Chapter III

Performance Audit on Management of Regulatory Assets by Power sector State Public Sector Enterprises (SPSEs)

CHAPTER - III

POWER DEPARTMENT

3 Performance Audit on Management of Regulatory Assets by Power-sector State Public Sector Enterprises (SPSEs)

Executive Summary

Overview

The activities of power-sector SPSEs relate to generation, transmission, distribution and wheeling of electricity within the state of West Bengal. The West Bengal Power Development Corporation Limited (WBPDCL) and Durgapur Projects Limited (DPL) together operate six generating stations, while the West Bengal State Electricity Transmission Company Limited (WBSETCL) and West Bengal State Electricity Distribution Company Limited (WBSEDCL) are the State Transmission Utility (STU) and DISCOM, respectively. All four SPSEs are wholly owned by the Government of West Bengal (GoWB) and function under the aegis of the Department of Power (DoP). The core business of these SPSEs is rate-regulated, with the regulator being the West Bengal Electricity Regulatory Commission (WBERC), which determines the tariff for generation, supply, transmission and wheeling of electricity, within the State. A regulatory asset (RA) is an entity's right to recover fixed or determinable amounts of money towards incurred costs, as a result of the actual or expected actions of its regulator, under the applicable regulatory framework. As of 31 March 2022, the aggregate RAs of the four SPSEs were ₹ 26,788.86 crore.

Delay in submission of applications and consequential delays in issue of orders

Under section 64(3) of the Electricity Act 2003 and tariff regulation of WBERC, an application for determination of tariff for Annual Performance Review (APR) of SPSEs shall be submitted 120 days in advance of the effective date of the start of the tariff period and within November of the succeeding financial year, respectively.

Delays in the submission of applications by SPSEs ranged between 7 and 725 days, during 2017-22. These delays occurred mainly due to non-preparation of annual accounts in time. Further, 15 APR Orders (2014-20) of different SPSEs had been issued between February and July 2022, by WBERC, with significant delays, ranging between 125 days and 2,253 days.

Effect of operational performance on Regulatory Assets

Non-achievement of the targeted norms on various parameters of different generating stations of WBPDCL (period 2013-17) and DPL (period 2013-16) led to (a) excess consumption of fuel and procurement of power of ₹ 2,079.75 crore (WBPDCL: ₹ 1,741.11 crore and DPL: ₹ 338.64 crore), disallowed by WBERC and (b) in the same period, non-recovery of fixed costs of ₹ 1,217.46 crore and ₹ 661.21 crore, by WBPDCL and DPL, respectively, due to low Plant Availability Factor (PAF).

Partial recovery of costs relating to controllable items

WBERC, in its tariff regulations, segregated the items of cost into controllable and uncontrollable items. The chances of recovery of actual costs through tariffs are remote, if the excess costs incurred are under controllable items. It was observed that: **(a)** WBSEDCL failed to recover ₹ 84.16 crore on controllable items, *viz*. meter reading & billing distribution, collection and franchisee cost, during 2017-20 and **(b)** WBPDCL failed to recover ₹ 30.43 crore, on coal & ash handling and O&M charges (controllable items), for the period 2016-17 and **(c)** WBSETCL failed to recover ₹ 40.05 crore, on repairs, maintenance, administrative and general expenses (controllable items), during 2015-20.

Monthly variable cost adjustment not determined judiciously

Monthly Variable Cost Adjustment (MVCA), introduced by WBERC in April 2011, provided for determination of fuel and power purchase costs by licensees and realisation of the amounts from their consumers, through sale bills, to avoid accumulation of regulatory assets and ensure reasonable cash flow for distribution licensees. WBSEDCL had not revised the MVCA of 23 paise/unit, since July 2016. Due to consideration of the MVCA at 23 paise/unit, delays in submission of tariff applications and subsequent delays in tariff orders, for the years 2017-20, there was short collection of power purchase costs, amounting to ₹ 3,511.04 crore.

Adverse impact of excess interest burden

The excess interest burden adversely affected the financial health of SPSEs, as follows:

WBSEDCL: Negative working capital rose by 53 *per cent*; interest expenses and revenue deficit rose by 14 and 69 *per cent,* respectively, in 2022, compared to 2017.

WBPDCL: Short-term borrowings grew by 69 *per cent;* interest expenses rose by 92 *per cent,* with interest of ₹ 180.97 crore claimed on temporary borrowings taken from banks or financial institutions which add to cost thereby leading to increase in tariffs.

WBSETCL: Negative working capital rose by 25 *per cent;* borrowings and interest expenses rose by 8 *per cent*, each.

DPL : Loan swapped to low-cost interest rate for longer period, led to higher monthly interest outgo of ₹ 5.76 crore.

Effect on credit rating of the SPSEs

Ministry of Power, GoI, assigned (August 2022) to WBSEDCL, a credit rating of 'C' grade, which had declined from the earlier 'B^+' grade (October 2019). The loan policy circular of PFC and REC envisaged that the interest rates of loans taken by SPSEs having credit ratings of B and C, shall be higher by 25 bps and 50 bps, respectively, as compared to the interest rates of loans applicable to SPSEs of rating A. Out of ₹ 5,544 crore of project loan (31 March 2022), ₹ 3,918.77 crore (71 *per cent*) was taken from REC and PFC, with a repayment period of 12 to 20 years. Thus, due to decrease in the credit rating, from B to C grade, WBSEDCL would end up incurring higher interest expenses, in future.

Government's initiative to liquidate regulatory assets

To liquidate RAs and arrear power purchase costs, GoWB had released ₹ 4,563.16 crore, as grants-in-aid, to WBSEDCL (₹ 2,647.09 crore) and WBPDCL (₹ 1,916.07 crore), between October 2016 to May 2017. Further, GoWB also stated (July 2021) that the current scale of regulatory assets was so large that it was beyond its means to liquidate the same, as it had done before. Accordingly, WBERC was directed to expedite the process of annual performance review (APR) orders, to ensure complete recovery of actual costs incurred by the SPSEs and admitted by WBERC.

Recommendations

1. ***SPSEs should assess the quantum of regulatory assets strictly in line with applicable regulations and recognise them in their books of accounts in accordance with the relevant accounting standards.***
2. ***SPSEs should strive to strengthen its operational performance, to meet the laid down norms.***
3. ***WBERC should ensure that the provisions of the National Tariff Policy are followed, for fixing norms and finalising tariff/APR orders, to regulate the tariff properly and enable recovery of justifiable costs incurred by SPSEs.***
4. ***SPSEs should make efforts to improve their liquidity position, borrowing and credit profile.***

Overview of Department of Power

The activities of power sector State Public Sector Enterprises (SPSEs)[216] relate to generation, transmission, distribution and wheeling of electricity within the state of West Bengal, be it wholesale, bulk or retail. WBPDCL and DPL together operate six[217] generating stations, while WBSETCL and WBSEDCL are the State Transmission Utility (STU) and distribution company (DISCOM), respectively. All four SPSEs are wholly owned by the Government of West Bengal (GoWB) and function under the aegis of the Department of Power (DoP). WBSETCL and WBSEDCL were carved out from the erstwhile West Bengal State Electricity Board (WBSEB), under the West Bengal Power Sector Reforms Transfer Scheme 2007.

