Chapter III

3. Compliance Audit Observations

This Chapter includes important audit findings emerging from test check of transactions of the Power Sector Undertakings.

Jaipur Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited

3.1 *Procurement, Management, Condemnation and Disposal of Distribution Transformers*

3.1.1 *Introduction*

The electricity distribution network in Rajasthan (State) is managed by three state owned electricity distribution companies (DISCOMs) *i.e.* Jaipur Vidyut Vitran Nigam Limited (JVVNL), Ajmer Vidyut Vitran Nigam Limited (AVVNL) and Jodhpur Vidyut Vitran Nigam Limited (JdVVNL). The DISCOMs are required to maintain a robust distribution network to ensure regular supply of electricity to the people of the State. Transformer, a static equipment used for stepping up or stepping down the voltage in generation, transmission and distribution of electricity, is one of the fast moving inventory items used by the electricity sector utilities. The transformers used in distribution system are called Distribution Transformers (DTs) which play a vital role in maintaining efficient electricity distribution network. At the receiving sub-stations, Distribution Transformers are used to step down the voltage used in distribution lines (11 KV) to the level used by consumers (0.4 KV). Efficiency of distribution system depends on installation of DTs of required capacity, their proper repair and maintenance and timely replacement in case of defects. Further, failure of DTs disrupts the electricity distribution system.

The present study was conducted (January 2018 to March 2018) in respect of JVVNL and JdVVNL to evaluate whether:

- the assessment of requirement of DTs was realistic,
- the procurement process of DTs was fair, equitable and transparent,
- the DTs failed during guarantee period were repaired/replaced within specified time and receipt, issue, storage and accounting of the inventory of DTs was efficient and effective and
- the policy for condemnation of DTs was adequate.

The study assessed the procurement, management, condemnation and disposal functions for the DTs in JVVNL and JdVVNL during 2015-16 to 2017-18. During this period, JVVNL and JdVVNL placed purchase orders for procurement of 219253 DTs worth ₹ 962.43 crore and 77073 DTs worth ₹ 427.73 crore respectively.

We reviewed 24[1] high[2] value tenders out of 63 tenders invited and executed by both the Companies during 2015-16 to 2017-18. The management of DTs was reviewed in six[3] (three in each Company) Assistant Controller of Stores (ACOS) out of 13 and 10 ACOS of JVVNL and JdVVNL respectively. Further, two sub-divisions each under the jurisdiction of selected ACOS were selected for detailed assessment of the performance of DTs. The ACOS and sub-divisions were selected on the basis of highest failure rate of DTs during 2015-18.

The paragraph has been finalised after considering the reply (July and September 2018) of the Government.

Audit findings

3.1.2 The audit findings which broadly cover issues relating to implementation of RTPP Act 2012/Rules 2013, assessment of requirement of distribution transformers, procurement of distribution transformers, performance of distribution transformers, disposal of failed transformers and Lack of IT Enabled Inventory Management System at the level of ACOS and sub-divisional stores of the Companies (JVVNL and JdVVNL) are discussed at subsequent paragraphs (Paragraph No. 3.1.3 to 3.1.22). These audit findings are based on our analysis of sample cases only and there is a possibility of more such cases occurring in the Companies. Therefore, the Government/Companies are expected to review all other cases having possibility of similar deficiencies/irregularities and required to take corrective action in those other cases where similar deficiencies/irregularities are found.

3.1.3 *Non-revision of Purchase Manual in consonance with Rajasthan Transparency in Public Procurement Act, 2012*

The State Government enacted (22 May 2012) Rajasthan Transparency in Public Procurement Act, 2012 (RTPP Act 2012) and notified (January 2013) RTPP Act and the RTPP Rules, 2013. The RTPP Act, 2012 which was implemented with the objective of regulating public procurement to ensure transparency, fair and equitable treatment of bidders, promoting competition, enhancing efficiency and economy and safeguarding integrity in the procurement process, is applicable[4] to all the State Public Sector Enterprises owned or controlled by the State Government. Rule 86 of the RTPP Rules 2013 repealed all the existing rules and regulations relating to procurement of goods, services or works from the date of commencement of Rules to the extent they were covered by those Rules. Section 56 of the Act required the State Public Sector Enterprises to issue guidelines, procedures, general forms, standard specifications and manuals conforming to the provisions of the Act/Rules.

We noticed that JVVNL and JdVVNL did not revise (March 2018) the Purchase Manual in consonance with the provisions of RTPP Act 2012 and RTPP Rules 2013 and continued to follow the provisions of Purchase Manual

1 16 out of 31 tenders in JVVNL and eight out of 32 tenders in JdVVNL.
2 The value of tenders ranged between ₹ 0.81 crore and ₹ 157.29 crore.
3 Jaipur District Circle, Alwar and Bharatpur ACOS in JVVNL and Jodhpur, Bikaner District Circle and Jalore ACOS in JdVVNL.
4 Section 3 of the RTPP Act, 2012.

approved (1999) by the *erstwhile* Rajasthan State Electricity Board (RSEB) which was unbundled into five companies in July 2000. The Companies, however, had amended the Purchase Manual from time to time.

The DISCOMs Co-ordination Forum[5] (DCF) directed (February 2014) the DISCOMs to review the Purchase Manual and ensure that procedures stipulated therein were in consonance with the provisions/clauses of the RTPP Act 2012/Rules 2013. The DISCOMs instead of revising their respective Purchase Manuals in respect of 12 major provisions in accordance withthe RTPP Act 2012/ Rules 2013, decided (April 2016) to request the State Government to allow relaxation in six[6] conditions of its provisions but no response was received from the State Government (May 2018). Subsequently, the Chairman DISCOMs constituted (8 August 2016) a committee to prepare/revise the Purchase and Stores Manual along with Standard Bid Document as per the RTPP Act 2012/Rules 2013. We observed that the Purchase Manual, Standard Bid Document and Store Manual of the Companies were, however, not revised (March 2018).

The Technical Specification Approval Committee (TSAC) of three DISCOMs decided (October 2017) to adopt provisions of bid security and performance security in consonance with the RTPP Act 2012/Rules 2013. The Companies accordingly adopted (October 2017) the provisions of the RTPP Act/Rules in respect of bid security and performance security without seeking approval of the BOD.

Thus, the Companies could not ensure revision of procurement process by adopting the twelve provisions in consonance with the RTPP Act/Rules till October 2017. Even afterwards the Companies adopted selective approach to align the procurement process in consonance with the RTPP Act/Rules by adopting only two provisions. The deviations from the RTPP Act 2012/Rules 2013 are detailed in ***Annex-3.***

Government in reply stated (September 2018) that revision of Purchase Manual and Store Manual is about to be completed in consonance with the provisions and rules of RTPP Act 2012. Further, the State Government has not responded to the request made for allowing relaxation in certain conditions of the RTPP Act 2012 so far (November 2018).

The fact thus remains that both the Companies could not revise the Purchase Manual and Store Manual despite assurance given by the Government for implementing the revised manual during 2017-18. It is also worthwhile to mention that during exit conference held (July 2018) for *'Performance Audit on Procurement and Inventory Management by Ajmer Vidyut Vitran Nigam Limited'*, the Government directed the DISCOMs to comply with the Act/Rules *in toto* instead of justifying non-compliance of any statutory provision on the pretext of problems faced in its implementation.

5 It is a common forum of the three DISCOMs headed by the Chairman DISCOMs and consisting Managing Directors and other representatives from each DISCOM to discuss and take mutual decisions on common/interrelated issues.

6 Bid security, performance security, distribution of quantity among bidders, trial orders, security deposits and comparisons of rates among Rajasthan based firms and firms located outside Rajasthan.

Assessment of requirement of Distribution Transformers

3.1.4 The procedure of assessment of requirement of material is guided by provisions of the Stores and Purchase Manual of the Companies which required the DISCOMs to prepare annual estimates in respect of centrally procured items. The Purchase Manual provides that item-wise annual requirement shall be finalised by the 'Procurement Planning and Management Committee' (PPMC) and 'Requirement Approval Committee' (RAC) on commencement of the financial year in JVVNL and JdVVNL respectively. The PPMC/ RAC shall keep in view various aspects *viz.* physical targets, stock position, pending orders *etc.* for assessing the requirement of material.

The Chairman DISCOMs issued (August 2016) detailed guidelines for assessment of requirement of material. The directions provided, *inter alia*, work wise schedule for assessment of requirement of material at sub-divisional level, to be compiled and reviewed at circle level. The circle wise requirement was to be further compiled by Zonal Chief Engineer (ZCE) and informed to PPMC/ RAC through CE (MM).

Review of records at selected ACOS and sub-divisions under the selected ACOS disclosed that the prescribed procedure for assessment of requirement of DTs was not followed. The Circle offices and the sub-divisions did not have any documents regarding work wise/sub-division wise requirement of DTs sent to the Chief Engineer (MM). In the absence of work wise/sub-division wise assessment sheets/documents, we could not ensure:

- the adequacy of requirement of DTs assessed by the CE (MM) for sub-division wise operation and maintenance works and
- whether the operation and maintenance works/augmentation of distribution network were hampered due to shortage of DTs.

Government in reply accepted (July/ September2018) that exact requirement had not been assessed at sub-divisional level. It further stated that the PPMC/RAC finalised the requirement considering the pattern of consumption of previous years and also taking into account the quantity expected from pending orders and stocks available. However, the reply was silent on the observation that no such requirement was obtained from the field offices and considered by the CE (MM) while assessing the requirement. The fact thus remains that both the Companies did not follow the prescribed procedure for assessment of requirement despite assurance given by the Government in respect of similar observation included in the Report of Comptroller and Auditor General of India (Public Sector Undertakings) for the year ended 31 March 2017, Government of Rajasthan (Report No. 4 of the year 2017).

3.1.5 *Delay in finalisation of requirement of DTs*

Clause 6.3 of the Purchase Manual provides that item wise requirement of centrally purchased items for transmission and distribution work shall be finalized at the commencement of financial year.

The status of finalisation of requirement of material (including DTs) by PPMC in JVVNL and RAC in JdVVNL for the period 2015-16 to 2017-18 is shown below:

Financial year	Date of finalization of requirement of material (including DTs) by PPMC/RAC	
	JVVNL	JdVVNL
2015-16	1 July 2015	5 December 2014
2016-17	1 June 2016	3 February 2016
2017-18	23 September 2016	10 October 2016

It could be seen from the above table that though JdVVNL finalised the requirement for the years 2015-16 and 2016-17 before commencement of the concerned financial year, JVVNL completed the assessment during 2015-2017 with delay of two to three months after the commencement of the concerned financial year in violation of provisions of the Purchase Manual.

