) that the agreement dated 15 October 2008 could not be commenced due to erroneous issue of 3 months power availability notice and cancelled on the request of the consumer which was received prior to the expiry of the said erroneous notice period. No loss has been sustained to the Company as the consumer has not consumed any energy and is making payment of maintenance charges of 33 kV line and also line losses on the 33 kV line. The demand of ₹ 3.85 crore has been withdrawn as no such demand can be sustained after cancellation of load sanction and agreement.

The Reply is not acceptable as the clause 2(a) of agreement states that the agreement shall commence either from the actual date on which the consumer has begun to take energy under this agreement or the day immediately following the expiry of notice period of 90 days. The Executive Engineer (O&M) Khajuraho issued (June 2011) notice stating that the supply of energy in accordance with the agreement was available. Thus, the agreement commenced with effect from September 2011 i.e. 90 days after the date of notice and accordingly Company started billing also. The fact remains that the Consumer requested (November 2011) after the commencement of agreement in September 2011 for the cancellation of the same.

The matter was reported to the Government in May 2015; their reply had not been received (October 2015).

Madhya Pradesh State Electronic Development Corporation Limited

3.5 Avoidable expenditure on electricity

The Company incurred avoidable expenditure of ₹ 1.21 crore on electricity due to improper assessment of required connected load.

Madhya Pradesh State Electronics Development Corporation Limited (Company) in order to promote Information Technology (IT) industry in the State of Madhya Pradesh had set up an IT Park in Gwalior District. Company entered (October 2012) into an agreement for a period of two years with Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL) for supply of electricity to Information Technology (IT) Park with initial Contracted Demand (CD) of 200 Kilo Volt Ampere (kVA). The terms and conditions of the agreement provided for increase in electricity demand in phased manner maximum up to 500 kVA and 1500 kVA from September 2013 and April 2014 respectively on the assumption that IT Park would be fully occupied within a period of 18 months.

As per paragraph 7.9 of Madhya Pradesh Electricity Supply Code 2004 (Code), no application for reduction of contract demand shall be entertained within the period

of first two years from the date of contract. However, there is no such restriction for the submission of application for the enhancement of load in the Supply Code.

We observed (January 2015) that MPMKVVCL supplied power to the IT Park and raised bills for minimum fixed charges based on 90 *per cent* of 200 kVA from November 2012 to August 2013, 500 kVA from September 2013 to March 2014 and 1500 kVA from April 2014 together with energy charges as per the tariff applicable, though the actual demand recorded was 26 kVA to 71 kVA during the period September 2013 to December 2014. The Company reassessed (October 2014) the CD and envisaged reduction of the CD to 200 kVA viewing that utilisation of 1500 kVA load was not possible due to non utilisation of space in IT Park as expected. The Company therefore requested (November 2014) MPMKVVCL to reduce the load to 200 kVA. MPMKVVCL accordingly, reduced the load from 1500 kVA to 200 kVA in January 2015 and started billing for electricity charges on the basis of 200 kVA.

We further observed that the clause of the agreement stipulating increase in CD in phased manner up to 500 kVA and 1500 kVA, was unwarranted, as increase in CD was possible at any time subsequently. Whereas decrease in CD was not possible in the first two years of the agreement in terms of the Supply Code.

Thus, due to faulty agreement clause stipulating increase the CD in a phased manner without correlating it to the actual demand of electricity to the IT Park, the Company incurred extra expenditure of ₹ 1.21 crore on account of minimum demand charges (*Annexure 3.5*) for the period August 2013 to December 2014 with reference to optimum contracted load up to 200 kVA.

Management replied (May 2015) that the demand was estimated by Madhya Pradesh Housing & Infrastructure Board and accordingly Company had applied for the connection based on their estimate and assuming that IT Park would be fully occupied within a period of 18 months after the construction was completed. It was also stated that the point made by audit is noted to take care in future.

The reply is not acceptable as the Company had set up the IT Park and Madhya Pradesh Housing Board was the construction agency only. The Company, keeping in view the provision of the Code, should have entered into agreement for minimum CD and applied for increase in CD from time to time according to increase in the occupancy in IT Park and demand of electricity by the occupants.

The matter was reported to the Government in May 2015; their reply had not been received (October 2015).