3.1 Introduction

The electricity sector operates in a rate-regulated environment, with the Central and State Electricity Regulatory Commissions (CERC/ SERCs) determining the rational and economic pricing of electricity. This pricing is based on recovery of all prudent costs and a rate of return to earn a reasonable surplus. However, SERCs often do not increase tariffs to match the increasing costs of DISCOMs,

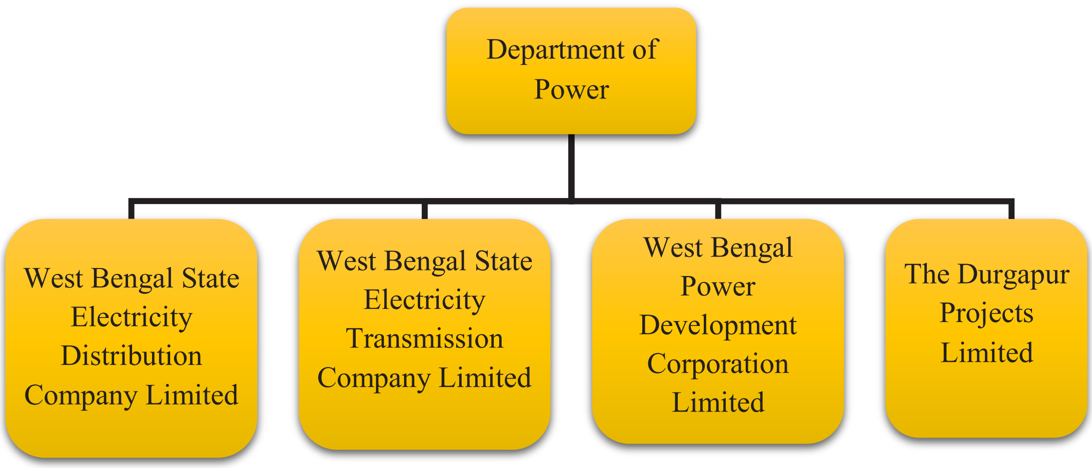
[216] *West Bengal Power Development Corporation Limited (WBPDCL), The Durgapur Projects Limited (DPL), West Bengal State Electricity Distribution Company Limited (WBSEDCL) and West Bengal State Electricity Transmission Company Limited (WBSETCL).*

[217] *WBPDCL has five generating stations, viz. Kolaghat Thermal Power Station (KTPS), Bandel Thermal Power Station (BTPS), Bakreswar Thermal Power Station (BkTPS), Sagardighi Thermal Power Station (SgTPS) and Santaldih Thermal Power Station (STPS) and there is one generating station of DPL.*

in order to shield consumers from tariff shock. These higher costs are either recognised by SERCs as regulatory assets, to be recovered through future tariff hikes or must be absorbed by the DISCOMs. A Regulatory asset is an entity's right to recover fixed or determinable amounts of money towards costs incurred, as a result of the actual or expected actions of its regulator, under the applicable regulatory framework.

The core business of these four SPSEs is regulated by the West Bengal Electricity Regulatory Commission (WBERC), constituted by GoWB in January 1999. According to Section 86 of the Electricity Act, 2003 (Act), WBERC shall, *inter alia,* determine the tariff for generation, supply, transmission and wheeling of electricity, within the State. Tariff includes FPPCA (fuel & power purchase cost adjustment)/FCA (fuel cost adjustment), Power Purchase Cost/Variable Cost, MFCA (monthly fuel cost adjustment)/ MVCA (monthly variable cost adjustment), APR (annual performance review), *etc* according to the applicable tariff regulations. The annual tariffs are to be notified in advance, by WBERC, before commencement of each financial year. These tariffs are subsequently reviewed through APRs and adjusted in future years. Accordingly, based on their understanding and interpretation of regulations and tariff/APR orders issued by WBERC, the SPSEs estimate the quantum of regulatory assets (RAs) /regulatory receivables (RRs) to be reflected in their financial statements every year. RAs/RRs arise due to the time lag between the submission of petitions, regarding FPPCA and APRs, by the SPSEs, to WBERC, and their acceptance, either in part or in full, by WBERC. As of 31 March 2022, the aggregate RAs/ RRs, of the four SPSEs, were ₹ 26,788.86 crore[218]. The rise in receivables led to stretching of the liquidity of these agencies.

3.2 Organisational Structure



The management of each SPSE is vested in its Board of Directors (BoD), comprising of Directors appointed by the Government of West Bengal (GoWB). The Chairman and Managing Directors (CMDs)/ Managing Directors (MDs) are the Chief Executives of these SPSEs.

[218] *West Bengal Power Development Corporation Limited - ₹ 7,764.48 crore, The Durgapur Projects Limited - ₹ 978.47 crore, West Bengal State Electricity Transmission Company Limited - ₹ (-) 284.26 crore, and West Bengal State Electricity Distribution Company Limited - ₹ 18,330.17 crore.*

The Regulation Cell/Wing and the Corporate Finance Wing are together responsible for the determination, management, realisation and presentation of regulatory assets.

3.3 Audit Objectives

The Performance Audit was conducted to ascertain:

- Whether the creation and recognition of regulatory assets was in line with extant policy/regulations *etc*.
- Whether the gap between tariff and costs was being minimised, leading to reduction of regulatory assets.
- Whether the creation and recognition of regulatory assets had impacted the performance of SPSEs.

3.4 Audit Scope and Methodology

The Performance Audit was conducted between July and September 2022. It covered the processes of creation, management and realisation of regulatory assets, as well as their presentation and disclosure, along with their impact on working capital/cash requirements, additional borrowings/ interest burden and credit ratings etc, during the period from financial year 2017-18 to financial year 2021-22. It was, however, noted that APR orders had been issued, by WBERC, upto financial year 2019-20, for WBSETCL and WBSEDCL; upto financial year 2016-17 for WBPDCL; and upto financial year 2015-16 only, for DPL.

The audit methodology involved: (i) scrutiny and verification of records maintained at the DoP, GoWB, Head Offices of the four SPSEs and WBERC (ii) review of Government directives and minutes of meetings of the BoD (iii) review of applications of tariffs, FPPCA, FCA, APR and review petitions of SPSEs (iv) examination of Orders of WBERC relating to tariffs, FPPCA, FCA, APR and review applications by SPSEs on the orders of the WBERC (v) verification of Reports and returns, submitted by SPSEs, to the Central Electricity Authority (CEA), DoP, GoWB and MoP, GoI (vi) issue of audit observations and (vii) interaction with the Managements of these SPSEs. An Entry Conference was held on 20 July 2022, wherein the audit objectives, audit criteria, scope and methodology of the Performance Audit, were discussed, with the DoP, GoWB and the Managements of the SPSEs.