The Chairman DISCOMs issued (August 2016) directions which required the DISCOMs to finalise the requirement of material for the next financial year by the first week of October. Thereafter, PPMC of JVVNL and RAC of JdVVNL finalised requirement of material for the year 2017-18 in September 2016 and October 2016 respectively which were approved by the BoD of these Companies in October 2016 and November 2016 respectively. Thus, JdVVNL finalised the requirement for the year 2017-18 with a delay of one month.

Government stated (July/September 2018) that the requirement for 2017-18 was finalised timely by JVVNL in accordance with the prescribed directions and both the Companies (JVVNL and JdVVNL) assured that finalisation of requirement will be done on time in future.

3.1.6 *Variation in approved quantity, tendered quantity and purchase order quantity*

The DISCOMs *inter alia* procures single phase and three phase distribution transformers of capacity ranging from 5 kVA to 25 kVA and 10 kVA to 500 kVA respectively. The requirement of distribution transformers of different capacities assessed by the Chief Engineer (MM), quantity approved by PPMC/ RAC, tendered quantity and quantity for which purchase orders were placed during the period from 2015-16 to 2017-18 is given in ***Annex-8*** and ***9*** in respect of JVVNL and JdVVNL respectively.

It would be seen from the ***Annex-8*** that though JVVNL invited tenders[7] as per the quantities approved by PPMC in 2015-16 and 2016-17, however, it invited tenders[8] for lesser quantities than those approved by PPMC for 2017-18. The variations between approved quantity and the quantity for which purchase orders were placed during 2015-16 to 2017-18 ranged between (+) 60 *per cent* and (-) 100 *per cent.*

During 2016-17, JVVNL did not place any purchase order for 25 kVA and 16 kVA single phase DTs despite assessing requirement and inviting tenders for 9000 DTs[9]. It was noticed that JVVNL fulfilled its requirement from the tenders finalized by JdVVNL for the year 2015-16 as JdVVNL invited tenders and placed purchase orders for quantities substantially higher than the quantities assessed by the RAC for the year 2015-16 as indicated in ***Annex-9***.

7 Except for 10 kVA three phase DTs and 16 kVA single phase DTs for 2015-16 and 10 kVA and 40 kVA three phase DTs for 2016-17.
8 Except for 10 kVA and 40 kVA three phase DTs.
9 4000 DTs of 25 kVA and 5000 DTs of 16 kVA.

In case of JdVVNL, it would be seen from the ***Annex-9*** that out of 39[10] instances of quantity finalised by RAC during 2015-18, only in nine instances, JdVVNL could invite tenders as per quantities approved by RAC whereas in remaining instances, JdVVNL invited tenders for substantially higher/ lesser quantities with variation ranging between 303.86 *per cent* and (-) 100 *per cent* in comparison to the quantities approved by RAC. The variations between approved quantity and the quantity for which purchase orders were placed during 2015-16 to 2017-18 ranged between 415.50 *per cent* and (-) 100 *per cent.*

We observed that the DISCOMs lacked effective and robust mechanism for assessment and approval of transformer requirement as there were instances[11] wherein the Chief Engineer (MM) assessed the requirement of DTs but PPMC did not approve any quantity. Further, there were also instances[12] wherein PPMC/RAC approved substantial quantities of DTs without assessment of requirement by the Chief Engineer (MM). Besides, there were significant variations in the tendered quantity and quantity for which purchase orders were placed in comparison to approved quantity.

Hence, the DISCOMs did not control the variation between assessed requirement and actual procurement to ensure preparation of proper procurement plan.

Government stated (July/ September 2018) that variation in quantity exists due to various reasons *viz.* consumption pattern of previous years, non-supply of ordered quantity by the successful bidders, programmes announced by the Government at later stage *etc.*

Procurement of Distribution Transformers

3.1.7 *Delay in finalisation of tenders*

Clause 22.8 of the Purchase Manuals of the Companies provided a maximum time period of 120 days for finalisation of purchase cases from the date of opening of tenders till placement of letter of intent/purchase order. If any tender is not finalised by the concerned authority within the prescribed time period then the same would have to be approved by the next higher authority. The concerned authority has to mention reasons for non-finalisation of tender within the stipulated time period while recommending tender to the next higher authority. The Chairman DISCOMs also issued (August 2016) directions to issue detailed purchase order within 120 days of opening of tender.

Review of 24[13] selected tenders out of 63 tenders invited during 2015-16 to 2017-18 by both the companies disclosed that the Companies (JVVNL and JdVVNL) finalised 15[14] tenders beyond the stipulated time period of 120 days. The delay in finalisation of tenders ranged between three and 411 days as

10 13 type of distribution transformers in each year during the period 2015-16 to 2017-18.
11 40 kVA three phase DTs in 2015-16 and 2016-17 and 5 kVA single phase DTs in 2016-17 in JVVNL.
12 16 kVA three phase DTs in 2016-17 and 5 kVA single phase DTs in 2017-18 in JVVNL and 10 kVA three phase DTs in 2015-16 in JdVVNL.
13 16 tenders of JVVNL and eight tenders of JdVVNL.
14 11 tenders by JVVNL and four tenders by JdVVNL.

detailed in ***Annex-10***. Further, the Companies finalised these tenders without approval of the next higher authority.

Government in reply stated (July 2018) that in case of three[15] tenders, the letters of intent were placed well within the prescribed limit of 120 days. Government however accepted that delay in remaining cases occurred due to various reasons *viz.* court orders, submission of fake certificates and shortage of staff. The reply regarding no delay in finalisation of the three tenders mentioned *ibid* is not acceptable as the Company (JVVNL) delayed issue of purchase orders to the bidders in these cases by three, 125 and 70 days respectively as detailed in ***Annex-10***.

3.1.8 *Violation of Purchase Manual/lack of action against suppliers*

Clause 1.24 of the General Conditions of Contract (GCC) which forms part of each contract/purchase order placed by the Material Management Wing of JVVNL and JdVVNL *inter alia* provides that the time and date of delivery specified is the essence of the contract and supplies are required to be completed within the specified schedule. It further provided that in cases where the vendor complied with the contractual formalities but did not commence supplies on the date of opening of technical bid of the subsequent tender and schedule delivery period of the old order had already expired, the Company is entitled to levy maximum recovery on account of delay in delivery along with severing the business relations for a period of two years from the date of issue of order or in next two bids whichever is later. It further provides that in case of failure of supplier to supply the material within the specified period, the Companies (JVVNL and JdVVNL) are entitled to effect recovery at the maximum rate of 5 *per cent* of delayed delivery/unexecuted supply.

(a) JVVNL (Company) placed (May 2017) purchase order on Century Infrapower, Jaipur (supplier) for supply of 135 number of 315 KVA three phase DTs (TN 2392). As per Clause 3 of the purchase order, the firm was required to commence supplies in July 2017 and complete in March 2018. We noticed that the firm did not commence supplies (April 2018) even after the expiry of the scheduled delivery period and opening (August 2017) of the price bids of the subsequent tender (TN-2413). It did not even have approval for the drawing and Guaranteed Technical Parameters from the Company. (April 2018)

The Company, however, did not take any action against the firm as per the contract clauses and provisions of Purchase Manual which provided for recovery of full penalty with right to cancel the purchase order.

Government accepted (July/ September 2018) the facts and stated that the supplies were delayed as the losses could not be achieved with the initially approved design for DTs. However, revised drawings of DTs had been approved (April 2018) and thereafter supply of six DTs offered by the supplier had been received in August 2018 after conducting the type test and supply against remaining quantity will be completed by October 2018.

15 TN-2332, 2359 and 2384 of JVVNL.

(b) JVVNL (Company) opened (August 2017) price bids for purchase of 315 three phase DTs of 315 kVA capacity (TN 2413) wherein Vikas Enterprises (supplier) eligible for trial order, stood L1 at a unit rate of ₹ 387500. The Company negotiated (September 2017) with the L1 bidder and it agreed to supply DTs at unit rate of ₹ 385093. This rate was counter offered (September 2017) to the remaining responsive bidders but none of the firms agreed on this rate. The Company issued (October 2017) purchase order to the L1 firm for supply of 200 nos. of DTs. As per clause 3 of the purchase order, the firm was required to commence supplies from 15 December 2017 and complete the same by 31 August 2018. The firm, however, did not commence supplies. (April 2018)

We observed that in exceptional cases, the Corporate Level Purchase Committee (CLPC) was empowered to award a maximum quantity of 30 *per cent* of the tendered quantity to a firm eligible for trial order. The clause ostensibly protected the Company against ill effects of default by a new tenderer. However, in this case, the CLPC decided (October 2017) to award 63.50 *per cent* of the tendered quantity to the firm who was eligible for trial order only in violation of the Purchase Manual. Further, the Company did not take (April 2018) action against the firm for non-commencement of supplies.

Government accepted (July/ September 2018) the facts and stated that the purchase order was placed on the supplier for total quoted quantity (200 DTs) instead of eligible quantity to avail the benefit of lower price. It further stated that after completion of the type tests, the firm is likely to offer the material for inspection and supplies of DTs shall be availed with levy of applicable penalty.

(c) JVVNL (Company) placed (July 2017) purchase orders (TN 2384) on various firms for supply of 10, 16 and 25 kVA DTs. The purchase order clauses required the firms to commence supplies from 22 August 2017 and complete the same by 7 May 2018. The position of total ordered quantity of various types of DTs, quantity of DTs received upto 31 March 2018, firms which had not commenced supplies upto April 2018 is shown below:

Type of DTs	Total ordered quantity of DTs on all the firms	Quantity received upto March 2018	Quantity pending upto March 2018	No. of firms which did not commence supplies by April 2018	Quantity (Nos.) ordered to the firms which had not commenced supplies by April 2018
10 kVA	7000	3126	3874	5[16]	1400
16 kVA	7125	3901	3224	4[17]	1068
25 kVA	4875	1117	3758	5[18]	569
Total	**19000**	**8144**	**10856**		**3037**

16 Fatehpuria Transformers & Switchgears, Jaipur (350 DTs), G&G Enterprises, Jaipur (175 DTs), Marsons Energy P Ltd Jaipur (350 DTs), Technical Associates, Lucknow (350 DTs) and Vikas Enterprises, Jaipur (175 DTs).

