

**Compliance Audit Observations relating
to
Power Sector PSUs**

CHAPTER III

Compliance Audit Observations relating to Power Sector PSUs

Important audit findings emerging from test check during the audit of the power sector PSUs are included in this Section.

Assam Power Distribution Company Limited

3.1 Deficient monitoring of works

Failure of the Company to monitor timely construction of the 132 KV sub-station/transmission line compatible to supply electricity at prescribed voltage level led to energy loss valuing ₹2.57 crore.

The Electricity Supply Code and Related Matters Regulations, 2004 (First Amendment-2007) (Regulation) read with Schedule of Tariff (SoT) notified by the Assam Electricity Regulatory Commission (AERC) stipulated as under:

- (i) *The voltage of supply of electricity to consumers shall be determined on the basis of the contract demand of the consumer. Any consumer having a contract demand of above 5,000 KVA was to be supplied electricity by the Company at a voltage level of 132/220 KV. (Clause 2.2 of AERC Regulation)*
- (ii) *A surcharge of 3 per cent shall be applicable if a consumer draws power at lower than the applicable voltage level. (SoT notified by AERC effective from 10 April 2017)*

Assam Power Distribution Company Limited (Company) entered (February 2011) into an agreement with B.R. Metallics (Consumer) for supply of electricity with a contract demand of 11,764 KVA. The Company allowed the Consumer to draw electricity at 33/132 KV voltage level as against the prescribed level of 132/220 KV. To facilitate the supply of electricity at prescribed level of 132/220 KV voltage, it was also agreed that a 132 KV sub-station along with the required transmission line shall be constructed, the cost of which shall be borne by the Consumer.

Audit observed that:

1. The Company demanded (March 2013) an amount of ₹ 4.07 crore from the Consumer, being the estimated cost of construction of 132 KV sub-station and the transmission line. The first instalment of ₹ 1.02 crore was to be paid by April 2013. Balance cost of the proposed sub-station was to be paid by the Consumer in three equal instalments after completion of foundation of tower, erection of tower and stinging of conductors respectively.

The Consumer paid (April 2013) the first instalment of ₹ 1.02 crore to the Company for construction of new sub-station and transmission line. The Company transferred (April 2013) the amount to Assam Electricity Grid Corporation Limited (AEGCL) under whose jurisdiction the work of construction of 132 KV sub-station and transmission line was to be taken up. AEGCL, however, could not take up the construction work due to Right of way (ROW) problem. The Company discussed (September 2014) the matter with the officials of AEGCL and the Consumer. During the said meeting, it was decided to explore the possibility to construct the transmission line on Monopole instead of Tower Super structure so as to minimise the ROW problem. The Company, however, did not take up the matter with AEGCL regarding the feasibility of the proposal so far (December 2018). Pending construction of the new sub-station and transmission line, the Company continued to supply electricity to the Consumer at lower voltage level in violation of AERC Regulations.

2. To facilitate supply of electricity to the Consumer using the existing infrastructure, the Company had to step-down the electricity received by it at 132 KV voltage to the voltage level of 33 KV at its 132/33 KV sub-station. During this process of transformation of electricity from a higher to lower voltage level, the Company had to bear an inherent transformation loss, which was assessed by the Company to be in the range of 4 to 5 *per cent*. As mentioned above, the AERC also notified (April 2017) a surcharge of 3 *per cent* to be paid by the consumer for drawal of electricity at lower than the applicable voltage level. The inclusion (April 2017) of this clause by AERC in the SoT as mentioned above, substantiates the incidence of transformation loss in supply of electricity at lower voltage level.

Audit observed that during the period May 2012 to April 2018, the Company supplied 17.97 crore kWh of electricity to the Consumer at lower voltage. As such, the Company had to suffer a transformation loss of 0.54 crore kWh (3 *per cent*) of electricity valued at ₹ 2.57 crore.