The audit findings were discussed at an Exit Conference held on 25 November 2022. It was attended by the Additional Chief Secretary to the Government of West Bengal, Department of Power and the representatives of the SPSEs. Further, Exit Conference with WBERC was held on 28 December 2022. Replies were received from, WBSEDCL (January 2023/April 2023/ March 2024), WBSETCL (April 2023/January 2024)), WBPDCL (November 2022/December 2023), DPL (April 2023/January 2024) and WBERC (January 2023).

3.5 Audit Criteria

The audit criteria, adopted for assessing achievement of the audit objectives, were derived from the following:

- ✓ Electricity Act, 2003.
- ✓ Extant Tariff Regulations and related Regulations, issued by the Central Electricity Regulatory Commission (CERC) and WBERC.

- ✓ National Electricity Policy, 2005.
- ✓ National Tariff Policy, 2006 and 2016.
- ✓ Guidelines, instructions and directions of the Central Government, State Government and WBERC/ CERC.
- ✓ Orders and instructions issued by WBERC and Appellate Tribunal for Electricity (APTEL), against petitions submitted to them.

3.6 Acknowledgement

Audit acknowledges the co-operation of DoP and the SPSEs, in providing necessary records and information, in connection with the conduct of this Performance Audit.

3.7 Financial and Operational Performance

(A) Financial Performance

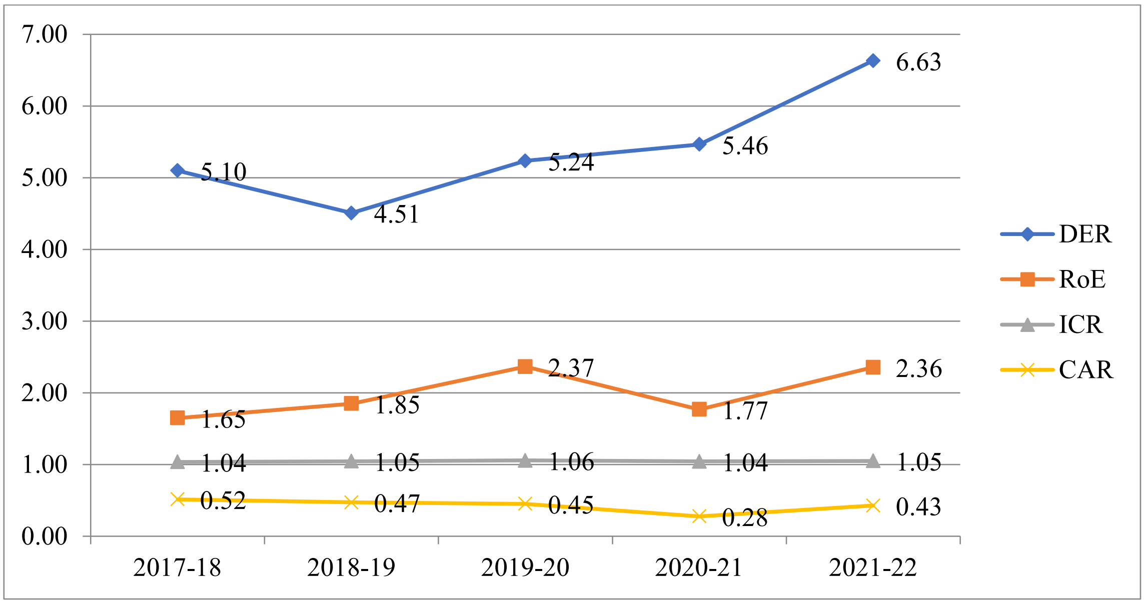
The summarised financial performance of SPSEs, for the last five financial years, up to financial year 2021-22 is shown in ***Appendix-19.*** The following were noticed in regard to the financial performances of the SPSEs, upto 31 March 2022:

WBSEDCL	✓ An amount of ₹ 18,330.17 crore (68 *per cent* of total RAs of SPSEs) had been booked as RAs, by WBSEDCL, as on 31 March 2022. ✓ Earned marginal profit during the last five years. ✓ The ratio of regulatory income to total income increased over the four years up to 2020-21 and reduced in 2021-22. ✓ The Statutory Auditors of the Company had opined (May 2022) that: *The recovery through Tariff Mechanism has not been commensurate with the revenue so booked resulting in the increasing amount of recoverable amount every year. Had this revenue not been booked, the financial position for the year would have resulted in loss. In view of the poor recoverability of such amount, the Company is increasing its borrowings, which may not be sustainable.* ✓ There were abnormal AT&C losses due to theft of electricity in some geographical locations, with more than 90 *per cent*; ✓ Unutilised state government funds and loans for long term projects had been deposited to cash credit account to reduce the outstanding balances thereof; ✓ Due to poor recoverability of regulatory assets by WBERC, WBSEDCL is increasing its borrowings; ✓ An amount of ₹ 1,346.52 crore is receivable from non-government debtors for more than 3 years against which security deposit held is only ₹ 97.40 crore; ✓ WBSEDCL has defaulted in payment of ₹ 1,173.00 crore against the Government Guaranteed Pension Trust Bond 2016, which was payable by 31 March 2022.
WBPDCL	✓ The Company had defaulted in repayment of loan of ₹ 620.72 crore, to GoWB as on 31 March 2022.
WBSETCL	✓ WBSETCL is a profit earning company, with revenues from operations having shown an increasing trend from ₹ 1,298.54 crore in financial year 2017-18 to ₹ 1,689.05 crore in financial year 2021-22.
DPL	✓ DPL is a loss incurring company. However, during financial year 2021-22, it achieved a marginal profit of ₹ 5.20 crore, mainly due to profit on sale of dismantled Coke Oven Group of plants and Unit 6 of DPL.

Chart 3.1 below shows the year-wise changes of Debt-Equity Ratio (DER)[219], Current Asset Ratio (CAR)[220], Return on Equity (RoE)[221], and Interest Coverage Ratio (ICR)[222] of these SPSEs, for the period from financial year 2017-18 to financial year 2021-22, indicating their financial performance.

Chart 3.1: Financial Performance of SPSEs

(a) WBSEDCL



(Source: Annual Reports)

- DER was between 4.51 and 6.63, during the period 2017-22, which exhibited WBSEDCL's dependence on borrowings.
- CAR (excluding regulatory assets from the total assets) was between 0.28 and 0.52 during the period 2017-22, which depicted the decreasing ability of WBSEDCL to pay off its current liabilities.
- RoE and ICR were stable and depicted WBSEDCL's adequate performance over the years.