17 Fatehpuria Transformers & Switchgears, Jaipur (356 DTs), G&G Enterprises, Jaipur (178 DTs), Marsons Energy P Ltd Jaipur (356 DTs) and Vikas Enterprises, Jaipur (178 DTs).

18 Fatehpuria Transformers & Switchgears, Jaipur (244 DTs), G&G Enterprises, Jaipur (81 DTs), Marsons Energy P Ltd Jaipur (81 DTs), Pushkar metal, Hanumangarh (81 DTs) and Vikas Enterprises, Jaipur (82 DTs).

We observed that the Company had placed orders for purchase of 19000 DTs to fulfil the requirement of 2017-18 but only 8144 DTs (42.86 *per cent*) could be procured by March 2018. Thus, 10856 DTs (57.14 *per cent*) remained unsupplied despite lapse of almost entire delivery schedule. Further, there were six[19] firms which had not supplied even a single unit of DT against the ordered quantity of 3037 DTs valuing ₹ 14.26 crore by April 2018. However, the Company did not take any action against these firms. The Company did not assess the effect of non-receipt of DTs on operation and maintenance of the existing distribution network and on-going schemes.

Government accepted (July 2018) the facts and stated that the supplies were delayed due to requirement of conducting type tests and obtaining BIS certification and supply of DTs would be accepted with applicable penalty. It further stated (September 2018) that four out of 14 defaulting suppliers had commenced supplies till date. **(November 2018)**

(d) The Companies placed 15 purchase orders under four tenders[20] for purchase of single and three phase DTs as detailed in ***Annex-11***. It could be seen from the annexure that the suppliers did not execute the total supply against the ordered quantity even after expiry of scheduled delivery period between February 2015 and July 2017. However, the Company did not recover penalty of ₹ 2.65 crore from these suppliers towards non-supplied quantity of transformers. (July 2018)

Government accepted (July 2018) the facts and JVVNL stated that the suppliers did not supply the material due to applicability of price fall clause. It further stated (September 2018) that in four[21] out of eight cases, JVVNL accepted supplies which were made within the scheduled period whereas cancelled the remaining quantity by charging applicable penalty. In remaining four cases, action for cancellation of balance quantities as per provisions of the concerned contract is under process. In case of defaulting suppliers pertained to JdVVNL, action for cancellation of balance quantities with/without levy of applicable penalty is being taken. Further progress is awaited. (October 2018).

3.1.9 *Procurement of non-star rated transformers*

JdVVNL awarded (June 2014) a purchase order to M/s Century Infra Power (Pvt.) Ltd. Jaipur (firm) for supply of 1000 numbers 16 KVA three phase (Aluminium Wound) four star rated distribution transformers valuing ₹ 3.99 crore. The transformers were required to carry four star rating by the Bureau of Energy Efficiency (BEE) with the star label of BEE affixed on each transformer. The supplies were completed in July 2015. It was found that the BEE granted permission to firm for affixing the label of star rating in August 2011 which was valid from 10 August 2011 to 09 August 2014. The firm did not apply for renewal of the BEE permission in the prescribed time (*i.e.* three months prior to expiry of validity). After expiry of the initial permission (August 2014), the firm approached the BEE for renewal of the permission.

19 Fatehpuria Transformers & Switchgears, Jaipur (10, 16 and 25 kVA), G&G Enterprises, Jaipur (10, 16 and 25 kVA), Marsons Energy P Ltd Jaipur (10, 16 and 25 kVA), Technical Associates, Lucknow (10 kVA),Vikas Enterprises, Jaipur (10, 16 and 25 kVA), and Pushkar metal, Hanumangarh (25 kVA).

20 TN 968, 1052, 2217 and 2270.

21 Pashupatinath Transformers, Vardhman Electromech, Rajasthan Metal & Chemical Industries and Super Transformers & Electrical.

The renewed permission granted by the BEE in June 2015 which was valid for three years *i.e.* from 19 May 2015 to 18 May 2018. Thus, the firm did not have BEE permission during the period August 2014 to May 2015 and was not permitted to affix the BEE star rating label on transformers though all these transformers were procured after passing the testing at Central Testing Laboratory. It was however noticed that 826 transformers were supplied (August 2014 to February 2015) during this period and payment amounting to ₹ 3.26 crore was also made by March 2015. Audit could not assess the performance of these transformers as all these transformers have been installed at various locations in the field and the Company did not develop any mechanism to record and analyse transformer-wise performance.

Government accepted (September 2018) the facts and stated that the supply of transformers was accepted by the JdVVNL inadvertently between the period of August 2014 to May 2015. However, Audit is of the view that the Company (JdVVNL) should be careful in this regard while procuring material in future.

Performance of Transformers

3.1.10 Distribution Transformer is an important equipment and plays a crucial role in the power distribution network and any failure not only results in financial loss to the utility but also results in interruption in supply. To review the system of management, repair & maintenance, condemnation process and disposal of the Distribution Transformers (DTs) during 2015-18, 12 Sub-divisions (six sub-divisions[22] of three[23] operation and maintenance (O&M) circles/ ACOS in JVVNL and six sub-divisions[24] of three[25] O&M circles/ ACOS in JdVVNL) were selected for test check wherein the following observations are noticed:

3.1.11 *High failure rate of distribution transformers*

The high failure rate of DTs is caused by a combination of factors viz. over loading of DTs, improper earthing and protection, improper fuses, inadequate preventive maintenance etc. For proper reliability, DT failure rate of less than 1.5 *per cent* per annum was indicated by Ministry of Power (MoP).

The following table indicates number of DTs installed, number of DTs failed and failure rate of DTs in JVVNL and JdVVNL during the period 2015-16 to 2017-18:

S. No.	Particulars	JVVNL			JdVVNL		
		2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
1	Number of DTs installed	**558061**	**602179**	**643044**	**376295**	**402202**	**414767**
2	**Number of DTs failed**						
i	Within Guarantee period[26]	38079	36793	32165	14845	12405	14654
ii	Beyond Guarantee	33640	35317	31332	23434	19823	23934

22 Mundawar, Bansur, Viratnagar, Bassi, Nadbai and Bayana.
23 Alwar, Jaipur District and Bharatpur.
24 Balesar, Dechu, Bajju, Loonkaransar, Bhadrana and Sanchore.
25 Jodhpur District, Bikaner District and Jalore.
26 The bids/ agreements relating to procurement of DTs provide for a guarantee period of 60 months from the date of supply.

	period						
	Total	**71719**	**72110**	**63497**	**38279**	**32228**	**38588**
3	**Failure rate of DTs (Percentage)**						
i	Within Guarantee period	6.82	6.11	5.00	3.95	3.08	3.53
ii	Beyond Guarantee period	6.03	5.86	4.87	6.23	4.93	5.77
	Total	**12.85**	**11.97**	**9.87**	**10.18**	**8.01**	**9.30**

It would be seen from the above table that the failure rate of DTs in JVVNL and JdVVNL during the period 2015-18 remained very high in comparison to the maximum failure rate specified by the MOP, as the overall failure rate ranged between 9.87 *per cent* and 12.85 *per cent* and 8.01 *per cent* and 10.18 *per cent* respectively. In selected sub-divisions of JVVNL and JdVVNL, the sub-division wise status of number of DTs failed and failure rate of DTs during the period 2015-16 to 2017-18 is as detailed in ***Annex-12.*** We observed that the DISCOMs did not analyze the reasons for failure of transformers so as to control the trend. The DISCOMs also did not maintain and analyse vendor wise failure rate of DTs to identify and blacklist vendors having high failure rate of DTs.

Government accepted (July/ September 2018) the facts and stated that the main reasons for high failure rate of DTs were overloading, earthing and internal manufacturing defects of DTs besides installing new DTs on the basis of number of connected consumers instead of connected load. It was further stated that the Companies had started reconditioning of DTs by installing MCCB[27] to control the failure rate from 2017-18 onwards, new DTs are installed as per connected load and large number of DTs for system improvement under DDUGJY[28] have been installed which would result in reduction of the failure rate. However, the reply was silent on the issue of devising mechanism for maintaining and analysing vendor wise failure rate to curb receipt of inferior DTs from particular suppliers.

3.1.12 *Release of new connections without ascertaining sanctioned/ connected load on transformers*

The DISCOMs install DTs of different capacity for release of new connections/ load extension of different category of consumers. The DISCOMs were expected to augment/ install a DT after ascertaining the load requirement of the proposed connections to be released.

During review of records relating to release of single phase new connections/load extension, it was noticed that the DISCOMs prepared technical estimates to assess capacity of required DT on the basis of number of existing/proposed connections instead of sanctioned/connected load. Thus, the DISCOMs augmented/ installed DTs and released new connections and extended load of existing connections without assessment of existing/proposed load on a DT which later resulted in overloading and failure of transformers.

27 Moulded Case Circuit Breaker.
28 Deen Dayal Upadhyaya Gram Jyoti Yojna.

However, the effect of overloading on failure of transformers could not be worked out as the DISCOMs did not maintain and analyse transformer wise data for the failures.

Government accepted (July 2018) the facts that single phase DTs were being installed on the basis of number of connected consumers which resulted in overloading and high failure rate of DTs. It further stated that this practice had been discontinued from the year 2018-19 and presently the capacity of new DTs is ascertained as per actual connected load.

It further stated (September 2018) that the height of transformers is also raised to protect unauthorised functioning of the devices. Transformer capacities have also been enhanced for the consumers who have disclosed their load under Voluntary Load Discloser Scheme.

Payment of compensation due to damage caused by explosion of transformer

The DISCOMs release electricity connections to agriculture category consumers wherein transformers are required to be installed in view of expected load/ requirement of the agriculture consumer. In case of agricultural consumers, generally, individual agriculture connections are released through installation of separate transformers. Therefore, the DISCOMs are expected to monitor the load on transformers installed for agriculture connections and to take action to prevent overloading on transformers.