3.6 Allotment of land in deviation from IT policy

Land was allotted to the IT Companies at lower rate in deviation from the IT Policy, which resulted in loss of ₹ 128.85 crore to the Government and undue favour to the IT Companies to that extent.

The Government of Madhya Pradesh (GoMP) with an objective to increase the investment inflow in Information Technology industries and to maximise direct and indirect employment in the State had notified (January 2000) an Information

Technology (IT) policy, which was revised from time to time considering the developments/requirements in the IT industries. The GoMP under the IT policy had earmarked large chunks of land including private land for allotment to IT Companies at reasonable rates.

The IT policy (April 2006 and September 2012) contained many incentives to the IT industry including rebate in cost of land. As per the policy, Government land was to be made available to IT industries, at the rate of 25 *per cent* of the prevalent Collector guideline rate subject to availability of land and with the condition of investment by IT industries in fixed capital within a period of three years. Madhya Pradesh State Electronics Development Corporation Ltd (Company) was entrusted with the responsibility as nodal agency for implementation of IT projects of GoI and GoMP.

The GoMP entered (April 2012) into Memorandum of Understandings (MoUs) with Tata Consultancy Services (TCS) and Infosys Limited respectively for allotment of 100 acre and 130.08 acre land in Indore on lease basis for 33 years at the premium of ₹ 20 lakh per acre (total cost ₹ 46.01 crore). Subsequently, the GoMP entered into lease agreements (October 2012) with the two IT companies for allotment of the said land at the premium of ₹ 20 lakh per acre on lease basis for 99 years.

We noticed (March 2014) that the cost of the land allotted to TCS and Infosys Limited was ₹ 699.44⁸ crore according to Collector guidelines rate. Therefore, the cost of land recoverable from the IT Companies should have been ₹ 174.86 crore at the rate of 25 *per cent* of prevalent Collector guidelines rate. However, the land was leased to IT companies at the cost of ₹ 46.01 crore only, resulting in allotment of land at the additional rebate of ₹ 128.85 crore. Thus, rebate granted in cost of land was 93.42 *per cent* against the rebate of 75 *per cent* permissible as per the Policy.

We further noticed that as per clause V (8) (e) of IT policy 2006 the Companies generating employment for more than 500 persons would be provided further concession on the rate of land with the approval of cabinet. The clause V (8) (f) of the IT policy 2006 provided for allotment of land to IT Companies on lease basis for 33 years with the provision of further renewal. In the revised IT policy 2012 notified on 6 September 2012, provision of further concession on the rate of land for the Companies generating employment for more than 500 persons was withdrawn, evidently because of indefinite provision in the IT policy 2006 regarding further concession and a scope of application of unmitigated discretion in allowing quantum of further concession. However, the period of lease was increased to 99 years in the IT Policy 2012.

We noticed that in the lease deeds executed between the GoMP and IT Companies in October 2012, the provision of the revised IT policy 2012 regarding allotment of land on 99 years lease basis was followed but the provision of allotment of land at the rate of 25 *per cent* of prevalent Collector guideline rate, was not followed. We also noticed that the basis of deciding the rate of ₹ 20 lakh per acre of land

⁸ ₹ 640.38crore for 210.68 acre private land i.e. ₹ 640.38/210.68 = ₹ 3.04 crore per acre, total land 230.08 acre land *3.04=699.44 crore

was not specified either in the MoUs/ lease deeds or other documents produced to us. Thus, the land was allotted to the IT Companies at much lower rate by deviating from the IT policy 2012. This resulted in loss of ₹ 128.85 crore to the Government and undue favour to the IT Companies to that extent.

We further observed (June 2015) that construction on the said land was at a nascent stage as only boundary wall of premises had been constructed, as against the condition of investment by them in fixed capital within a period of three years.

The Management replied (July 2015) that the land allotted to TCS and Infosys was decided by State Cabinet and the clause V (8) (e) of the IT policy 2006 provided further concession on rate of land with the approval of cabinet in respect of the Companies providing employment to more than 500 persons.

