



CHAPTER 2

Chapter 2

2. Compliance Audit Observations

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

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

2.1 Non- deposit of compounding charges

The Distribution companies delayed deposit of the compounding charges amounting to ₹ 52.40 crore collected from consumers in the State exchequer.

In exercise of the powers conferred under section 152(1) of the Electricity Act, 2003, the Distribution Companies (Discoms) i.e. Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL), Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMaKVVCL), Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (MPPaKVVCL) accepts a sum of money from the consumers who had committed or were suspected of having committed an offence of theft of electricity, for compounding of the offence. On payment of the compounding charges, no proceedings were to be instituted against such consumers.

As per Rule 7 of Chapter 2 of General Financial Rules 2017, all moneys received by or on behalf of Government either as dues of Government or for deposit, remittance or otherwise, shall be brought into Government Account without delay.

Audit observed that upto 31 March 2018, the field offices of Discoms on behalf of the State Government had collected compounding charges amounting to ₹ 52.40 crore¹ from the consumers or persons suspected of having committed an offence of theft of electricity and remitted the same to Company headquarters. However the finance wing of the Discoms for no reasons on record, did not deposit the same in Government Account (March 2018).

The Government replied (January 2019) that Discoms have been instructed (January 2019) to ensure deposition of compounding charges so collected to the Government Account. Subsequently, MPMaKVVCL replied (January 2020) that the Government adjusted (January 2020) the amount of compounding charges to be deposited by the Discoms against the subsidy receivable by the Discoms.

¹ MPPoKVVCL (Eastern Discom) = ₹ 5.16 crore, MPMaKVVCL (Central Discom) = ₹ 18.40 crore and MPPaKVVCL (Western Discom)= ₹ 28.84 crore.

Thus, the fact remains that on being pointed out by the Audit, the Department adjusted the compounding charges collected during the period 2006-07 to 2018-19 against subsidy receivable by the Discoms. However, system needs to be established to ensure regular and timely remittance of the compounding charges collected by the Discoms in Government Account.

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited

2.2 Non-recovery of dues from Contractor

Company's negligence in correct credit of mobilisation advance in appropriate BG account and non-levy of interest on mobilisation advance resulted in non-recovery of dues of ₹ 4.80 crore.

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (Company), Bhopal awarded (April 2012) the work of design, manufacture, pre-dispatch inspection, testing and supply of plant, material, storage, installation and commissioning of Supervisory Control and Data Acquisition (SCADA) equipment on turnkey basis for Bhopal and Gwalior Regions to M/s Easun Reyrolle Limited (Contractor), Bangalore at a cost of ₹ 83.57 crore. The contract was to be completed within 18 months from effective date (June 2012).

As per terms of the contract, the Company paid advances of ₹ 6.72 crore and ₹ 2.76 crore as mobilisation and material advance respectively against receipt of an irrevocable advance payment security in the form of Bank Guarantee² (BG): (Advance payment BG: ₹ 7.39 crore and Performance BG: ₹ 8.35 crore). As per the contract³, simple interest at the cash credit rate (17.25 per cent) was to be collected on such advance from the date of payment of advance till the date of recovery/ adjustment from the subsequent bills submitted by the contractor. Further, as per the condition⁴ in the proforma of Bank Guarantee that for any claim and payment under the guarantee to be made, the advances must have been received by the contractor in his specified account number⁵ of the specified bank and the branch. If the contractor abandoned the work, any extra cost incurred in executing the left-over work, was to be recovered from the former⁶.

Audit observed that the Company released the mobilisation advance in a different bank account⁷ of the contractor, other than that specified in the BG. As per the terms of the contract, this rendered the BG void for meeting any claims in case of default of the Contractor. Even at the time of various subsequent renewals/ amendments of the BG (September 2014, March 2015, September 2015, etc.), before the Company issued final termination order to

² BG valid uptill 31 March 2014.

³ Clause 22.1 of the contract award.

⁴ The condition was prescribed as per the format of advance payment security, as by and forming part of General Conditions of the Contract 13.3.2 of the Bid Document TS-355.

⁵ In this case account no. 910030049414113 at Bangalore, Axis bank of the contractor.

⁶ Clause 42.2.6 of General Conditions of Contract of the Bid document.

⁷ Account no. 910020050384455.

the Contractor (November 2015), no amendment to rectify the above mistake was made by the Company. The reason for not complying with the basic prerequisite of the conditional BG at the time of releasing the mobilisation advance, as well as at the times of various renewals of BG, even when a system of pre-audit exists in the Company, is not comprehensible. Further, the Company failed to levy and recover interest on mobilisation advance amounting to ₹ 3.79 crore from the running bills of the contractor with no reasons on record.

As the contractor could not execute the work as per milestone and timelines, the Deputy CGM (UP) terminated the contract in November 2015. Performance BG of ₹ 8.35 crore submitted by the contractor was forfeited by the Company. As per the assessment made (March 2018) by the Company through Chartered Accountants, dues worth ₹ 14.75 crore were recoverable (including the interest on mobilisation advance and after allowing various credits and encashment of Performance BG of ₹ 8.35 crore) from the contractor at the time of termination.

Government replied (October 2019) that the Company encashed (March 2018) ₹ 9.95 crore BG submitted by the contractor under another contract awarded by the Company. It was also replied that a writ petition has been filed (April 2018) in Hon'ble High Court of MP, Jabalpur against the Bank for encashment of BG of ₹ 7.39 crore. It further stated that it was a clerical error inadvertently committed and will not happen in future.