During review of records, we observed a case of agriculture connection released at Gurjarpura under Viratnagar Sub-division of Jaipur District Circle wherein JVVNL released the agriculture connection to the consumer by installing a 16 KVA transformer which failed on 24 December 2016. The Company immediately replaced (24 December 2016) the transformer by a new 16 KVA transformer. However, reasons of failure of transformer were not found on record. Subsequently, the replaced transformer (16 KVA) also failed (10 May 2017) within a period of six months and the Company recorded that the actual load on the transformer substantially exceeded (27.31 HP/ 22.64 KW) the sanctioned load (15 HP). The Company issued (10 May 2017) a notice to the consumer for extension of load within a period of 30 days but the consumer did not apply for such extension. Meanwhile, this time the Company replaced (18 May 2017) the transformer with 25 KVA transformer. The Company received (04 September 2017) a complaint of burnt meter and redressed (24 October 2017) the complaint by replacing the meter. Later the replaced transformer (25 KVA) exploded (31 October 2017) and led to death of 21 persons. The Company released ₹ 1.05 crore towards immediate relief/ compensation to the families of the deceased. The Company did not provide records relating to the incident citing pending enquiry and that case being sub-judice.

We observed that the Company did not take appropriate action against the consumer for overloading the transformers on previous instances. There is no system in place to regularise the load of the consumer without receipt of application from the concerned consumer. Thus, the Company has not evolved any mechanism to curb overloading on transformers which resulted in such fatal instances.

Government accepted (July 2018) the facts and stated that a vigilance checking had been conducted for extension of load without receipt of application from the consumer concerned. It further stated that load of all the consumers (5 HP and above) in Jaipur District Circle had been checked and regularised.

It further stated (September 2018) that the court case has been finalised and disposed of by the Hon'ble Rajasthan High Court in July 2018. However, reasons of not conducting similar checking in other circles have not been furnished. Further, JVVNL did not communicate the outcome of the enquiry conducted by it in this matter. **(November 2018)**

3.1.13 *Non-maintenance of Transformer Movement Cards (TMCs)/ History Cards*

To assess performance and monitor movement of individual transformer, the Companies (JVVNL and JdVVNL) were required to maintain item-wise data/ information regarding movement of transformers in form of transformer movement cards (TMCs)/ History cards/ any other form containing essential information viz. dates of receipt, installation, maintenance, failure, repair, re-installation and movement of transformer. However, the Companies did not devise any mechanism to record item-wise movement of transformer. In the absence of maintenance of item-wise record of transformers, the Companies could not identify/provide status of its transformers.

Besides, the Companies were not in a position to analyse the firm wise failure of transformers, receipt of repaired DTs within prescribed time period, failed DTs lying with the suppliers etc.

Government stated (July 2018) that the Junior Engineer concerned maintains the details relating to DTs installed by it. Further, the ACOS are competent to conduct firm wise analysis for failed and repaired DTs. The reply is not acceptable as during audit of selected ACOS and sub-divisions, it was observed that neither the Junior Engineer concerned had maintained any such details/records for installed DTs nor the ACOS concerned had conducted any firm wise analysis for failed and repaired DTs.

Government further stated (September 2018) that adoption of the ERP is under process to maintain item wise data of the stores (including DTs).

Disposal of failed Transformers

3.1.14 Pursuant to the decision (15 January 2010) of DISCOMs Coordination Forum (DCF), the Company (JVVNL) issued (29 January 2010) directions to all the three DISCOMs of the State which *inter alia* included:

- The Junior Engineers and the Chief Controller of Accounts of the area are required to jointly prepare the report and deposit the transformers in sub-division store within 72 hours of its failure.
- The Assistant Engineer (Operation & Maintenance) is required to telegraphically inform the concerned supplier about the failure of DT on the same day and deposit the failed DT with the concerned store along with above verified report within a period of seven days.
- The ACOS while receiving the DTs will verify the condition of transformer/ availability of parts/oil level *etc.* The ACOS will inform the concerned supplier about failure and repair of the failed DT within 24 hours of receipt of such DT.

Besides, both the Companies also issued orders from time to time to ensure compliance of the above directions regarding deposit/disposal of transformers which failed within the guarantee period.

3.1.15 *Delay in depositing the failed transformers*

It was noticed that the DISCOMs did not develop a mechanism to track individual transformer. Maintenance of records relating to transformers was

also not systematic. In the absence of proper and consolidated records, we reviewed failure, deposit and disposal of transformers in selected sub-divisions for three months *i.e.* May 2015, May 2016 and May 2017.

The following table indicates the number of transformers failed (within/ beyond guarantee period) and deposit of failed transformers by the sub-division office with the concerned store in selected Sub-divisions during the period in selection:

DISCOM and Sub-division	Transformers Failed (in Nos.)			Transformers Deposited (in Nos.)				Maximum delay[29] (in days)
	WGP[30]	BGP[31]	Total	Within specified period	With delay	Lying with Sub division	Details/ records not available	
JVVNL								
Mundawar	185	201	386	51	224	27	84	760
Bansur	230	204	434	0	0	10	424	NA
Viratnagar	136	176	312	64	248	-	0	96
Bassi	70	112	182	33	149	-	0	932
Nadbai	86	100	186	43	110	-	33	643
Bayana	83	82	165	24	67	-	74	160
Total	**790**	**875**	**1665**	**215**	**798**	**37**	**615**	
JdVVNL								
Balesar	79	88	167	36	129	-	2	111
Dechu	133	126	259	70	189	-	-	224
Bajju	46	NA[32]	46	0	46	-	-	198
Lunkaransar	90	NA	90	0	90	-	-	305
Bhadarna	130	76	206	30	176	-	-	494
Sanchore	62	151	213	61	152	-	-	26
Total	**540**	**441**	**981**	**197**	**782**	**-**	**2**	

It would be seen from the above table that in case of selected sub-divisions of JVVNL and JdVVNL, 790 of total 1665 transformers and 540 of total 981 transformers respectively failed within the guarantee period whereas remaining 875 and 441 transformers respectively failed beyond guarantee period. Further, the selected Sub-divisions of JVVNL and JdVVNL could deposit merely 12.91 *per cent* (215 Nos.) and 20.08 *per cent* (197 Nos.) respectively of failed transformers in time at the concerned Circle Store. Further, 47.93 *per cent* (798 Nos.) and 79.71 *per cent* (782 Nos.) of failed transformers were deposited with delay ranging upto 932 and 494 days respectively. In case of Mundavar and Bansur Sub-divisions of Alwar Circle under JVVNL, 37 failed transformers (including nine transformers with broken tanks) were lying (March 2018) with the concerned sub-divisions despite lapse of more than ten months from failure of these transformers. Thus, the Sub-divisions did not follow the directions issued for depositing the failed transformers. This also indicates that the Sub-divisions were not prompt in depositing the failed transformers in the Stores.

In the case of remaining 615 and two failed transformers of JVVNL and JdVVNL respectively, the sub-divisions informed about deposit of these transformers in the Circle Stores, however, relevant records/details/Material

29 The delay worked out by excluding seven days allowed for depositing the DTs.
30 Within Guarantee Period.
31 Beyond Guarantee Period.
32 Record not maintained.

Credit Notes (MCNs) relating to deposit of transformers were not maintained/ provided by the Sub-divisions. Besides, Bajju and Lunkaransar Sub-divisions of Bikaner Circle of JdVVNL did not maintain any record/details regarding failure and deposit of transformers which failed beyond guarantee period. This indicates that maintenance of records was not proper and proper monitoring of the status of failed transformers was not ensured.

Government stated (July 2018) that to ensure replacement of within GP failed transformers and repair of BGP failed transformers in time, the field offices had been directed (May 2018) that new transformer for replacement of a burnt/ failed transformer would be issued only after deposit of the burnt/ failed transformer. Further, directions have also been issued to adhere to the time schedule for depositing the failed transformers.

Government further stated (September 2018) that JdVVNL had conducted a special drive for depositing the failed DTs with the ACOS which reduced the number of unrepaired DTs lying at stores. JdVVNL also served notices to the defaulting suppliers for lifting the remaining failed DTs.

3.1.16 *Deficient system of monitoring repair/disposal of transformers failed beyond Guarantee Period*

In case of transformers that failed beyond guarantee period, only Jaipur District Circle, out of the three selected ACOS of JVVNL could provide status of transformers deposited in the Stores by its two selected Sub-divisions[33] whereas remaining two ACOS (Alwar and Bharatpur) informed that all the transformers that failed beyond guarantee period and deposited in ACOS, had been sold out as scrap. However this could not be verified in audit as the ACOS could not provide records relating to disposal of these transformers in respect of selected sub-divisions under their control

In case of JdVVNL, we observed that the failure report prepared by Loonkaransar Sub-division and record maintained at ACOS, Bikaner depicted different dates of transformer failure in four cases out of 10 test checked cases. Thus the records prepared were not reliable. Further, Dechu Sub-division under Jodhpur District Circle did not maintain any records regarding submission of transformer failure reports (TFRs) and thus the position of transformer failure could not be verified.

Government accepted (July 2018) the facts and stated that to ensure uniformity of records, directions have been issued for maintaining the records of BGP failed transformers and depositing such transformers with the ACOS concerned. It further stated that in JVVNL, three phase DTs failed beyond guarantee period are disposed of through auction whereas in other cases, such DTs are either disposed of through auction or repaired on need basis from time to time. Further, daily monitoring formats have been introduced and monitoring of repairing work is done. The reply was however silent on the issue of not furnishing records relating to disposal of BGP failed transformers by two of the three selected ACOS (Alwar and Bharatpur) of JVVNL.

33 Viratnagar and Bassi

3.1.17 *Delay in lifting/repair of transformers that failed within the guarantee period*

In the case of transformer that failed within the guarantee period, liability of repairing the transformers was on the supplier concerned. The purchase orders issued by both the Companies provided that the supplier is required to lift the transformer from the stores within 60 days from the date of intimation and to deliver the same after repair in next 60 days. Further, in case of failure, cost of the transformer is required to be withheld from the bills. Besides, in case the supplier fails to deliver the transformer after due repair within the prescribed period, a penalty at the rate of ½ *per cent* per week subject to maximum 10 *per cent* is required to be levied. Both the Companies are required to monitor that the failed transformers are lifted and the repaired transformers are delivered back on time by the supplier concerned.

JVVNL

The transformers that failed within the guarantee period are deposited by the sub-divisions in the concerned ACOS and thereafter they are collected at the Central Store under ACOS, Jaipur City Circle, Jaipur. The failed transformers are then lifted by the concerned supplier from the Central store and delivered back after carrying out necessary repairs. The system of deposit of failed transformers at Central Store has been discontinued *w.e.f.* 1 July 2017. Since then, the failed transformers are being deposited in the concerned ACOS.