Thus, failure of the Company to monitor timely construction of the 132 KV sub-station line compatible to supply electricity at prescribed voltage level led to energy loss valuing ₹ 2.57 crore during the transformation process.

In their replies, the Government and the Company stated (September 2018) that as the consumer deposited the first instalment towards the cost of the new sub-station, no surcharge was levied on the Consumer. The matter was also discussed (20 November 2018) with the Managing Director (MD) of the Company, who accepted that there was a lapse on part of the Company officials at various levels and assured to relook into the matter and take up the issue with AEGCL to resolve the matter.

The replies of the Government and the Company were not acceptable considering the inaction on part of the Company for more than five years after receipt (April 2013) of first instalment from Consumer towards construction of required infrastructure, which led to significant energy loss.

Corrective action may be taken at an early date besides fixing of responsibility for the lapse already committed.

3.2 Non-stoppage of power supply to defaulting consumer

The Company extended undue benefit to the Consumer by not disconnecting the supply despite repeated defaults in payment of electricity dues leading to doubtful recovery of ₹0.76 crore.

The Electricity Supply Code and Related Matters Regulations (First Amendment-2007) notified by Assam Electricity Regulatory Commission (AERC) *inter alia* stated that:

“Where a consumer neglects to pay any charge for electricity or any other sum due to the Company by the due date mentioned in the bill, the Company may cut off supply of electricity until such sum together with any expenses incurred by the Company in disconnection and reconnection of the supply were paid.”(Clause 4.3.1.1)

Assam Power Distribution Company Limited (Company) entered into an agreement (July 2011) with Satya Megha Industries (Consumer) for supply of electricity at a contract demand of 4.24 MVA after obtaining a load security deposit of ₹0.88 crore. Scrutiny of records showed that the consumer was irregular in payment of monthly dues since October 2012. As a result, the unpaid electricity dues (₹0.67 crore) of the Consumer as of October 2012 had accumulated to ₹2.11 crore by the time of permanent disconnection of supply (May 2016) by the Company.

Examination of records of the office of Assistant General Manager, Industrial Revenue Collection Area, Bongaigaon of the Company revealed that before disconnecting the supply (May 2016) of the Consumer, the Company had offered

(January 2014) the Consumer to pay off the unpaid dues in five instalments by May 2014. The Company offered similar opportunities to the Consumer time and again (June 2014, September 2014, December 2014, April 2015 and September 2015) with the approval of the Managing Director (MD) of the Company but the situation did not improve. Audit observed that by the time the Company permanently disconnected (May 2016) the supply of the Consumer, the net recoverable dues had accumulated to ₹ 0.76 crore¹ after adjustment of load security deposit of the Consumer along with interest. Further, the Company did not take any steps to recover the outstanding dues from the Consumer even after lapse of two years from the date of disconnection (May 2016).

It could be seen from the above that the Company in violation of Clause-4.3.1.1 of AERC Regulation continued to supply electricity to the Consumer beyond the consumption limit covered by the load security deposit. By timely disconnecting the supply of defaulting Consumer as per the provisions of the Regulations, the Company could have avoided accumulation of outstanding dues of the Consumer, which were doubtful of recovery.

Thus, allowing opportunities time and again by the MD of the Company to the Consumer to clear outstanding dues despite repeated defaults in payment of electricity dues was a clear violation of AERC Regulations, which led to doubtful recovery of ₹ 0.76 crore.

The Government and the Company stated (September 2018) that legal proceedings had been initiated against the Consumer to recover the dues. During the meeting held (20 November 2018) with Audit, the Company stated that the Consumer was allowed to pay off the outstanding dues in instalments after due approval of the competent authority. The Company, however, assured to relook into the process of offering instalments to regular defaulting consumers and the disconnection procedure as per Rules.

The fact, however, remains that the recovery of outstanding dues had not been made even after a lapse of 30 months after disconnection.

The Government needs to fix responsibility for failing to act as per the laid down Regulations leading to accumulation of outstanding dues of ₹0.76 crore, recovery of which was doubtful.