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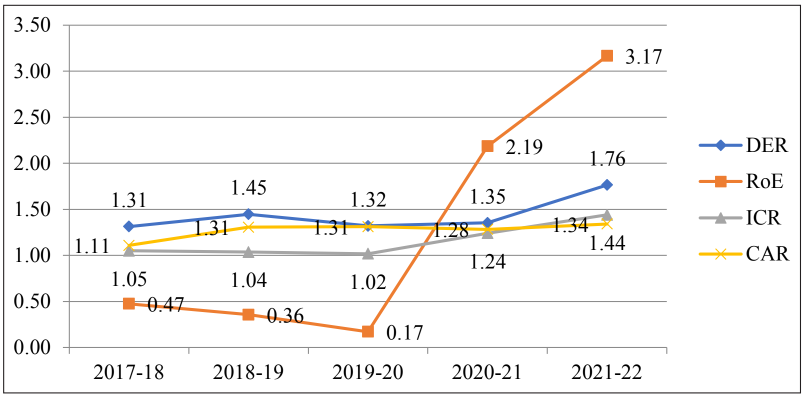
[219] *DER is a ratio that compares an SPSE's long-loan liabilities to its shareholders' equity. A higher DER means that a company has borrowed more.*

[220] *CAR is the ratio of current assets of a SPSE to its' current liabilities and indicates the SPSE's ability to pay off its liabilities, due within 12 months. A ratio of less than one, indicate the SPSE's inability to pay off its dues.*

[221] *RoE, generally expressed as a percentage, is the net income (i.e. net profit after taxes) divided by shareholders' funds. It is a measure of financial performance and assesses how effectively management is deploying shareholders' funds to earn profits.*

[222] *ICR of a SPSE is the ratio of earnings before interest and taxes (EBIT) to the interest expenses incurred in the same period. It shows the ability of a SPSE to pay interest on outstanding debt and the lower the ratio, the reduced is the ability of the SPSE to pay interest on debt. An interest coverage ratio below one indicates that the SPSE is not generating sufficient revenues to meet its expenses on interest.*

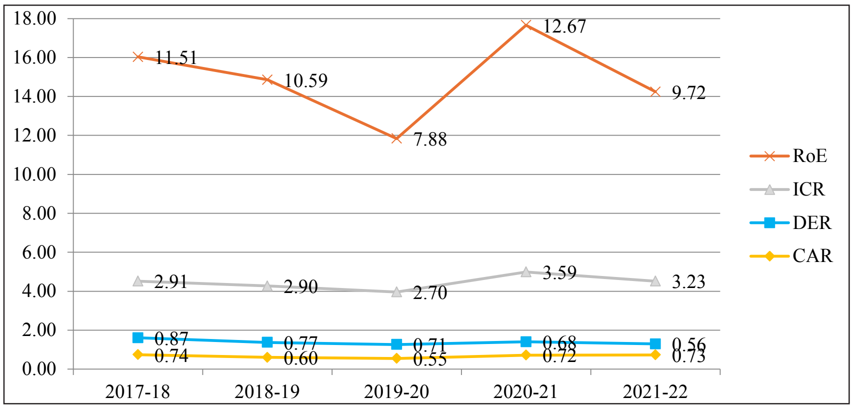
(b) WBPDCL



(Source: Annual Reports)

CAR, ICR and RoE showed an increasing trend during 2017-22, depicting improved performance of WBPDCL. DER was also under control and was within WBERC norm of 2.33 : 1 (i.e. debt : 70 *per cent* and equity : 30 *per cent*).

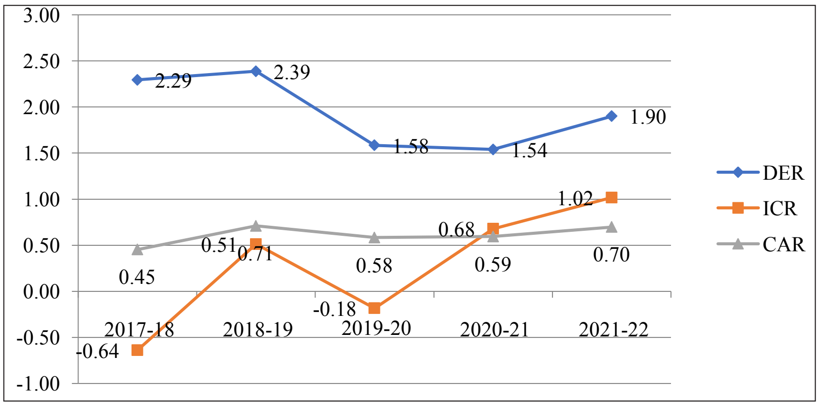
(c) WBSETCL



(Source: Annual Reports)

- ➢ DER was within the norm of 2.33:1. Further, CAR of less than one indicated that WBSETCL's current liabilities were higher than its current assets and could lead to shortage of working capital.
- ➢ ICR and RoE were on the higher side reflecting WBSETCL's ability to earn revenues and pay off interest on outstanding debts, as also profitably manage shareholders' funds.

(d) DPL



(Source: Annual Reports)

- CAR was between 0.45 and 0.70, indicating that DPL's current liabilities were higher than its current assets.
- ICR was negative in financial years 2017-18 and 2019-20 and below one in financial years 2018-19 and 2020-21, showing DPL's inability to pay off the interest due on outstanding debts. It improved only in financial year 2021-22.
- DER was stable and within the ideal norm.
- Since DPL had accumulated losses over the period, its shareholders fund was negative. Consequently, its RoE was not determinable, during the period 2017-22.

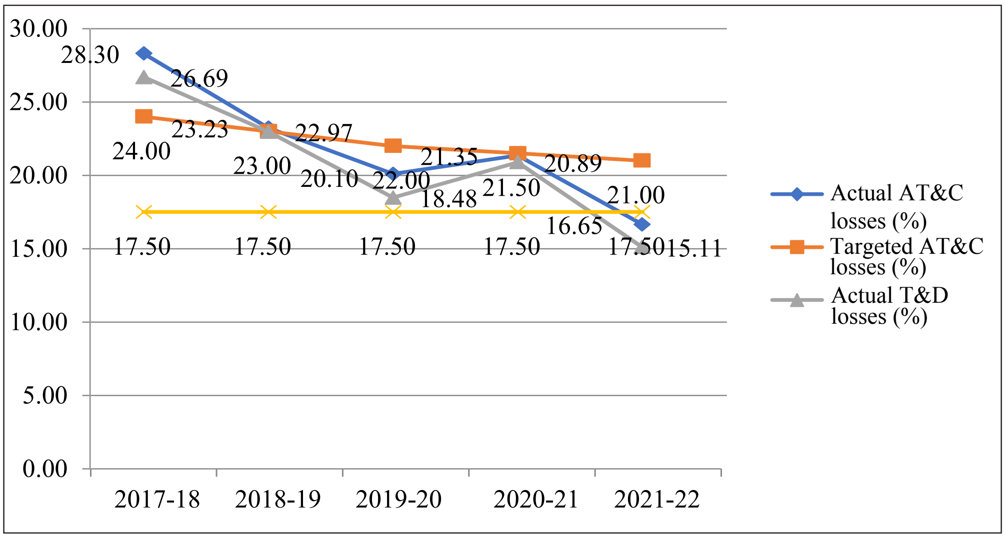
(B) Operational Performance

WBERC had fixed various norms in its Tariff Regulation to determine the tariff. These norms varied according to the activities of SPSEs. In case of DISCOMs (here WBSEDCL and the erstwhile distribution portion of DPL), the main indicators are AT&C[223] losses and T&D[224] losses. In case of Transmission Licensee (here WBSETCL), the main indicator is Transformation Capacity, Transmission Line and Energy flow in grid. In case of Generating Utility (here WBPDCL and DPL) main indicators are PAF[225], PLF[226] and APC/AEC[227].