The status of failed transformers in respect of transformers deposited by sub-divisions, lifted by suppliers and repaired and delivered back by suppliers during the period April 2015 to June 2017 and opening and closing balance of failed transformers lying with Central Store/ Suppliers during the period 2015-18 is depicted in ***Annex-13.*** The annexure also includes supplier-wise status of delay in repair of transformers by 14 major suppliers.

It could be seen from the annexure that as on 1 April 2015, 23129 transformers that failed within guarantee period were lying unrepaired with the Central Store of JVVNL. From 1 April 2015 to 30 June 2017, 82240 more failed transformers were deposited at the Central Store. Besides, 12376 unrepaired GP failed transformers were also lying with the suppliers as on 1 April 2015.

We observed following deficiencies in lifting/ repair of failed transformers:

1. Out of total 105369 transformers collected at Central Store of JVVNL upto 30.06.2017, the suppliers lifted only 92.28 *per cent* (97230 Nos.) transformers by March 2018 whereas remaining 7.72 *per cent* (8139 Nos.) transformers were not lifted and the same were lying at the Central Store as on 31 March 2018 despite discontinuation of the system of depositing failed DTs in the Central Store (1 July 2017).
2. The suppliers repaired and delivered back only 90.18 *per cent* of total transformers (98840 out of 109606) lifted by them whereas remaining 9.82 *per cent* (10766 Nos.) transformers were lying with the suppliers (March 2018).
3. As on 1 April 2015, 8611 transformers were lying with 14 major suppliers as shown in the Annexure. Further, these suppliers lifted 68158

transformers during the period 2015-18. Out of total 76769 transformers, these suppliers repaired and delivered back only 12430 transformers on time (16.19 *per cent*) whereas 56173 transformers (73.17 *per cent*) were repaired with delays as indicated in ***Annex-13.*** Besides, 13860 transformers remained unrepaired as 5694 and 8166 transformers relating to these suppliers were lying with the Central Store and suppliers respectively.

4. Despite abnormal delay in repair of transformers, JVVNL did not finalize penalty recoverable from these 14 suppliers till March 2018.

5. The suppliers declined (October 2017) to repair transformers that failed within the guarantee period on the pretext that these transformers failed due to improper maintenance/excess load which were not covered under manufacturing defect. The suppliers also negotiated for waiver of penalty as JVVNL could not produce any authenticated documentary evidence to prove that the transformers failed due to manufacturing defect. The matter remained unresolved (March 2018). This indicates that JVVNL did not develop proper mechanism to identify and prove failure of transformers due to manufacturing defect to avoid conflicts with the suppliers.

JdVVNL

In case of JdVVNL, the failed transformers are deposited by the sub-divisions in the concerned ACOS and the supplier lifts the failed transformers and delivers back the repaired transformers at the concerned ACOS.

The following table indicates status of failed transformers deposited by the sub-divisions, lifted by suppliers, repaired and delivered back and lying with the supplier/ ACOS relating to selected ACOS during the period 2015-18:

S. No.	Status of failed transformers	ACOS Bikaner District	ACOS Jodhpur[34]	ACOS Jalore	Total
1	Deposited by Sub-divisions	6419	2932	4532	13883
2	**Lifted by suppliers**				
	Within Schedule	2647	785	1742	5174
	Beyond Schedule	2758	862	1801	5421
	Total	**5405**	**1647**	**3543**	**10595**
3	Percentage of transformers lifted by suppliers (3=2/1*100)	84.20	56.17	78.17	76.32
4	**Repaired and delivered back by Suppliers**				
	Within Schedule	915	65	579	1559
	Beyond Schedule	2630	219	1422	4271
	Total	**3545**	**284**	**2001**	**5830**
5	Lying with Suppliers (2-4)	1860	1363	1542	4765
6	Lying with ACOS (1-2)	1014	1285	989	3288
7	Percentage of transformers with ACOS as compared to those deposited by sub-divisions (7=6/1*100)	15.80	43.83	21.82	23.68
8	Maximum delay in lifting of transformers (in days)	819	238	988	988
8a	Break-up of delay in lifting of				

34 This includes figures of the year 2017-18 only as data for the period 2015-17 is not available.

	transformers (in Numbers)				
	Upto three months	1704	539	1010	3253
	Three to Six months	590	264	367	1221
	Six months to one year	387	59	262	708
	Above one year	77	0	162	239
	Total cases	**2758**	**862**	**1801**	**5421**
9	Maximum delay in repair of transformers (in days)	485	140	695	695
9a	**Break-up of delay in repairing of transformers (in Numbers)**				
	Upto three months	1697	216	989	2902
	Three to Six months	678	3	266	947
	Six months to one year	215	0	105	320
	Above one year	40	0	62	102
	Total cases	**2630**	**219**	**1422**	**4271**

It can be observed from the above table that JdVVNL could not ensure prompt lifting and repair of transformers which failed within the guarantee period as the suppliers lifted only 76.32 *per cent* (10595 out of 13883) of total failed transformers deposited in the three ACOS during 2015-18. Besides, the suppliers did not adhere to the timeframe prescribed for lifting and repair of failed transformers as out of total of 10595 lifted transformers, 51.17 *per cent* (5421 Nos.) transformers were lifted with delay ranging from upto three months in 3253 cases to above one year in 239 cases and 40.31 *per cent* (4271 Nos.) transformers were repaired with delay ranging from upto three months in 2902 cases to above one year in 102 cases.

We further observed that JdVVNL lacked a monitoring system to ensure prompt repair of transformers which failed within the guarantee period. Out of 13883 transformers which failed and were deposited in ACOS, only 11.22 *per cent* (1559 Nos.) transformers were repaired by the supplier within the prescribed timeframe whereas 58 *per cent* (8053 DTs[35]) transformers were lying (March 2018) unrepaired with the suppliers and ACOS.

We noticed that the sub-divisions of both the Companies (JVVNL and JdVVNL) were not prompt in deposit of transformers that failed within guarantee period. Further, after initial intimation of failure of transformer, both the Companies lacked proper system to pursue the suppliers for timely lifting and repair of such transformers.

Due to delay in depositing, lifting and repair of failed transformers, both the Companies would have had to arrange alternate transformers for ensuring smooth supply of electricity. The effective guarantee period of such transformers were also reduced to the extent of delay occurred in deposit of transformers as the purchase orders placed by both the Companies did not provide for extension of guarantee period to the extent of delay in repair. Both the Companies should have taken action viz. invoking bank guarantees, debarring for subsequent tenders, deducting/withholding payments of pending bills towards other purchase orders *etc.* against the defaulting firms for delay in repair of DTs which was not done.

Government accepted (July 2018) the facts and stated that as per contractual provisions, the suppliers were required to repair the transformers that failed

35 8053 DTs = 4765 DTs lying with the suppliers + 3288 DTs lying with the ACOS.

within the guarantee period due to manufacturing defects whereas the suppliers were not bound to repair the transformers that failed due to other reasons *viz.* overloading, tampering of MCCB, theft of oil/copper coils *etc.* It was further stated that the suppliers were being persuaded for lifting and repairing the remaining within GP failed transformers and penalty for delay on these suppliers would be levied on closure of the case or expiry of guarantee period.

Government further stated (September 2018) that JVVNL had decided to impose penalty on the defaulting suppliers. Further, 90 per cent of the total transformers failed within guarantee period have been repaired till September 2018. It further stated that as per the purchase orders placed by JdVVNL, the transformers repaired by the suppliers under the guarantee clause shall carry a further guarantee of 12 months after repair of the transformer. In case of JVVNL, the reply is factually incorrect as the information provided by JVVNL depicted that more than 77 *per cent* (14580 DTs against total 18905 failed DTs) of the transformers failed within the guarantee period were lying with the Company/suppliers till date. **(November 2018)**

3.1.18 *Theft of distribution transformers*

The DISCOMs are expected to develop a robust and effective system to control instances of theft and embezzlement of its material (including transformers and transformer coil) lying with the Stores/ installed in the field through timely tracking and reporting of thefts, lodging of FIRs and pursuance with police for retrieval of theft material.

We observed that both the DISCOMs lacked such a robust and effective system as discussed below:

3.1.19 *Loss due to theft of transformers/ transformer coils*

The following table indicates the number of theft cases and value of stolen transformers/transformer coils in selected sub-divisions of JVVNL during 2015-18:

Sub-division	Circle office	Theft Cases (Nos.)	Value of stolen material (₹ in crore)
Mundawar	Alwar	171	0.94
Bansur	Alwar	49	0.20
Viratnagar	Jaipur District	52	0.29
Bassi	Jaipur District	154	0.90
Nadbai	Bharatpur	210	1.09
Bayana	Bharatpur	107	0.48
Total		**743**	**3.90**

We observed that the Company lodged FIRs in all the cases of theft in the respective police stations which were pending. However, the Company had not adopted a systematic procedure to pursue these matters with the police authorities. Besides, the Company did not work out any preventive/ precautionary measures to control theft.

Government accepted (July 2018) the facts and stated that regular pursuance is being made with police for obtaining FRs in these theft cases. However, the

reply was silent on the issue of devising preventive mechanism and maintenance of proper records for the material retrieved in theft cases.

The Government further stated (September 2018) that efforts were being made to control theft of DTs through active participation of public/consumers and implementation of technological intervention through IT enabled ERP system. It further stated that other preventive measures *viz*. purchase of aluminium coil bound transformers, increasing the installation height of transformers and welding the transformers with the structures *etc.* have also been initiated.

3.1.20 *Non- maintenance of records for theft of transformers*

The Company (JdVVNL) issued (September 2002, March 2010, August 2010, April 2014 and May 2014) instructions to the Circle offices to take prompt action in theft and embezzlement cases and to submit progress report to the head office of the Company. The Circle offices were also instructed to maintain a separate register of pending theft and embezzlement cases and to furnish monthly information of theft and embezzlement in the prescribed format for perusal of the Managing Director of the Company.