The reply is not acceptable as the IT policy 2006 and 2012 provided for allotment of land to IT Industry at the rate of 25 *per cent* of Collector guidelines rates and no basis for allotment of land at further concession was disclosed. The policy of further concession on the rate of land as per the IT policy 2006 was withdrawn in the IT policy 2012 (issued in September 2012), that is before entering into the lease agreements with the IT Companies in October 2012.

The matter was reported to the Government in June 2015; their reply had not been received (October 2015).

Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited

3.7 Under recovery of workers welfare cess

The Company short recovered workers welfare cess of ₹ 49.39 lakh from the bills of contractors for supply portion and thereby extended un-intended benefit to the Contractors.

Section 3 of the Building and Other Construction Workers Welfare Cess Act, 1996 provides for levy and collection of a cess on the cost of construction incurred by the organization. Accordingly, Government of India notified (September 1996) levy of cess at the rate of one *per cent* of the cost of construction incurred by employer.

Rule 8 of the Building and Other Construction Workers Welfare Cess Rules, 1998 provides that failure to pay any amount of cess to Madhya Pradesh Bhavan Evam Anya Nirman Karmakar Kalyan Mandal (Board) within the specified time entails payment of interest on the unpaid amount at the rate of two *per cent*, for the delay of every month or a part of a month thereof.

Rule 9 of the Rules, 1998 further provides for levy of penalty of amount not exceeding the amount of cess in case of non-payment of cess within specified time. As per Rule 3 of Rules 1998, the cost of construction shall include all expenditure incurred by the employer in connection with building and other construction excluding cost of land and compensation under Workmen's Compensation Act.

Madhya Pradesh Paschim Khsetra Vidyut Vitaran Company Limited, (Company) awarded (September 2011 and March 2012) works separately for supply and erection portion for construction of 11 KV line and low Tension line under two major schemes viz., Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) and Feeder Separation Programme (FSP) on turnkey basis.

We noticed (October 2014) from the records of Shahjapur circle office of the Company that the Circle office had deducted labour welfare cess at the rate of one *per cent* on the cost of erection only from running bills of the contractors and remitted to the authority concerned but excluded the cost of supply (materials) for the purpose of levy of cess. As per Rule 3 of Building and Other Construction Workers Welfare Cess Rules 1998, cost of construction includes all expenditure⁹ except cost of land and compensation. Therefore, cess was to be collected on cost of supply (material) also.

This has resulted in under recovery of cess of ₹ 49.39 lakh from the contractor's bills and short remittance to the Board on the works undertaken by the Company and thereby extending unintended benefit to the contractors to that extent because of failure to deduct cess on the cost of supply. The Company also became liable for the payment of interest at the rate of two *per cent* per month and penalty of ₹ 49.39 lakh.

The Government replied (June 2015) that Building and Other Construction Workers Welfare Cess Act is applicable only to the construction contracts and not to the contract of supply/ sale of material. Thus, there was no requirement of payment of cess on the bills relating to the works of supply of material. It was further stated that the definition of building or other construction works was only restricted to erection and construction contracts and did not include other contracts like contract of supply or sales of material. Government also stated that the contract as well as work order for the supply of material work and erection work are two separate contracts and that has been held in various judicial pronouncements if two separate contracts/ works order executed for supply and construction portion, both cannot be treated as one and contract of supply shall be treated as contract of sale and not the construction contract.

The reply is not acceptable since the company had awarded the contracts (Supply and Erection) against one common bid document. Further, Hon'ble High Court of Madhya Pradesh in its judgment (May 2012) in the case of M/s GVPR Engineers Limited Versus State of Madhya Pradesh, stated that, the cess should be levied on the total cost of construction even though the project is divided into parts (i.e. supply and erection portion). Rule 3 of Rules 1998, also states that the cess should be levied on the total cost of the construction including material cost. Hence, the Rules do not distinguish supply and erection portion of a work- for the purpose of levy of labour welfare cess. The Court cases referred in the reply are not in the context of applicability of workers welfare cess, hence not relevant to the audit observation.

⁹ Including construction regarding transmission and distribution of power as referred in section 2(d) of the Building and Other Construction Workers Act, 1996

Madhya Pradesh Road Development Corporation Limited

3.8 Payment of extra bonus to concessionaires

Allowing construction period more than the recommended/considered period in the project feasibility report by the consultants resulted in payment of extra bonus to concessionaires to the extent of ₹ 12.21 crore.