The operational performances of the SPSEs, for the last five financial years up to financial year 2021-22 has been given in **Chart 3.2.**

Chart 3.2: Operational Performance of SPSEs

(a) WBSEDCL



(Source: Tariff Regulation/ Tariff order/ Annual Reports)

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[223] *Gap between the energy input and the energy for which revenue is actually realized from the consumers.*

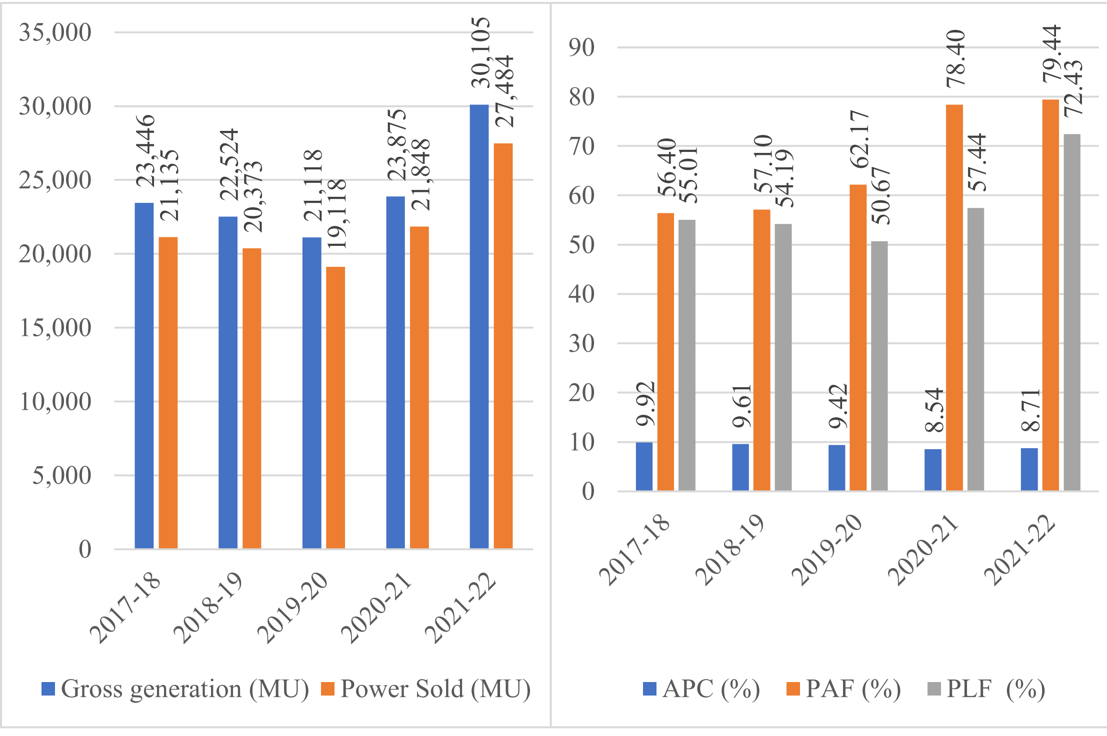
[224] *Gap between the energy input and the energy billed to the consumers.*

[225] *Plant Availability Factor (PAF) represents the availability of a generating station, to produce electricity in a given period.*

[226] *PLF means the total energy generated by a generating station, expressed as a percentage of energy, corresponding to the installed capacity of the station.*

[227] *Auxiliary Power/ Energy Consumption (APC/AEC) represents the power used internally by the generating station for running the equipment/common services.*

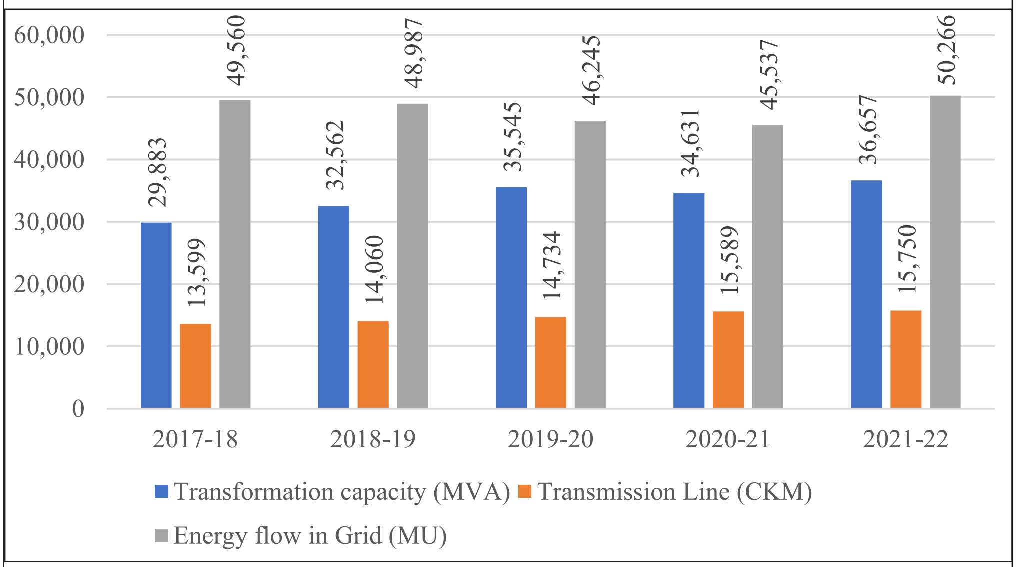
(b) WBPDCL



(c) DPL

(Source: Tariff Regulation/ Tariff order/ Annual Reports)

(d) WBSETCL



(Source: Tariff Regulation/ Tariff order/ Annual Reports)

It is evident from the above that:

- T&D losses have been higher than norms in four out of five years for WBSEDCL. As a result, WBSEDCL had to purchase power in excess of normative requirement to meet the losses arising from higher T&D losses. This had resulted in excess power purchase costs, which were disallowed by WBERC. AT&C losses were lowered during 2019-22.
- The APC/AEC of WBPDCL had reduced from 9.92 *per cent* (financial year 2017-18) to 8.71 *per cent* (financial year 2021-22), indicating improved performance.
- The PAF also had increased from 56.40 *per cent* (financial year 2017-18) to 79.44 *per cent* (financial year 2021-22) but remained lower than the normative performance (85 *per cent*) fixed by WBERC. The Plant Load Factor is the ratio of average energy supplied for a given time period, to the energy that could have been supplied at maximum loading condition, for the same time period. A generating plant, which runs on a low load factor, needs to burn more fuel, to maintain heat, to generate electricity at the rated voltage. The PLF had ranged between 50.67 *per cent* (financial year 2019-20) to 72.43 *per cent* (financial year 2021-22), indicating that the plants were running on partial load, leading to excess fuel consumption.
- The APC of DPL had reduced from 9.05 *per cent* (financial year 2017-18) to 8.95 *per cent* (financial year 2021-22), indicating improved performance. Further, lesser PAF (43 *per cent* to 71 *per cent*), resulted in under recovery of fixed costs. Again, poor PLF (41 *per cent* to 48 *per cent*) indicates that the plants were running on partial load, leading to excess fuel consumption.
- In case of WBSETCL, it was observed that the transformation capacity (MVA)[228] and transmission line (CKM)[229] had increased during 2017-22,

[228] *Mega Volt Amperes (1,000,000 volt amperes). It is the unit for measurement of transformation capacity.*

[229] *Circuit Kilometers (actual length of transmission lines). It is a unit for measurement of the length of transmission lines.*

while, the energy flow (Million Unit/MU) had marginally increased, from 2017-18 to 2021-22.

WBSETCL furnished (January 2024) figures for financial and operational performance based on its Annual Report for 2021-22, which have been incorporated.

The impact of under-performance of SPSEs is mentioned in ***Paragraph 3.10***.

3.8 Tariff policy and procedure

Government of India notified (January 2006) the National Tariff Policy (NTP), 2006, in compliance with Section 3 of the Electricity Act, 2003. A revised NTP was issued in January 2016. The objectives of the revised policy are, *inter alia*, to: (a) ensure availability of electricity to consumers at reasonable and competitive rates (b) ensure financial viability of the sector and attract investments (c) Promote transparency, consistency and predictability in regulatory approaches across jurisdictions and minimise perceptions of regulatory risks and (d) Promote competition, efficiency in operations and improvement in quality of supply.

Para 8.2.2 of the National Tariff Policy (NTP), 2006, *inter alia*, mentioned that the facility of regulatory assets had been adopted to limit the tariff impact in a particular year and was to be resorted to only as an exception, under natural causes or *force majeure* conditions. Moreover, recovery of Regulatory Assets was to be time-bound and non-repetitive. Further, Para 8.2.2 of the NTP, 2016, stipulated that no creation of Regulatory Assets would be allowed under 'business as usual' conditions and recovery of outstanding Regulatory Assets, along with the carrying cost of Regulatory Assets, needed to be time-bound and within a period not exceeding seven years.

Meanwhile, WBERC introduced[230] the Multi Year Tariff (MYT) in February 2007, whereby every generating company and licensee was to file applications for approval of ARRs (Annual Revenue Requirements)[231], with the WBERC, under the MYT framework, for the control period commencing from the financial year 2007-08. After completion of each financial year, every generating company and licensee was to file its FPPCA, FCA and APR applications, before WBERC, which was to pass orders against the said applications, for being accordingly implemented, through the ensuing tariff orders.

However, if WBERC was satisfied that:

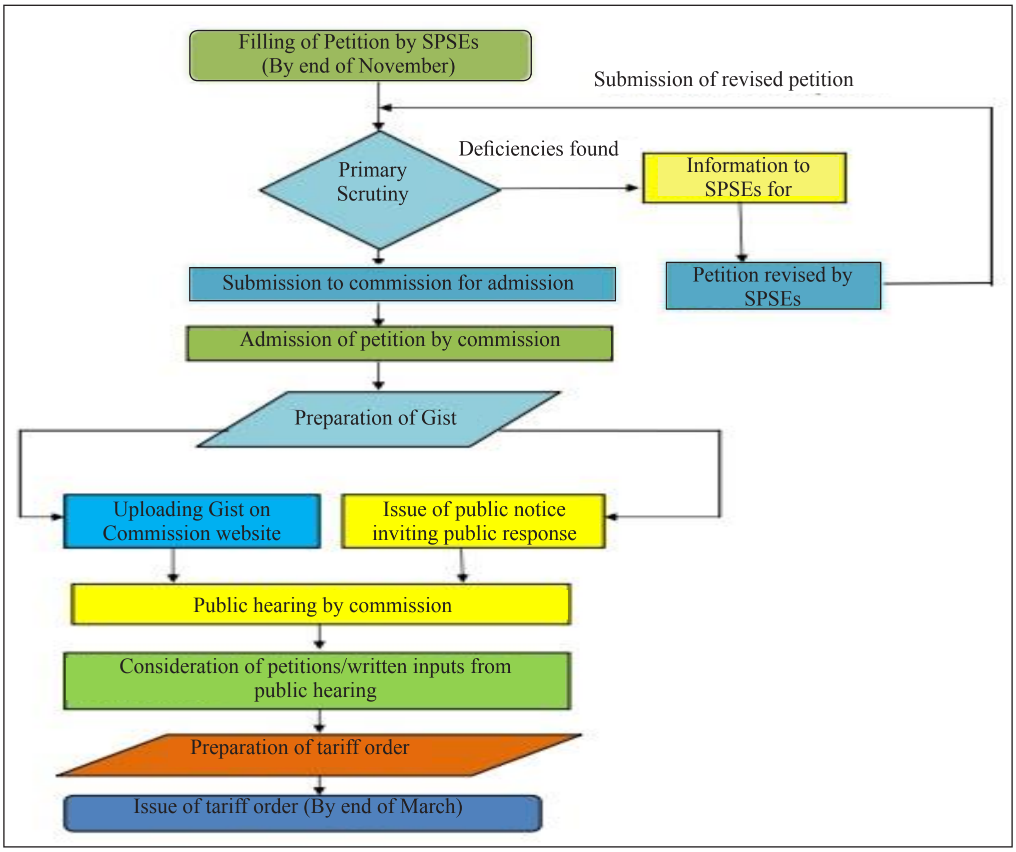
- a licensee would not be able to recover fully all the admissible costs at the tariff determined for a particular year(s) and
- one-time recovery of the entire revenue requirement of the licensee, in that particular year(s) for which tariff is being determined, will not be prudent, due to tariff shock to the consumers; then WBERC may make appropriate provisions in the tariff order, for regulatory assets, thereby allowing recovery of the shortfall through future tariffs. Where WBERC allows creation of a regulatory asset, it is required to reasonably stipulate the period of amortization and the specific roadmap of release of the said regulatory asset, along with the date by which the regulatory asset will be extinguished.