We observed that the selected Circles offices[36] and Sub-division offices[37] did not maintain the required register of theft and embezzlement cases. Further, the Circle offices did not submit the prescribed monthly information. The Company recorded only 366 cases of theft of transformers and transformers coil during the period 2015-18 which included 130 cases[38] relating to the selected Circles. The information maintained for theft cases by the selected Circles were not correct as two selected Circles (Bikaner District Circle and Jalore Circle) submitted nil information on account of theft and embezzlement in case of those sub-divisions which did not furnish information to the Circle office. Besides, in test check of records of four selected sub-divisions under the Circles, it was observed that 12 cases valuing loss of ₹ 4.54 lakh of theft and embezzlement were still pending with the police authorities and no recovery has been made till date (March 2018). Thus, the MIS mechanism for monitoring of theft and embezzlement cases was weak. Further, in the absence of maintenance of proper records, it was not possible to workout exact number of cases and loss incurred by the Company towards theft and embezzlement of transformers during the period 2015-18.

Government accepted (July/ September 2018) the facts and stated that directions have been issued to the field offices for submission of corrected and authenticated information to MIS and Internal Audit wings every month. It further assured that follow-up of such cases would be done during senior officers meetings on regular basis.

3.1.21 *Premature scrapping of transformers*

The Government of India, in consultation with the Central Electricity Authority (CEA), notified (March 1994) depreciation norms for the licensees wherein fair life for distribution transformers was prescribed as 25 years.

36 Jodhpur District Circle, Bikaner District Circle and Jalore Circle.
37 Balesar, Dechu, Bajju, Loonkaransar, Bhadrana and Sanchore.
38 118 cases in Jodhpur District Circle, six cases in Bikaner District Circle and six cases in Jalore Circle.

JVVNL

The following table indicates opening balance of DTs, DTs received, DTs repaired, DTs condemned and sold and closing balance of DTs that failed beyond guarantee period (BGP) in three selected ACOS of JVVNL during the period 2015-16 to 2017-18:

Period	ACOS	Status of BGP failed DTs (Nos.)				
		Opening Balance	Received	Repaired	Condemned and sold out	Closing Balance
2015-16	Alwar	5105	14660	1807	3702	14256
	Bharatpur	3872	4741	514	4757	3342
	JPDC	10648	14677	2360	8202	14763
	Total	**19625**	**34078**	**4681**	**16661**	**32361**
2016-17	Alwar	14256	9916	0	12494	11678
	Bharatpur	3342	2680	0	2662	3360
	JPDC	14763	20527	0	16698	18592
	Total	**32361**	**33123**	**0**	**31854**	**33630**
2017-18	Alwar	11678	14005	2108	16012	7563
	Bharatpur	3360	2970	534	3955	1841
	JPDC	18592	15358	420	27554	5976
	Total	**33630**	**32333**	**3062**	**47521**	**15380**
Grand Total			**99534**	**7743**	**96036**	

It would be seen from the above table that during 2015-18, out of 119159[39] DTs that failed BGP, only 7743 DTs were repaired and 96036 DTs were condemned and sold as scrap through auction. Further, out of closing balance of BGP failed DTs (15380) as on 31 March 2018, only 238 DTs were to be repaired whereas remaining 15142 DTs had already been condemned and were pending for disposal. Thus, out of total of 119159 BGP failed DTs, only 7981[40] DTs (6.70 *per cent*) were repaired/repairable and remaining 111178[41] DTs (93.30 *per cent*) were declared condemned and sold/ disposable in scrap.

It was noticed that JVVNL decided (November 2015) to dispose of all the single phase BGP failed DTs. Further, JVVNL decided (July 2016) to dispose of three phase BGP failed DTs having manufacturing date prior to 1 April 2010 considering that repairing of BGP failed DTs were not economically viable in comparison to purchase of new transformers. We observed that all the BGP failed DTs declared condemned and sold/disposable during the period 2015-18 were manufactured between April 2006 and March 2010. Thus, instead of prescribing norms for periodic maintenance/ safeguard of DTs *viz.* periodic inspection of load, temperature and voltage, oil level, earth resistance, relay, alarms and circuits *etc.*, the Company decided to dispose of old BGP failed DTs thereby reducing the effective utilisation period of DTs from fair life of 25 years to 11 years and incurred loss of ₹ 122.90 crore[42] on account of condemnation and disposal of BGP failed DTs.

JdVVNL

The following table indicates opening balance of BGP failed DTs, BGP failed DTs received, repaired, condemned and sold and closing balance of BGP

39 Opening balance of DTs as on 1 April 2015 (19625) + Total DTs received during 2015-18 (99534).
40 DTs repaired during 2015-18 (7743) + DTs repairable as on 31 March 2018 (238).
41 Total failed DTs (119159)-Total repaired/repairable DTs (7981).
42 This indicates the loss on sale of transformers relating to selected ACOS/circles included under the head Loss on sale of assets in the books of accounts of JVVNL.

failed DTs in three selected ACOS of JdVVNL during the period 2015-16 to 2017-18:

Period	ACOS	Status of BGP failed DTs (Nos.)				
		Opening Balance	Received	Repaired	Condemned and sold out	Closing Balance
2015-16	Jodhpur	5565	5331	5285	0	5611
	Bikaner District	1368	2509	2172	1181	524
	Jalore	2123	4392	4274	4	2237
	Total	**9056**	**12232**	**11731**	**1185**	**8372**
2016-17	Jodhpur	5611	4793	6447	60	3897
	Bikaner District	524	2053	1793	178	606
	Jalore	2237	4437	2865	0	3809
	Total	**8372**	**11283**	**11105**	**238**	**8312**
2017-18	Jodhpur	3897	2783	1881	0	4799
	Bikaner District	606	908	759	237	518
	Jalore	3809	3687	2004	0	5492
	Total	**8312**	**7378**	**4644**	**237**	**10809**
Grand Total			**30893**	**27480**	**1660**	

It would be seen from the above table that during 2015-18, out of total 39949[43] BGP failed DTs, 27480 DTs (68.79 *per cent*) were repaired and 1660 DTs (4.16 *per cent*) were declared condemned and sold in scrap through auction. Further, 10809 BGP failed DTs were still lying with three selected ACOS (March 2018).

We observed that JdVVNL also decided (February 2017) to dispose of all the BGP failed DTs having manufacturing date upto 31 December 2008 considering that repairing of BGP failed DTs were not economically viable. However, JdVVNL revised its decision due to scarcity of three phase DTs and decided (27 September 2017) for repairing of three phase DTs having manufacturing date after 31 December 2004. Later on, the Corporate Level Purchase Committee (CLPC) of JdVVNL decided (27 December 2017) that three phase BGP failed DTs manufactured upto 31 March 2010, may not be repaired. Thus, JdVVNL scrapped and sold out those DTs which were utilised for a period of eight years against the prescribed fair life of 25 years by GOI. In the absence of norms for periodic maintenance/safeguard of DTs *viz.* periodic inspection of load, temperature and voltage, oil level, earth resistance, relay, alarms and circuits *etc.*, JdVVNL did not ensure periodic maintenance of DTs.

Government accepted (July 2018) the facts and stated that in both the companies (JVVNL and JdVVNL), the ideal life prescribed by the CEA for transformers is under ideal field condition which could not be achieved in real field conditions *viz.* temperature level, loading conditions, occurrence of overvoltage and short circuits *etc.* and the transformers were declared as scrap considering that repair of such transformers was not viable.

It further stated (September 2018) that JdVVNL faced difficulties in periodic maintenance of failed DTs in rural areas due to restriction of availability of regular transportation system in scattered areas. However, JdVVNL had taken up a program for maintenance/reconditioning of transformers under Mukhya Mantri Vidyut Sudhar Yojna.

43 Opening balance of DTs as on 1 April 2015 (9056) + Total DTs received during 2015-18 (30893).

Lack of IT Enabled Inventory Management System

3.1.22 As on 31 March 2017, JVVNL and JdVVNL carried inventory worth ₹ 361.87 crore and ₹ 151.63 crore, respectively. During 2015-18, JVVNL and JdVVNL placed purchase orders for procurement of DTs worth ₹ 962.43 crore and ₹ 427.73 crore respectively. Keeping in view the financial and operational importance of such huge inventory consumption, it would be prudent for the Companies to implement an IT enabled Inventory Management System. We observed that the Companies did not implement any such system. JVVNL had planned (October 2007) to introduce a stores and inventory management system, but, despite availability of the software for such a system, it could not implement it due to lack of IT infrastructure, lack of knowledge of the software among the officials of the Company, shortage of man power and slow internet connectivity. JdVVNL also failed to implement any IT enabled inventory management system. It was also observed that instructions (25 September 2013) of the Rajasthan Electricity Regulatory Commission to expedite the implementation of inventory management software were not complied with. The failure of both the Companies to implement the IT enabled inventory management system resulted in lack of desired transparency and they could not ensure efficient management of inventory and avoid unwarranted procurement.

Government accepted (July and September 2018) the facts and stated that web enabled software *i.e. 'Enterprise Resource Planning'* is being developed for ensuring efficient procurement and inventory management system which would be implemented shortly. Further, a pilot project has been launched for accounting of stores (including DTs) at ACOS, Jaipur District Circle of JVVNL.

Conclusion and recommendations

Distribution Transformers (DTs) play a vital role in maintaining efficient and un-interrupted electricity distribution network. JVVNL and JdVVNL (Companies) did not revise the Purchase Manual in consonance with the provisions of RTPP Act 2012 and RTPP Rules, 2013. The assessment of DTs was not based on the actual requirement framed by the field offices and on-going schemes/ works. The failure rate of DTs in both the Companies remained high in comparison to the maximum failure rate specified by the Ministry of Power, Government of India. The overall failure rate ranged between 9.87 *per cent* and 12.85 *per cent* and 8.01 *per cent* and 10.18 *per cent* in JVVNL and JdVVNL respectively during 2015-18 against the rate of 1.5 *per cent* per annum prescribed by Ministry of Power. The Companies neither analysed the reasons for high failure rate nor maintained any record of vendor-wise failure rate to study this problem. The Companies were not prompt in depositing the transformers which failed within the guarantee period. The Companies did not evolve proper system to pursue with the suppliers to ensure prompt lifting and repair of defective transformers even after initial intimation of failures.

Substantial numbers of transformers were lying in stores of the Companies and with suppliers.

We recommend that the Companies should:

- follow the provisions of RTPP Act and Rules and should revise the Purchase manual in consonance with it;
- assess the requirements based on the on-going works/schemes to avoid excess/short procurement;
- analyse the reasons of failure of DTs and take adequate measures to reduce the high failure rate;
- evolve effective mechanism to ensure prompt deposit of the failed DTs in stores, lifting of DTs by suppliers and their repair within scheduled time period;
- take action against defaulting suppliers according to the provisions of the contracts; and implement a proper IT enabled Inventory Management solution on priority.