Madhya Pradesh Road Development Corporation Limited (Company) executes road works under public private partnership on Built Operate and Transfer (BOT) basis using different modes of financing the projects. The Company for development of Sitamau-Basai-Suwasara Road (SBSR) having length of 34.97 km and Ashoknagar-Vidhisha Road (AVR) having length of 35.68 km, engaged two separate Consultant for preparation of feasibility reports (FR) for the two road projects respectively. Thus, the total concession period was dependent on volume of traffic whereas no specific period was fixed for construction. The Consultants in the feasibility reports recommended/considered construction period of 12 and 18 months for the two roads respectively.

The Company thereafter entered (December 2011 and March 2013) into concession agreements (CA) with two separate contractors for execution of SBSR and AVR projects on toll plus annuity basis. As per the terms and conditions of the CAs, the project period was 15 years from the appointed date¹⁰ which included two years (730 days) as construction period and remaining 13 years for operation and maintenance of the roads. The terms and conditions of CAs further provided for payment of annuity of ₹ 3.69 crore and ₹ 5.04 crore to the concessionaires on six monthly basis (total 26 annuities) during the period of operation and maintenance of SBSR and AVR respectively besides the toll collection by them.

As per clause 15.1 of the CA the commercial operation date (COD) shall be the date on which provisional certificate of completion for the road is issued by the Independent Engineer¹¹. As per clause 28.1 of the CAs, if concessionaire achieves COD prior to the scheduled completion date then the concessionaire shall be entitled to receive a bonus for early completion of the project equal to the product of average daily annuity and the number of days by which the COD preceded the schedule date of completion.

We noticed that the concessionaires completed the project works ahead of scheduled completion date by 401 and 470 days (*Annexure 3.6*) for which the Company paid bonus of ₹ 8.00 crore and ₹ 12.80 crore to the concessionaires for SRBR and AVR projects respectively. The scheduled completion period of two years for these two road projects having road length of about 35 km, was not only on higher side considering that the Company allowed two years construction period for the other road projects having length of 63.80 km to 119.36 km, but was also clearly against the recommended/considered period of 12 months and 18 months by the consultants.

¹⁰ Appointed date is the date on which the financial closure is obtained by the concessionaire and treated as start day for the work.

¹¹ Independent Engineer is appointed by the Company for supervising the works of Concessionaire and reporting to the Company.

Thus, allowing construction period of two years in the CAs, by postponing the completion period by 12 months and 6 months respectively for two road projects was without having regard to length of the road and detrimental to the interests of the Company. Consequently, the concessionaire became entitled for extra payment of bonus of ₹ 7.28 crore and ₹ 4.93 crore (*Annexure 3.6*) respectively for the road projects.

The Management replied (June 2015) that Concession agreement provides for the construction period of two years across the projects. Since the bidding is open and transparent the construction period was made open upfront which has resulted into the financial quote received accordingly. Management further stated that if construction period was taken one year then number of annuities would be increased from 26 to 28 and hence, reducing the construction period from two years to one year would not result in saving. Management also enclosed a comparative statement indicating that the proposition adopted in Concession Agreement followed by MPRDC was better and beneficial to MPRDC.

The reply is not acceptable because the contractor's quote depends on definite parameters whereas in this case early completion and payment of bonus was not definite as early completion was dependent on various internal and extraneous factors, hence unpredictable at the time of quoting of rates. Further, if the number of annuities were increased to cover the extended period of operation and maintenance, the Concessionaire would have quoted different amount for each annuity considering the present value of 28 installments instead of 26 installments of annuity and targeted return on their investment in addition to this, the Company would have got benefit of operation and maintenance of roads for extra period of one year/six months also which would neutralise the extra installments of annuity.

Thus, because of keeping schedule completion period more than the period recommended/considered by the consultants, period of early completion was increased and resultantly Concessionaire became entitled for extra bonus.

The matter was reported to the Government in May 2015; their reply had not been received (October 2015).

3.9 Non-recovery of interest as per the clause in concession agreement resulting in loss

Non-recovery of interest as per the clause in concession agreement for delayed payment of premium resulted in loss of interest of ₹ 3.17 crore besides non recovery of ₹ 43.20 crore from the concessionaire.