[230] *Para 2.5 of Regulation No. 31/WBERC dated 9 February 2007.*

[231] *ARR refers to the revenue required to be recovered by licensee, through tariff, from consumers.*

As per tariff regulation 2011, issued by WBERC, and Section 64(3) of the Electricity Act, 2003, there is a time schedule for submission of tariff proposals by SPSEs. A composite application, for determination of tariff under the Act, for the entire control period, is to be submitted 120 days in advance of the effective date of the start of the control period. Thus, the MYT applications for the control period are to be made before WBERC by the end of November of the base year of the control period. Further, APR applications are also to be submitted before WBERC, at the end of November of the succeeding financial year. A model time schedule, activities of SPSEs and WBERC relating to tariff proposals, and their rejection/acceptance, is shown in **Chart 3.3**.

Chart 3.3: Flow-chart of tariff/ APR proposals by SPSEs



(Source: Tariff regulations)

Flow chart above depicted the timeframe of tariff/APR application by SPSEs and order issued by WBERC. The delays in submission of APR application by SPSEs, reasons for delay and consequent delay in issue of APR orders of WBERC are discussed in ***Paragraph 3.9.2.***

Audit Findings

3.9 Audit Objective 1: Whether the creation and recognition of regulatory assets was in line with extant policy/ regulations, etc.

In compliance with the Electricity Act 2003, NTP 2006/2016 and WBERC's Terms of Tariff Regulations, 2011, SPSEs should file their tariff/APR/ FPPCA/ FCA applications, before WBERC, in time and exercise judgement in estimating such amounts, using past experience from the issued Tariff/APR orders, including interpretation of the regulations.

3.9.1 Accounting approach followed by SPSEs on creation and booking of regulatory assets

The Indian Accounting Standard (IND AS) 114 on 'Regulatory Deferral Accounts of rate regulated activities', stipulates the financial reporting requirements for regulatory deferral account balances[232]. Further, for Accounting Standards (AS) compliant entities, the Guidance Note on Accounting for Rate Regulated Activities, issued by the Institute of Chartered Accountants (ICAI) in February 2012, is to be followed.

Audit observed that the four SPSEs, *viz*. WBSEDCL, WBPDCL, DPL and WBSETCL, had adopted different accounting approaches, for dealing with regulatory assets & liabilities, in their books of accounts. The divergent approaches adopted by the SPSEs and their presentation in the annual accounts, are summarised below:

WBSEDCL	✓ WBSEDCL followed Ind AS 114, for accounting of RAs. ✓ RAs were shown under 'total assets', as debit balances under the 'Regulatory Deferral Account'. Net movement in the Regulatory Deferral Account Balance was shown in the profit & loss account. ✓ It booked 100% of its claim in the accounts and also claimed carrying-cost[233] on RAs.
WBPDCL	✓ WBPDCL followed Ind AS 114, for accounting of RAs. ✓ It showed receivables under 'Other Current Assets', as 'fuel cost recoverable' and 'fixed cost recoverable'. ✓ It booked 95% of its claim in the accounts and did not claim carrying cost on RAs.
WBSETCL	✓ WBSETCL followed Ind AS 114, for accounting of RAs. ✓ RAs were shown under 'Assets', as debit balances under the 'Regulatory Deferral Account'. Net movement in the Regulatory Deferral Account Balance was shown in the profit & loss account. ✓ It recognised RAs as and when APR orders were issued by WBERC and did not claim carrying cost on RAs.
DPL	✓ Ind AS is not applicable as the net worth is lower than ₹ 250 crore and DPL is not a listed company. Hence, Ind AS has not been adopted. In audited Accounts, DPL shows "Regulatory Assets" under "Other Current Assets" which include both fuel cost & fixed cost, but not shown separately.

Thus, there was an evident lack of uniformity, in the accounting approaches adopted by the SPSEs, in regard to creation and booking of RAs/RRs.

WBPDCL in its reply (November 2022) accepted the audit observation and stated that FCA and APR orders are yet to be passed by the WBERC for 2017-18 onwards. Further, the orders passed before 2017-18 were contested by WBPDCL so RAs were not recognised under regulatory deferral account balances of financial statements.

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232 *The regulatory deferral account balances are the balances of regulatory assets or regulatory liabilities for an entity, as a result of the actual or expected actions of its regulator, under the applicable regulatory framework. While a regulatory asset is an entity's right to recover fixed or determinable amounts of money towards incurred costs, a regulatory liability is an entity's obligation to refund or adjust fixed or determinable amounts of money.*

233 *Carrying cost means the interest cost on regulatory assets, to be recoverable from the date of recognition to the actual date of recovery, to avoid the problem of cash flow of DISCOMs.*

WBSEDCL stated that WBSEDCL had followed Ind AS-114 for accounting of Regulatory Assets.

3.9.2 Submission of applications to WBERC

As per Section 96(1) of the Companies Act, 2013, the financial statements of a Company, for every financial year, are required to be finalised within six months from the end of the relevant financial year *i.e.* by end of September. Thus, it is reasonably expected that a company would submit its financial statements positively by the end of June of the next financial year. Delay in submission of Annual Accounts affects submission of APR petitions.

Audit observed that, during 2017-22, all four SPSEs had submitted their annual accounts with delays ranging from 18 to 154 days ***(Appendix –20)***. Such delays affected submission of APR petitions and delayed submission of APR petitions could be expected to adversely affect the financial health of the Companies concerned.

As per tariff regulation 2011, issued by WBERC, and Section 64(3) of the Electricity Act, 2003, a composite application, for determination of tariff under the Act, for the entire control period, is to be submitted 120 days in advance of the effective date of the start of the control period. Further, WBERC directed (March 2015) that, in future, any delay in submission of applications beyond the scheduled period, would result in not providing any increase in tariff for an equal number of days and, thus, any under-recovery will not be passed, while truing up of APR and or FPPCA orders.

Audit also observed that the SPSEs had failed to adhere to the time schedule for filing the APRs before WBERC. Belated submission of APR applications ranged between 7[234] and 725[235] days ***(Appendix-21)***. These delays occurred mainly due to non-preparation of annual accounts in time.

WBPDCL in its reply (November 2022) accepted the audit observation and stated that there was teething problem faced during 2017-19 due to implementation of SAP_ERP. Further, due to pandemic COVID situation, there were delays in finalisation of accounts occurred during 2019-21. Delayed period for the year 2021-22 had been minimised and assured to complete the accounts for the year 2022-23 within time.

In reply (January 2023/ March 2024) WBSEDCL accepted that it had not submitted its' APR applications for the financial year 2017-18 to 2019-20 before 30 November of next financial year but the same were submitted within the extended time period allowed by WBERC.

In reply (April 2023) WBSETCL accepted that there was delay in submission of Annual Accounts and in filing of APR applications, mainly due to restriction imposed for COVID 19.

In further reply, WBSETCL accepted (January 2024) that APR application for the years 2017-18, 2018-19 and 2019-20 were not submitted within scheduled time i.e before 30 November of next financial year. It further stated that APR application for the year 2017-18 was submitted within the extended time period

[234] *APR application for the financial year 2017-18 was submitted by WBSEDCL on 7 December 2018.*

[235] *APR application for the financial year 2018-19 was submitted by WBPDCL on 24 November 2021.*

allowed by WBERC and with delay of five days for the years 2018-19 and 2019-20 from the extended time period.