¹ ₹ 2.11 crore (outstanding dues as on May 2016) less ₹ 1.35 crore (load security deposit: ₹ 0.88 crore and interest: ₹ 0.47 crore).

3.3 Application of different rates for similar work items

The award of two work orders by the Company based on different rates for similar items led to extension of undue benefit of ₹0.35 crore to the Contractor.

As per the standard bidding document conditions issued (September 2014) by Assam Power Distribution Company Limited (Company), the bidder was to quote uniform rate for similar items of work/input materials, which was to be utilized by the contractor in more than one project area. In case the contractor quoted different rates for similar items or input materials in respect of different project areas, the Company was to issue the work order considering the lowest rate quoted by the contractor in any project area.

The Company awarded (February 2015) two work orders for (i) Construction of 3 phase 11 KV line, and (ii) supply and installation of 11/0.4 KV Distribution transformers (DTRs) of 25 KVA and 63 KVA capacity to Premier Enterprises Limited (Contractor) at ₹ 13.64 crore and ₹ 17.78 crore respectively. The above works were covered under the Rajiv Gandhi Grameen Vidyutikaran Yojana² scheme and same were to be executed in Sonitpur district. The work orders were issued based on the *ex-works*³ rates while freight and insurance was allowed separately considering the varied geographical location and local conditions.

Scrutiny of item-wise rates of the two works revealed that the Company allowed different *ex-works* rates for supply of similar items during the same period of supply without any recorded justification in violation of its own standard bidding conditions. Due to this the Company had to incur an additional expenditure of ₹ 0.35 crore in completing the works.

Thus, the Company extended an undue benefit of ₹ 0.35 crore to the Contractor by awarding the works based on the different *ex-works* rates against similar items in violation of its own standard bidding conditions.

During a formal meeting (20 November 2018) held with Audit, the Company admitted that the officials involved in the process of award of the work should have adhered to the terms and conditions mentioned in the bid document.

² The Scheme was later absorbed (December 2014) in the Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY Scheme).

³ Under this arrangement, the supplier is responsible to supply/deliver the material/equipment at a designated location, while all subsequent costs (including transportation cost) are borne by the buyer.

The Government may fix responsibility of the officials concerned for non-adherence to the terms and conditions mentioned in the bid document while awarding the work order, which resulted in additional expenditure of ₹0.35 crore to the Company.

3.4 Delay to implement revised Electricity Duty rates

Owing to non-collection of Electricity Duty at revised rates, there was short billing leading to loss of ₹0.32 crore to the exchequer.

As per the Assam Electricity Duty Act, 1964 (Act) and the Rules framed thereunder:

A. Assam Power Distribution Company Limited (Company) was to levy electricity duty (ED) on consumers at the rate fixed by the Government of Assam (GoA) and deposit it to the State exchequer every month.

B. For any default in payment of ED, the Company was liable to pay penalty not exceeding four times the amount of the ED to be determined by the competent authority in addition to the ED payable under the Act. GoA shall recover any ED due or penalty imposed as an arrear of land revenue or adjust against any amount payable by GoA to the Company.

The Company followed a monthly billing cycle and accordingly billed the ED component at the prevailing rates in the electricity bills of the consumers. Audit observed that the GoA notified an increase in rates of ED from 10 paisa to 20 paisa per unit of energy supplied with effect from 27 October 2017. As such, the Company was to bill the consumers at 10 paisa per unit till 26 October 2017 and at 20 paisa per unit for the period from 27 October 2017 onwards.

While analyzing the billing details at the Data Centre of the Company (May-June, 2018), it was observed that the Chief General Manager (Commercial) of the Company who was responsible for all tariff related matters, forwarded (10 November 2017) the notification after a delay of 13 days to the System Administrator⁴ for giving effect of the revised ED in the billing system. The System Administrator incorporated the revised ED in the billing system after 5 days on 15 November 2017.