Madhya Pradesh Road Development Corporation Limited (Company) was notified as State Highway Authority of Madhya Pradesh with the prime responsibility of developing network of State Highways in Public Private Partnership. The Company on behalf of the Government of Madhya Pradesh, executed (November, 2010) a concession agreement (CA) with Transstroy Bhopal Bypass Tollways Private Ltd (Concessionaire) for construction, operation and maintenance of Bhopal-Bypass Road on Build, Operate and Transfer (BOT) basis, under BOT (Toll) model wherein annual premium was payable by the Concessionaire to the Company.

As per clause 15.1 of the CA toll collection was to start from the commercial operation date (COD) of the Road. As per clause 26.2.1, the Concessionaire was liable to pay a premium of ₹ 21 crore per annum for the first year on COD and in the subsequent years of the CA, within seven days of the start of each year with an increase of five *per cent* as compared to the immediately preceding year. Further, as per clause 27.1.1, the Concessionaire has sole and exclusive right to demand, collect an appropriate fee from the users on and from the COD till expiry of CA.

As provided in clause 36.2.1, in case of non-deposition of premium by Concessionaire, the Company might issue suspension orders for toll collection. During the period of suspension, the Company could on behalf of the Concessionaire, collect all fee and revenues under the agreement and deposit the same in the Escrow Account and also be entitled to make withdrawals from the Escrow Account for meeting the costs incurred by it for remedying and rectifying the cause of suspension.

We observed (April 2015) that the Concessionaire started collection of toll from the users from the COD of the project i.e. May 2013. The Concessionaire, however, did not pay the premium amount of ₹ 17.84 crore¹² in the first year on due date i.e. May 2013 and subsequently paid it in installments with delays ranging between 53 and 172 days. Further, the Concessionaire paid (May 2014) only ₹ two crore against the due amount of ₹ 22.05 crore for the second year and also not paid ₹ 23.15 crore for third year so far (June 2015). Non-payment of premium resulted in violation of clause 26.2.1 and also attracted the payment of interest for the period of delay calculated at a rate equal to five *per cent* above the Bank Rate as per the clause 47.5 of the CA.

However, on failure of the Concessionaire to pay the premium, the Company did not issue any order for suspending toll collection by the Concessionaire, nor claimed interest for the period of delays in payment of premium as per the clause 47.5 of the CA. Thus, there was no deterrent to the contractor to pay the amount of premium on due dates.

The Management replied (June 2015) that various notices have been issued to the concessionaire for depositing of premium. It further stated that after suspension of toll, MPRDC had to take over toll collection for which manpower would be required and clause 47.5 of the CA provides for penal interest at a rate equal to five *per cent* above the Bank Rate for delayed payment of dues for either party. However, this being the BOT project wherein there was no Government support in form of viability gap funding and change of scope of work was yet to be finalized, penal interest at this juncture had not been imposed. The cost of change of scope as estimated by the Independent Engineer was ₹ 16.24 crore (approximately) for which Concessionaire requested to adjust the same from premium.

The reply is not acceptable as the non-finalisation of change of scope does not prevent Company from the recovery of premium and penal interest from the Concessionaire as per the provisions of CA and cost of deployment of manpower

¹²Premium for first year ₹ 21 crore for 365 days, however, the COD was issued on 26 May 2013 i.e. in the first year there was only 310 days. Hence, ₹ 21*310 days/365 days = ₹ 17.84 crore

could be met from toll collection in case of suspension of toll collection by the Concessionaire.

Thus, as a result of not suspending toll collection by the Concessionaire and non-recovery of interest on delayed payment of premium, the Company incurred loss of interest of ₹ 3.17 crore¹³ (*Annexure-3.7*) besides the premium amount of ₹ 43.20 crore remained unrecovered from the due date of 7 April 2014 and 7 April 2015 respectively.

The matter was reported to the Government in May 2015; their reply had not been received (October 2015).

3.10 Unjustified payment of bonus to concessionaires

The concessionaire agreement did not specify any maximum limit on payment of bonus for early completion of projects and allowed construction period more than that recommended by the consultants resulting in payment of extra bonus of ₹ 85.02 crore.