The reply is not found acceptable by Audit. The failure of the Company in releasing the mobilisation advance in a different account, other than which was specified in the BG, rendered the BG void and funds were, therefore, being released to the contractor without valid security. If it was a clerical error as stated, and passed undetected among all approving authorities, it is evident that the internal control system(s) are either weak or non-existent. The act of adjusting dues of one contract from the BG of another Contract does not absolve the Company from the negligence in protecting the financial interest of the Company in the instant case and has needlessly mired the Company in avoidable litigation. As on date (October 2019), an amount of ₹ 4.80 crore⁸ (balance) is still recoverable from the contractor.

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

2.3 Irregular release of permanent power connection

The Distribution companies, in contravention of provisions of Electricity Supply Code, extended permanent power connections for construction activities of Power plants, instead of temporary power connection, resulting in revenue loss of ₹ 24.77 crore.

In compliance to the Electricity Act 2003, Madhya Pradesh Electricity Regulatory Commission (MPERC) issued Madhya Pradesh Electricity Supply

⁸ ₹ 14.75 crore minus ₹ 9.95 crore.

Code, 2004/ 2013 (Supply Code) which was amended in October 2015. Supply Code requires that any person requiring power supply for purpose that is temporary in nature, for a period of less than one year/ two years shall apply for temporary power supply connection. Also, as per the tariff regulations issued by MPERC from time to time, the charges under the temporary connection were to be billed at 1.3 times⁹ of permanent connection tariff upto March 2018.

Audit observed (December 2018/ July 2019) that in contravention of the above provisions of the Supply Code 2004/ 2013, the Distribution Companies (Discoms) viz. Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Limited (MPPaKVVCL) and Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL) extended permanent HT connection as detailed below:

(₹ in crore)

Sl. No.	Name of the Discom	Name of the Power Plant	Date since permanent connection was released	Period of electricity bills provided by Discom	Amount of revenue loss due to charging lower tariff
1	MPPaKVVCL	Shree Singaji Thermal Power Project	October 2010	April 2012 to September 2018	4.35
2	MPPoKVVCL	Jhabua Power Limited, Seoni	June 2010	September 2013 to December 2018	3.09
3	MPPoKVVCL	Sasan Power Limited	November 2010	September 2013 to May 2015	3.01
4	MPPoKVVCL	Bina Power Supply Company, Limited	December 2009	December 2009 to April 2014	5.22
5	MPPoKVVCL	Moser Baer Power Madhya Pradesh Limited	October 2011	January 2012 to July 2014	2.72
6	MPPoKVVCL	Essar Power M.P. Limited, Kharahi Waidhan	July 2010	November 2011 to July 2013	1.32
7	MPPoKVVCL	Jai Prakash Power Venture Limited	January 2011	November 2011 to May 2015	5.06
Total					24.77

Government, while endorsing the reply of MPPaKVVCL (November 2019) replied in December, 2019 that:

- Till the first amendment (effective from 23.10.2015) in Supply Code 2013, there was no prohibition to grant permanent connection for construction purpose;
- Prior to this, Clause 4.43 of Supply Code 2013 (effective from 30.08.2013) only provides that temporary connection may be extended upto five years for construction purpose, however in this clause nothing is mentioned about grant of temporary connection for a period exceeding five years;
- The beneficiary through permanent connection is MP Power Generating Company Ltd (MPPGCL) which is the sister concern of MPPaKVVCL. Both the entities are wholly owned by Government of

⁹ 1.25 times w.e.f April 2018 onwards.

Madhya Pradesh. Hence, for Shree Singaji Thermal Power Project, the recovery is requested to restrict w.e.f 23.10.2015.

On the same lines, in respect of M/s Jhabua Power Limited, MPPoKVVCL replied (August 2019), that recovery is acceptable but only to the extent of ₹ 0.32 crore. It was also replied that action is being taken against the responsible officials for this wrong doing. For M/s Sasan Power Limited, no recovery is acceptable to the MPPoKVVCL as the consumer's connection was permanently disconnected on 31 May 2015 itself.

The above replies are not acceptable as:

- MPERC in its order (09.06.2015) clearly stipulated that the Distribution licensees had been allowed permanent connection for construction purpose which is not in line with the provisions of Supply Code 2004/ 2013 as the case may be.
- Further, it is also clarified that construction purpose is temporary in nature and is eligible for temporary power supply irrespective of the period of supply. Thus, the category of connection viz. permanent/ temporary is w.r.t. purpose of use not the time period of connection. However, none of the Discoms furnished (confirming reply of MPERC) any details of compliance made to the MPERC directions regarding furnishing the full details of permanent connections served for construction purposes, along with action taken against the responsible officers for such irregularities.
- MPPGCL is not the only beneficiary, as already pointed out by audit.
- In respect of M/s Sasan Power Limited, prior to disconnection, the revised Supply Code 2013 effective from 30.08.2013, clearly stipulated that for construction purpose of power plants, only temporary connection was to be extended, and amendment dated 23.10.2015 only reiterated that 'Under no circumstances, permanent connection be allowed for construction purposes'.

Thus, the Distribution companies extended undue benefit to these consumers by irregular release of cheaper permanent power connection for construction activities instead of temporary power connection, resulting in revenue loss of ₹ 24.77 crore to these Discoms.