Audit further observed that the Company failed to incorporate the ED at revised rates in respect of the consumers whose bills were already generated till 15 November 2017. On analysis of billing data of consumers for the year 2017-18 in

⁴ Tata Consultancy Services Limited.

respect of 17 IRCAs and 6 ESDs⁵, it was observed that the Company had issued 1.21 lakh electricity bills⁶ involving 31.55 MU of electricity at pre-revised ED rates.

Thus, due to the lapses on the part of the Chief General Manager (Commercial) and the System Administrator as pointed out above, there was short recovery of ED leading to a loss of ₹ 0.32 crore⁷ to the State exchequer. Further, in absence of corresponding recovery of revised ED from the consumers, the Company was liable to pay the short-levied amount out of its own funds and also bear a penal liability for this default. Audit observed in a similar instance, the GoA had recovered the short-collected ED through adjustment against the loan amounts sanctioned to the Company⁸.

The Government and the Company stated (September 2018) that though there was internal delay in forwarding the notification to the System Administrator, there was no effect on billing as the effective date was considered from 27 October 2017 in the billing system.

Replies of the Government and the Company were not acceptable as the bills generated prior to 15 November 2017 were issued without incorporating the revised ED rates.

The responsibility of the Chief General Manager (Commercial) and the System Administrator may be fixed who were responsible for the delay in incorporating the revised ED in the billing system, which resulted in loss of ₹ 0.32 crore to the State exchequer. Moreover, the short realization of electricity duty in the remaining divisions of the Company in the State as a whole should also be ascertained and recovered.

3.5 Investment in low interest Short-term Deposits

The Company lost the opportunity to earn additional interest income amounting to ₹ 0.30 crore by not splitting the investment amount into lower value.

The guidelines approved (November 2012) by the Board of Directors of Assam Power Distribution Company Limited (Company) authorized it to invest surplus

⁵ IRCA stands for Industrial Revenue Collection Area, which served as billing centres where the consumers above 25 KVA were billed while ESD stands for Electrical Subdivision, which served as billing centres where the consumers below 25 KVA were billed by the Company.

⁶ 17 out of 17 IRCAs and 6 out of 17 ESDs where SAP had been fully implemented was considered.

⁷ $3,15,54,659 \text{ kWh} \times ₹ 0.10 = ₹ 31,55,466$

⁸ Erstwhile Assam State Electricity Board

funds for short term periods with the nationalized banks including State Bank of India (SBI). The tenure of the said investments was to be determined based on the anticipated requirement of funds for future periods.

Audit examined the investment decisions of the Company to assess the state of soundness of management of investments. It was observed that the Company invested (15 January 2016) ₹ 8.67 crore in six Short-term Deposits (STDs) ranging between ₹ 1.38 crore and ₹ 1.51 crore in State Bank of India (SBI) for a period of one year at an interest rate of 6.75 *per cent* per annum.

Audit observed that despite SBI offering higher interest rate (7.25 *per cent*) on single investment of less than ₹ 1.00 crore on the date of said investment (15 January 2016), the Company did not split its investment in lower value to maximise the return. It was further observed that the Company reinvested (15 January 2017) the above six STDs for a period of another one year with SBI at a lower interest rate of 4.25 *per cent* per annum as against the higher rate of interest (6.90 *per cent*) being offered by SBI on investment below ₹ 1.00 crore. As such, the Company failed to avail the benefits of additional interest of 0.50 *per cent* and 2.65 *per cent* on the investments made in SBI during 2015-16 and 2016-17 respectively due to not splitting the STD amount below ₹ 1.00 crore.

Thus, owing to imprudent investment decisions, the Company lost the opportunity to earn an additional interest income amounting to ₹ 0.30 crore.

The Government and the Company in their replies stated (September 2018) that the STDs were reinvested under the auto renewal facility of the bank and it would take necessary steps for earning maximum earning out of the investment.

The fact, however, remained that the Company needs to make a comparative study of interest rates offered by various banks for different value and periods of investment to maximise the returns from investments.