Rajasthan Rajya Vidyut Utpadan Nigam Limited

3.2 Deficient planning led to infructuous expenditure and non-operationalization of gas based power plant

The Company did not ensure availability of gas for Gas based Ramgarh Combined Cycle Power Project (Stage-IV) before incurring ₹ 90.64 crore towards interest on loan and insurance of plant/equipments procured for the project. The Company has also incurred ₹ 107.41 crore towards plant/equipments lying idle and also has further committed liabilities to the tune of ₹ 103.87 crore.

Rajasthan Rajya Vidyut Utpadan Nigam Limited (Company) had set up 270.50 Mega Watt[44] (MW) Gas based thermal power station (Stage I to III) at Ramgarh, Jaisalmer. The Company obtained supply of requisite quantum of gas (1.70 MMSCMD[45]) for operating the installed units/projects through Gas Authority of India Limited (GAIL). The requirement of gas for these projects was accordingly being fulfilled from the fields of GAIL (0.75 MMSCMD at Administered Price Mechanism (APM) pricing) and its upstream supplier *i.e.* Focus Energy Limited (FEL) (0.95 MMSCMD at mutually agreed prices). The Board of Directors (BOD) of the Company decided (16 March 2010) to set up another project *i.e.* 160 MW[46] Gas based Ramgarh Combined Cycle Power Project (Stage-IV) at Ramgarh, Jaisalmer. The State Government granted (24 June 2010) administrative and financial approval for setting up the project with total project cost of ₹ 640 crore[47]. The BOD decided (21 September 2011) to arrange gas through GAIL on negotiated price keeping in view the viability of project and awarded contract for main plant to Bharat Heavy

44 One unit of 35.5 MW (Stage 1) + Two units of 37.5 MW each (Stage-II) and 110 MW GT and 50 MW STG (Stage III)
45 MMSCMD stands for Million Metric Standard Cubic Meter Per Day
46 A Gas Turbine Unit of 110 MW and a Steam Turbine Unit of 50 MW
47 ₹ 128 crore (*i.e.* 20 *per cent* of the project cost) to be provided by the State Government in form of equity and remaining ₹ 512 crore to be borrowed from PFC/REC.

Electrical Limited (BHEL) on single tender basis in order to complete the project in fast track mode by August 2013.

The Company held (October 2011, December 2011 and March 2012) tripartite meetings with GAIL and FEL regarding supply of gas for the project on long term basis wherein FEL offered (October 2011) to supply 0.75 MMSCMD gas for a period of 10 years which was considered sufficient for the proposed project. FEL further proposed to supply the gas at the basic price of $ 7.5[48] per MMBTU[49] with the assertion that it was not bound to observe the price decided by GoI and was free to fix the gas price on *'Arm's Length Basis'*. Thus, the gas price could not be fixed, however the Company executed (9 May 2012) Heads of Agreement (HOA) with GAIL for supply of 0.75 MMSCMD gas from the fields of FEL. Simultaneously, the Company sought (29 September 2011) detailed techno-commercial offer from BHEL for supply and erection, testing and commissioning (ETC) of main plant/equipments of the project. The BOD approved (14 February 2012) to award the work of supply and ETC of main plant to BHEL for ₹ 380.25 crore[50] and placed LOIs and work orders on BHEL in April 2012 and September 2012 respectively. However, the project could not be implemented due to non-availability of gas as the price for the same could not be finalized. (June 2018).

We noticed that the Company accepted supply of equipments *viz.* Gas Turbine, Gas Turbine Auxiliaries *etc.* worth ₹ 211.28 crore from BHEL up to July 2013. The Company deferred (October 2013) the remaining supplies from BHEL and no further supplies were accepted till June 2018. The Company released ₹ 107.41 crore to BHEL towards supply of plant/equipments up to June 2018 and several demands for payment of remaining amount (₹ 103.87 crore) were raised by BHEL. Besides, the Company incurred ₹ 90.64 crore towards interest of loan (₹ 87.89 crore[51]) and insurance of plant/equipments (₹ 2.75 crore) upto December 2017.

Audit is of the view that as a prudent business decision the Company should have finalized the contract for supply of gas at a viable rate before initiating the procurement process for plant/equipments. The gas was the most critical input required for the plant but the Company did not accord due priority to finalization of gas price. The Company could have avoided infructuous expenditure towards interest and insurance and also the blocking of funds in equipments purchased from BHEL which are lying idle for more than five years and could deteriorate with further passage of time.

The Company accepted (May 2018) the fact that execution of the HOA and awarding of contracts were done without finalising the gas price due to higher rates quoted by FEL. During subsequent negotiations, FEL offered (22 March 2016) reduced rate of $ 5.67 per MMBTU but the effective rate had increased due to substantial increase in exchange rates and variable cost was thus on a higher side. Later, ONGC and OIL offered (January 2018) to supply 0.40 MMSCMD gas at domestic/APM price ($ 3.21 per MMBTU) and remaining 0.55 MMSCMD gas to be procured from FEL ($ 5 per MMBTU). Thus, the overall variable cost worked out to ₹ 2.56 per kWH. The Company has

48 This offered price was applicable for initial two years which was to be revised after two years.
49 Metric Million British Thermal Unit
50 ₹ 336.38 crore for supply part and ₹ 43.87 crore for ETC part
51 Interest paid towards loan of ₹ 223.42 crore availed from PFC which was repaid in July 2017.

intimated (February 2018) these facts to Rajasthan Urja Vikas Nigam Limited for checking the feasibility of the power cost but the consent is awaited.

Subsequently, Government stated (June 2018) that audit objection is presumptive as no cost escalation has occurred so far. Further, there was power deficit in the State during 2010-12 which changed to power surplus at present. Resultantly, power is available from thermal/solar power plants at competitive and cheaper rates. In the present scenario, the project would be implemented only if the tariff is found competitive. The negotiations with the gas suppliers/transporter *viz.* ONGC, OIL, FEL and GAIL are under progress and early decision in this regard is expected. Thus, in view of quickly changing demand-supply situation it is not appropriate to question the decision to set up the plant.

The reply is not tenable as:

(i) Audit has not questioned the decision to set up the plant. Audit observation highlights the imprudent decision to start procurement of equipment without tying up the price of the most critical input and thus the resultant slow progress of implementation;

(ii) Audit has also not questioned any escalation in the cost of the project and the infructuous expenditure and blockage of funds are worked out on actual basis.

(iii) The argument about demand-supply being dynamic was a factor which the then decision makers had to keep in view while initiating the procurement of equipment/plant without tying up supply of gas.

(iv) The replies do not address the issue as to why the Heads of Agreement (HOA) with GAIL for supply of gas from the fields of FEL was finalized and the orders for plant/equipments from BHEL were placed without arriving at the gas-supply cost.

The fact, thus remains that the Company incurred infructuous expenditure of ₹ 90.64 crore towards interest and insurance besides idling of plant/equipment and blockage of funds amounting to ₹ 107.41 crore without firming up the primary source of fuel for the power plant.

Government reiterated (September 2018) its previous reply and accepted that the decision to start procurement of plant/equipment without tying up the price of gas was taken to bring the plant as soon as possible in view of acute shortage of power in the State. The present scenario of power demand has also been changed due to competitive prices and availability of cheaper power. It further stated that negotiations with the gas suppliers/transporter *viz.* ONGC, OIL, FEL and GAIL are under progress and early decision in this regard is expected. However, the fact remains that deficient planning resulted in infructuous expenditure besides affecting implementation of the project.

3.3 Non receipt of statutory charges due to absence of relevant clause in the coal supply agreements

The Company could not recover statutory charges of ₹ 52.66 crore from the Coal Supplying Companies due to absence of relevant clause in the coal supply agreements.

Rajasthan Rajya Vidyut Utpadan Nigam Limited (Company) entered into Coal Supply Agreements with Northern Coalfields Limited, Singrauli (July 2009) and South Eastern Coalfields Limited (August 2009) for supply of coal to its thermal power stations[52] for a period of 20 years from the effective date (1 April 2009). The Company had to make advance payment for each month in three instalments for availing coal supplies. The advance payments were to be made on the basis of **'As delivered Price of Coal' which consisted of Base Price[53], Other[54] Charges and Statutory[55] Charges.**

According to the Coal Supply Agreements, the Company was entitled for **credit on account of grade slippages to the extent of difference in the Base Price of declared[56] grade and analysed[57] grade of coal.** Thus, the Company was entitled to recover only differential ***Base Price*** in case the analysed grade was lower than the declared grade.

However, the Agreements did not provide for reimbursement of ***Statutory Charges*** on the differential *Base Price* which were included in the *'as delivered price'* for the declared grade of coal and paid by the Company at the time of advance payment.

We noticed (October/December 2017) that there were major grade slippages between declared and analysed grade of coal received by the Company. The declared grade was higher than the analysed grade and the Company was therefore entitled for credit on account of grade slippages.

Review of credit notes received by the Company on account of grade slippages during the period from December 2016 to June 2017 disclosed that the Coal Companies did not provide credit of statutory charges of ₹ 52.66 crore on the differential Base Price of declared and analysed grade of coal.

We observed that the Company could not recover the statutory charges due to absence of specific clause in the coal supply agreements as Coal Companies provided credit for grade slippages only to the extent of difference in the *Base Price* of declared grade and analysed grade of coal in accordance with coal supply agreements.

Government (Energy Department) accepted (January 2018) the facts and stated that the Coal Companies have been requested (November 2017) to refund the statutory charges on differential base price. However, in its subsequent reply, the Company stated (June 2018) that as per new Coal

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52 Kota Super Thermal Power Station and Suratgarh Super Thermal Power Station.

53 Base Price means cost of declared grade of coal produced by seller which includes landed cost of coal till the delivery point.

54 Transportation charges, sizing/crushing charges and rapid loading charges.

55 Royalty, contribution towards National Mineral Exploration Trust and District Mineral Foundation, Excise Duty, MP GATSVA/Sadak Vikas Kar, Central Sales Tax.

56 The grade/quality of coal of the seam/siding provisionally declared on the basis of seam sample and stock sample generated from the said seam before commencement of dispatch of coal.

57 The actual grade/quality of coal dispatched determined out after following the laid down procedure of sampling and analysis.