Madhya Pradesh Road Development Corporation Limited (Company) was notified as State Highway Authority by the Government of Madhya Pradesh (GoMP) with the prime responsibility of developing network of State highways in Madhya Pradesh. The Company adopted built, operate and transfer (BOT) model based on model concession agreement (MCA) approved by the Government of India (GoI) for executing projects under toll, toll *plus* annuity, toll *plus* premium and annuity modes.

The Company entered (November 2011 to February 2013) into nine concession agreements (CAs) with different concessionaires for construction of road projects on annuity mode. As per the terms of the CAs, the total project period was 15 years which included two years (730 days) for construction and 13 years for operation and maintenance of the projects. For incentivising the concessionaire, it also provided for payment of bonus equal to the average daily annuity amount for the days preceded to the scheduled completion period in the event concessionaire achieves completion of work (COD)¹⁴ earlier than the scheduled completion date.

The concessionaires for nine road projects completed the projects¹⁵ ahead of the scheduled completion date by 98 days to 501 days (*Annexure 3.8*). For early completion of works the concessionaires became entitled for bonus in terms of the CAs. We observed that the terms and conditions of the CAs did not define any maximum limit on payment of bonus. The concessionaires of the nine road projects were paid total bonus of ₹ 155.65 crore (*Annexure 3.8*) for early completion of the works. The amount of bonus accounted for 13.12 *per cent* of the total cost of the nine road projects. Thus, a ceiling of total bonus may be inserted to discourage unrealistically rapid contract implementation by the contractor.

¹³ Interest rate of 9 *per cent* adopted based on interest rate on FDR.

¹⁴ Provisional COD would be issued on completion of 75 *per cent* of value of work as specified in agreement.

¹⁵ This includes those projects also in respect of which provisional completion certificate were issued.

We further observed that in four out of the nine road projects, the scheduled completion period of two years was against the recommended/ considered period of 12 months by the consultants in feasibility reports of the projects. In respect of these projects, the works were completed much ahead by 135 days to 501 days of the scheduled completion dates (*Annexure 3.8*). Thus, allowing construction period of two years in the CAs and thereby postponing the completion period by 12 months for these four road projects, was without any basis and detrimental to the interests of the Company. Consequently, the concessionaires of the four road projects became entitled for payment of bonus/ extra bonus of ₹ 85.02 crore, amounting to 16.53 *per cent* of total cost. As such, the payment of bonus to the concessionaires was unreasonably very excessive at the cost of Government exchequer.

The Management replied (June 2015) that the provisions of bonus had been clearly mentioned in the concession agreement for approved annuity projects and it was an incentive to the concessionaire for completing the projects speedily and getting the bonus in lieu thereof. It was further stated that since the bidding was open and transparent and all the terms and conditions were made open upfront which determined the financial quotes.

The reply is not acceptable as the CAs did not specify any maximum limit on payment of bonus for early completion of the projects resulting in payment of bonus up to the extent of 26 *per cent* of the cost of projects and the period specified for construction of the roads was more than the period recommended by the consultants, resulting in payment of extra bonus to the concessionaires. The reply that all the terms and conditions are made open upfront which determine the financial quotes, is also not acceptable because contractor's quote depends on definite parameters whereas in this case early completion and payment of bonus was not definite as early completion was dependent on various internal and extraneous factors, hence unpredictable at the time of quoting of rates.

The matter was reported to the Government (May 2015); their reply has not been received (October 2015).

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited

3.11 Non recoupment of shortages of transformer oil

Power Distribution Companies did not recoup ₹ 4.27 crore against shortfall in receipt of transformer oil from the failed distribution transformers received in the Area Stores.

Distribution Transformers (DTRs) procured by the electricity distribution Companies for the purpose of stepping down the electricity voltage is installed at the point of distribution of electricity to consumers. The DTRs contain transformer oil in it for cooling down temperature of winding and acting as an insulator between windings in transformer. The failed DTRs are brought to the Area Stores where the transformer oil from the DTRs is removed. After repairing the DTRs, reclaimed/fresh transformer oil is refilled up to the required level. The

capacity of DTRs ranged from 25 KVA to 200 KVA having different capacity of oil tanks.

As per the order (October 2012) of Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL), failed DTRs beyond guarantee period for the reasons other than accidents, theft etc. and such DTRs having less transformer oil than the prescribed limit (i.e. below LT bushing) would be accepted in the Area Store. It has been further provided in the order that a committee would examine and decide the quantity of oil received from the failed DTRs. Further the GM/DGM (Stores) were required to recover cost at prescribed rate for shortfall in transformer oil from the distribution circle (DC) in charge. According to capacity of DTRs, the transformer oil required to be received from failed DTRs are as under:

Capacity of DTR	Full capacity of Transformer oil (in litre)	Transformer oil required to be received up to LT bushing level (in litre)
200 KVA	265	198
100 KVA	165	123
63 KVA	150	112
25 KVA	61	45

We noticed shortcomings in recovery of shortages in transformer oil from failed DTRs received in Area Stores at Gwalior and Ujjain as detailed below:

(A) In case of Area Store, Gwalior under MPMKVVCL, as against the required 404894 litres of transformer oil to be received from 3473 failed DTRs, the Area Store, Gwalior received 277958 litre of transformer oil during the years 2012-13 and 2013-14. Thus, there was shortfall of 126936 litre transformer oil valued at ₹ 53.31 lakh¹⁶ in the failed transformers. As against this, shortfall of 8231 litre valued at ₹ 1.45 lakh¹⁷ only was recovered. Thus, shortfall 118705 litre transformer oil valued at ₹ 51.86 lakh was yet to be recovered.

The Committee established for this purpose was required to examine quantity of oil in respect of failed DTRs on the same day of arrival in the Area Store. We did not find any evidence that the Committee formed for the purpose had examined the reasons for shortfall in transformer oil. The Area Store also did not seek recoupment of the total shortfall in transformer oil as of June 2015.

Management replied (August 2014) that reasons for shortages of oil were due to breaking of bushings and leakage from the body and there was no norms for the loss of oil due to leakage on the floor. The reply is not acceptable as there was no evidence that the Committee formed for the purpose had examined the quantity of transformer oil received from the failed DTRs and reasons for shortfall therein.

¹⁶ Calculated at the least rate of ₹ 42 per litre obtained in the auctions during the years 2012-13 to 2014-15

¹⁷ ₹ 13988 for 1678 litre for the year 2012-13 and ₹ 131310 for 6553 litre for the year 2013-14 respectively.

(B) In the Area Store, Ujjain under Paschim Kshetra Vidyut Vitaran Company Limited (MPPKVVCL), against the required 1749938 litre of transformer oil to be received from 14632 failed DTRs, the Area Store received 856688 litre of transformer oil during the years 2012-13 to 2014-15. Thus, there was shortfall of 893250 litre transformer oil valued at ₹ 3.75 crore in the failed transformers. The Executive Engineer, Area Store, Ujjain intimated (July 2015) non-formation of any committee for determination of shortage of transformer oil.

Thus, in case of area store Gwalior, the Committee, did not determine shortage of transformer oil from failed DTRs and in case of area store Ujjain no committee was formed for this purpose. The two Area Stores also failed to recover shortages of transformer oil valued at ₹ 4.27 crore from the distribution circle/responsible officials.

The matter was reported to the Government/Company (July 2015); their reply has not been received (October 2015).

Dada Dhuniwale Khandwa Power Limited

3.12 Improper management of Company affairs

Company without formal assurance of coal linkage continued its operation which has resulted in avoidable expenditure of ₹ 1.03 crore

The Dada Dhuniwale Khandwa Power Limited (Company) was incorporated (February 2010) as a joint venture (JV) of Madhya Pradesh Power Generating Company Limited (MPPGCL) and Bharat Heavy Electricals Limited (BHEL) to build, own and operate 1600 MW (2x800 MW) super critical¹⁸ coal based thermal power plant at Khandwa, Madhya Pradesh.

The promoter of the Company applied (January 2010) for long term coal linkage for the power plant to Ministry of Coal (MoC), GoI. However, the MoC stated (February 2012) that there might not be any scope for fresh coal linkages for 12th plan period (2012-17) projects. The Company thereafter amended (January 2013) the objective clause of the Memorandum of Association by inserting development and mining of coal as an objective and filed (January 2013) an application to MoC for allotment of coal block but same was not considered (August 2013) for allotment of coal block made by MoC in August 2013.