Distribution Policy issued by GoI in October 2007, coal supply to the consumers was required to take place only through legally enforceable bilateral fuel supply agreement (FSA), the model draft for which was finalised at the level of Ministry of Power, Ministry of Coal, CIL, CEA and NTPC. CIL directed that this model draft agreement was to be followed for coal supply to existing State/Government on power stations. Accordingly, the Company executed the above model FSA which only provided for credit on account of grade slippages to the extent of difference in base price.

The reply is not acceptable as the Company did not protect its interest by ensuring insertion of adequate clause in the coal supply agreements for credit of statutory dues also by taking up the matter with the higher authority at the time of finalisation of draft FSA.

3.4 Extra expenditure due to awarding the work of RWS without complying with the provisions of Mega Power Project Policy

The Company failed to comply with the provisions of the Mega Power Project policy and awarded the work of River Water System without adopting the mandatory International Competitive Bidding procedure, thus incurring extra expenditure of ₹ 29.39 crore.

The Ministry of Power, Government of India (MOP, GoI) issued (14 December 2009) revised Mega Power Project (MPP) policy for setting up mega power projects by modifying the existing policy guidelines (August 2006). The MPP policy, 2009 provided that:

- MPP would be required to tie up power supply to the distribution companies/ utilities through long term power purchase agreements (PPAs) in accordance with the National Electricity Policy 2005 and Tariff Policy 2006.
- There shall be no further requirement of International Competitive Bidding[58] (ICB) for procurement of equipment for MPPs where the requisite quantum of power had been tied up or the project had been awarded through tariff based competitive bidding[59]. In such cases, the requirements of ICB for the purpose of availing deemed export benefits under relevant chapter of the Foreign Trade Policy would be presumed to have been satisfied. In all other cases, ICB for procurement of equipment shall be mandatory.

Further, the notifications issued (17 March 2012) by the Ministry of Finance (MOF), GoI and Foreign Trade Policy (FTP) 2015-2020 also reiterated the same provisions stating that all items of machinery/equipment/components *etc.* supplied to MPP would be exempted from levy of excise and customs duty subject to adoption of tariff based competitive bidding in tie up of power or awarding of the work.

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58 The term stands invitation of bids/procurement of goods and works under the guidelines for procurement prescribed by the World Bank at international level *viz.* publishing the procurement notice followed by Invitation for Bids (IFB) in United Nations Development Business, communicating the IFB to embassies of all World Bank member countries and publishing the IFB in national newspapers with wide circulations *etc.*

59 The term stands for determination of tariff through adoption of transparent and competitive process of bidding in accordance with the norms/guidelines issued by the State/Central Government.

The MOP, GoI granted (6 January 2010) mega power status for 1320 MW (2X660 MW) Supercritical Thermal Power Project at Chhabra (STPP, Chhabra) of Rajasthan Rajya Vidyut Utpadan Nigam Limited (Company). The Company awarded (May 2013) the engineering, procurement and construction (EPC) contract for STPP, Chhabra to Larsen & Toubro (L&T) Limited through ICB route and availed all the fiscal benefits on the same.

Subsequently, the Company realised that it has further requirement of few equipments/systems *viz.* River Water System (RWS), Dozer, locomotives *etc.* for the project which were not covered under the EPC contract with L&T Limited. However, at this stage the Company (July 2014) invited tenders for the RWS through domestic competitive bidding[60]. The Company awarded (8 May 2015) the contract of RWS on turnkey basis in favour of Zuberi Engineering Company (ZEC) for ₹ 458.94 crore.

Audit observed that after considering the MPP status of the project, ZEC had reduced the price from ₹ 507.45 crore to ₹ 458.94 crore (*i.e.* reduction of ₹ 26.59 crore[61] towards exemption of taxes due to MPP status of the project, ₹ 21.07 crore towards impact of revised working of applicable service tax and ₹ 0.85 crore towards additional discount allowed by ZEC during negotiations). However, since the Company had failed to appreciate the requirements of tariff based competitive bidding as required under the MPP policy, the GOI notifications and the FTP 2015-20, at the time of award of subsequent tender, it awarded the work of RWS through domestic competitive bidding instead of ICB route.

The Company belatedly sought (April 2016) clarification from the MOP, GoI regarding availability of fiscal benefits under MPP policy for the equipments/ systems procured through domestic competitive bidding. The MOP reiterated (July 2016) the provisions of the MPP policy. Since the Company had failed to comply with the provisions of MPP policy, the Company was denied certificate required from Central Electricity Authority (CEA) as well as fiscal benefits envisaged under the MPP Policy. Meanwhile, the Company again requested (December 2016) the Joint Secretary, MOP to allow fiscal benefits for the RWS it was procuring, the reply from the MOP is awaited (June 2018).

Thus, the Company had to approve (August 2017) a further payment of ₹ 29.39[62] crore towards additional financial implications on account of the taxes applicable.

In response to audit query, the Government (Energy Department) stated (June 2018) that the work of RWS was not arranged through ICB considering MPP status of the project (STPP, Chhabra) and in view of the provision of the MPP policy as 100 *per cent* power of the project had been tied up with the Rajasthan DISCOMs. At a later stage, the MOP, GoI clarified (July 2016) the requirement of tariff based competitive bidding to tie up the quantum of power. Thus, there was no misinterpretation of MPP policy and the fiscal

60 The term stands for invitation of bids/procurement of goods and works by publishing the IFB at domestic/national level by publishing in national/regional newspapers with wide circulations.

61 Works Contract Tax (WCT) of ₹ 1.02 crore, Excise Duty (ED) of ₹ 25.05 crore and Central Sales Tax(CST) of ₹ 0.52 crore

62 Includes ₹ 26.59 crore towards aggregate impact of various taxes and ₹ 2.80 crore towards impact of such taxes for contingency works executed under the contract.

benefits could not be availed due to subsequent clarification issued by the MOP, GoI. The reply is not acceptable as:

(i) the notifications issued (17 March 2012) by the Ministry of Finance (MOF), GoI and the Foreign Trade Policy (FTP) 2015-2020 clearly provided that the equipment/components used in MPP would be exempted from excise and custom duty subject to adoption of tariff based competitive bidding in tie up of power;

(ii) the act of seeking clarification shows that the company was not clear about the MPP Policy provisions and it would have been prudent for the Company to satisfy itself about the availability of exemptions before awarding the contract for RWS.

The fact, thus remains that the Company did not properly examine the relevant provisions of MPP policy, GOI notifications and FTP which led to an extra expenditure of ₹ 29.39 crore.

Government reiterated (September 2018) its previous reply and stated that there was no misinterpretation of MPP policy and the fiscal benefits could not be availed due to subsequent clarification issued by the MOP, GoI. However, the reply was silent on the issue of ignoring provisions of GOI notifications and FTP 2015-2020 and seeking belated clarification about the availability of exemptions from the MOP, GoI. This indicates that the Company did not observe due diligence before awarding the work of RWS without adopting ICB route which led to extra expenditure by the Company.

Rajasthan Urja Vikas Nigam Limited

3.5 Avoidable excess payment of stamp duty

The Company did not take cognizance of the applicable rate of stamp duty and thus made excess payment of ₹ 1.18 crore. Further, the Company initiated the process of refund after expiry of the prescribed time period and hence was not able to obtain the refund from the Registration and Stamp Department.

Rajasthan Discoms Power Procurement Centre[63] (RDPPC) {presently Rajasthan Urja Vikas Nigam Limited (Company)} entered (9 October 2013) into agreements (Hypothecate cum deed of Hypothecation, hereinafter referred to as *Instrument*) with Coastal Gujarat Power Limited (seller) for securing the seller against the obligations due from the DISCOMs under Power Purchase Agreement signed in April 2007 and issued (9 October 2013) Letters of Credit (LoC) in its favour.

Audit noticed that as per Article 6(2) of the Rajasthan Stamps Act, 1998 (Stamps Act) the applicable rate of stamp duty on execution of these *Instruments* was 0.1 *per cent* of the amount mentioned in the letter of credit. The Company, however, failed to ascertain the applicable rate of stamp duty at

63 RDPPC was a unit of Jaipur Vidyut Vitran Nigam Limited up to December 2015. It was engaged in power trading activities on behalf of the three State electricity distribution companies (DISCOMs). The State Government incorporated (4 December 2015) a new company *i.e.* Rajasthan Urja Vikas Nigam Limited which acquired the functions of RDPPC.

the time of execution of *Instruments* and paid (October 2013) stamp duty at the rate of two *per cent* of the letter of credit resulting in avoidable excess payment of stamp duty of ₹ 1.18 crore as detailed in table below:

(Amount in ₹)

Name of DISCOM	**Amount mentioned in the Letter of Credit**	**Applicable stamp duty as per the Act @ 0.1 *per cent* plus ₹ 100 per case**	**Stamp duty paid by RDPPC @ two *per cent* plus ₹ 100 per case**	**Excess payment of stamp duty**
JVVNL	218251000	218351	4365120	4146769
AVVNL	218251000	218351	4365120	4146769
JdVVNL	185300000	185400	3706100	3520700
Total	**621802000**	**622102**	**12436340**	**11814238**

On being pointed out (September 2014) by Audit, the Chief Engineer (RDPPC) and Chairman Discoms sought (October 2014 and December 2014 respectively) refund of the excess duty paid from the Registration and Stamp Department after it was confirmed (October 2014) by the Additional District Magistrate (Stamp) that applicable rate of stamp duty was 0.1 *per cent*.

The Stamps Act (Section 61 to 63) allows a time period of six months from the date of execution of *Instrument* for seeking refund of stamp duty under various situations. Thus, the time period as allowed under the Stamps Act had expired by the time the Chief engineer (RDPPC) and Chairman DISCOMs requested the Registration and Stamp Department for refund.

Despite exchange of extensive correspondence by RDPPC, Chairman DISCOMs/Principal Secretary (Energy Department) and the Company with the Registration and Stamp Department and Finance (Revenue) Department of the State Government for refund of the excess duty paid, the claim was not accepted as it was submitted late.

Government (Energy Department) stated (June 2018) that excess payment of stamp duty was made inadvertently and the matter was under consideration of the Finance Department.

The fact, thus remained that the Company did not conduct due diligence in ascertaining the applicable rate of stamp duty at the time of execution of the *Instruments* resulting in avoidable excess payment of ₹ 1.18 crore.