In view of no progress expected in the project, Board of Directors (BoD) of the Company decided (February 2014) to stop land acquisition process as there was no assurance of coal block and directed Managing Director to submit a detailed road map including possible winding up of the Company.

We observed (January 2015) that no concrete step for deriving a detailed road map including probable winding up, was taken. Thus, the expenditure of ₹ 1.03 crore incurred by the Company during the period September 2013 to March 2015 proved unproductive and could have been avoided by taking timely action after

¹⁸ It employs higher temperature and pressure resulting in better efficiency, reduced fuel and less greenhouse emissions.

MoC's decision on non-possibility of fresh coal linkage during 2012-17 in February 2012 and non-considering of application by MoC for allotment of coal block in August 2013. After pointed out by the Audit the Board of Directors of the Company finally recommended (March 2015) for winding up the Company as the Company has not received any coal linkage. The Company was however, yet to be wound up (July 2015).

Government/Management replied (July 2015) that the project development was stalled due to non-availability of coal. As numerous efforts for getting coal linkage since the last 5 years, were not fructifying and there was remote possibility of getting coal allocation in the future also, the Board of the JVC in their meeting held on 27 March 2015 recommended to finally wind up the JVC instead of incurring further expenditure.

The reply is not acceptable as the Board of Directors of the Company noted (August 2013) that the prospect of getting a coal linkage was bleak and in view of no progress expected in the project, Board of Directors (BoD) of the Company decided (February 2014) to stop land acquisition process also but did not take steps for winding up of the Company resulting in the avoidable expenditure.

Narmda Basin Projects Company Limited

3.13 Loss of interest due to non-investment of surplus funds

Company failed to invest its idle funds in fixed deposits (FD) as envisaged in the Memorandum of the Company and lost opportunity to earn interest of ₹ 1.15 crore

The Narmada Basin projects Company Limited (Company) was incorporated (October 2011) with the objective to promote and operate schemes for irrigation, water supply and drainage. The authorised share capital of the company was ₹ 50 crore out of which share capital amount of ₹ five crore was credited (March 2012) into the Company's current account by the Government of Madhya Pradesh. As per the memorandum of association defining the objective of the Company, it may invest any money not for the time being required for any of the purposes of the Company in any short term instrument of Nationalised Banks.

We observed (June 2015) that the Company incurred (March 2012) an expenditure of ₹ 31.38 lakh towards preliminary expenses and the balance amount of ₹ 4.69 crore of the above capital was retained in the current account since then, till the funds (₹ 4.69 crore) were eventually invested in Bank fixed deposits on 15 February 2015. As the Company was in planning stage and therefore there was no immediate requirement of the fund, the Company could have invested its idle fund in Fixed Deposits in timely manner. The Company however failed to invest its idle funds of ₹ 4.69 crore in FDs as envisaged in the memorandum of the Company. As a result, it lost opportunity to earn interest of ₹ 1.15 crore¹⁹ for the period from April 2012 to February 2015.

¹⁹ Calculated at the interest rate of 8.5 per cent earned by the Company on its FD.

We further observed that failing to take note of surplus funds lying in current account was on account of delayed finalisation of annual accounts of the Company for the years 2011-12, 2012-13 and 2013-14 in December 2014/January 2015. This diluted the internal control system and deprived the Management of the Company of the opportunity to take timely action to invest surplus fund in interest earning fixed deposits.

The Management replied (July 2015) that most of the time, the post of the Managing Director (MD) was vacant and from 2013 onwards only the post of MD was filled up and the surplus funds available with the Company had been deposited in FD's.

The reply is not acceptable as the funds were lying idle in the current account and the Company invested its surplus fund belatedly on 15 February 2015 only.

The Matter was reported to the Government (July 2015); their reply has not been received (October 2015).



(DEEPAK KAPOOR)

Accountant General

**(Economic and Revenue Sector Audit)
Madhya Pradesh**

**Bhopal
The 11 February 2016**

Countersigned



(SHASHI KANT SHARMA)

Comptroller and Auditor General of India

**New Delhi
The 12 February 2016**