The reply had to be seen in light of the fact that submission of APR petition beyond scheduled time affected timely issue of APR Order and Tariff Order by WBERC.

3.9.3 Treatment of regulatory assets in Accounts

As per para 3.11.2 of WBERC Tariff Regulation, 2011, the Commission must satisfy itself about necessity of creation of a regulatory asset on the basis of a prayer from a licensee before issuing any direction for creation of such an asset.

WBERC pointed out (September 2014) overstatement of regulatory assets, amounting to ₹ 3,143.34 crore[236], in the book of accounts of WBSEDCL, for the financial year 2012-13. Again, in financial year 2013-14, there was additional accumulation of regulatory assets, amounting to ₹ 2,762.67 crore[237]. WBERC also pointed out that it had not allowed any amount of regulatory assets, in respect of WBSEDCL, for the financial year 2013-14. WBERC also did not agree with the treatment of amount (₹ 5,906.01 crore) as regulatory assets reflected in annual accounts of WBSEDCL, for the financial years 2012-13 and 2013-14.

Further, against booking of regulatory assets amounting to ₹ 18,330.17 crore by WBSEDCL, as of 31 March 2022, WBERC admitted ₹ 4,021.74 crore[238] and adjusted the same with the ARR/Tariff orders for the financial years 2020-21 and 2021-22. Thereafter, APR orders of WBSEDCL, for the financial years 2018-19 and 2019-20, were issued by WBERC in July 2022. An amount of ₹ 3,219.37 crore[239] was also admitted by WBERC, out of which, ₹ 3,111.78 crore[240] was adjusted with the ARR/Tariff, for the financial year 2022-23, from the consumers. Thus, according to WBERC, a balance amount of ₹ 107.59 crore[241], of regulatory assets as on 28 July 2022, was to be recovered/ adjusted from consumers, in the ensuing tariff years.

Para 8.2.2 of NTP, 2016, stipulates that creation of regulatory assets would not be allowed under 'business as usual' conditions. Despite this, WBSEDCL continuously booked regulatory assets in its annual accounts, without approval of WBERC, with the amount of regulatory assets standing at ₹ 18,330.17 crore, as on 31 March 2022, shown as being recoverable since financial year 2013-14 onwards.

In reply (January 2023), WBSEDCL stated that as per their accounting policy, it had recognised income realisable through regulatory mechanism in absence

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[236] *Total regulatory assets were shown as ₹ 6,132.65 crore, whereas the APR Order of WBERC, for the financial year 2012-13, had shown the same as ₹ 2,989.31 crore.*

[237] *Difference of regulatory assets between ₹ 8,895.32 crore (as on 31 March 2014) and ₹ 6,132.65 crore (as on 31 March 2013).*

[238] *₹ 1,696.02 crore in financial year 2020-21 and ₹ 2,325.70 crore in financial year 2021-22.*

[239] *₹ 61.83 crore as balance APR adjustment for financial year 2017-18, ₹ 1,256.19 crore as APR adjustment for financial year 2018-19 and ₹ 1,901.35 crore as APR adjustment for financial year 2019-20.*

[240] *₹ 61.83 crore as balance APR adjustment for financial year 2017-18, ₹ 1,256.19 crore as APR adjustment for financial year 2018-19 and ₹ 1,793.76 crore as part APR adjustment for financial year 2019-20.*

[241] *₹ 3,219.37 crore – ₹ 3,111.78 crore.*

of any guideline, issued by WBERC. Moreover, the amounts for each financial year would not match as there was difference in timing recognition of RAs between WBSEDCL and WBERC.

The reply is not acceptable on the ground that as per tariff regulations 2011/2013 of WBERC, until and unless regulatory assets were recognised by WBERC, they cannot be accounted for.

3.9.4 Timeliness in issue of APR Orders

As per the Electricity Act, 2003 and tariff regulations, WBERC is required to issue the APR applicable to one financial year, by 31 March of the subsequent financial year. DoP, GoWB, reviewed (July 2021) the performance of SPSEs and noticed that there were various APR applications pending before WBERC. Due to this, the RAs/RRs of SPSEs were mounting up. Thus, DoP, GoWB, had directed (July 2021) WBERC, under section 108 of the Electricity Act, 2003, to dispose the pending tariff, APR, FPPCA and FCA applications, within a period of three months and thereby complete the truing up process.

Audit observed that, consequent to directions received by WBERC, from GoWB, out of 23, fifteen APR Orders, for the financial years 2014-15 to 2019-20, of different SPSEs were issued between February and July 2022, with significant delays, ranging between 125 days and 2,253 days ***(Appendix-22)*.**

In reply (July 2022/January 2023), WBERC admitted the delay and stated that the settlement of applications of SPSEs is a long drawn procedure, requiring several clarifications. It also stated that the pandemic situation, over the last two years, had also resulted in delays in issuance of orders, adding that WBERC had taken special efforts to clear the backlog applications of SPSEs.

WBERC's reply is not tenable, in view of the fact that the pandemic situation had commenced in India from March 2020 onwards. Out of 15 APR orders issued by WBERC as stated above, applications for 11 APRs had been received before the commencement of the pandemic (***Appendix-22***). These 11 APR applications of SPSEs, pertaining to the financial years 2014-15 to 2017-18, were issued with delays ranging between 1,075 to 2,253 days.

3.9.5 Updation of tariff regulations in line with CERC

CERC frames tariff regulations, in pursuance of Section 3(1) of the Electricity Act, 2003. Further, State Electricity Regulatory Commissions (SERC, herein WBERC) are to be guided by the principles and methodologies specified by CERC, in determination of tariffs applicable to generating and transmission companies. Accordingly, in exercise of the power conferred under Section 178 of the Electricity Act, 2003, CERC framed tariff regulations, which came into force for five years from the date of their commencement. The present tariff regulations of CERC are valid for the period 2019-2024. However, WBERC had framed its tariff regulations in 2007, which were substituted in 2011. Thereafter, new/modified tariff regulations were not issued by WBERC. Instead, amendments[242] were made, from time to time.

[242] *Modified in August 2012 (Regulation 49), July 2013 (Regulation 54) and January 2020 (Regulation 65).*

CERC, in its tariff regulation 2014 (February 2014), introduced the methodology of calculation of energy charges of a generating company, by adopting the gross calorific value (GCV)[243] of coal on receipt basis, *i.e.* after joint sampling by the coal supplier and the generating company, for declaring the actual grade of coal receipt, at the thermal generating station. WBERC, however, determined the energy charges by using the heat value of coal on Useful Heat Value (UHV)[244] basis, *i.e.* the minimum UHV of each notified grade of coal. On scrutiny of the FCA claim, coal bill register and FCA order of the WBERC, it was observed that the UHV values of all grades of coal, were less than the GCV of coal. WBERC adopted the methodology[245] of determination of energy charges (by using GCV of coal on receipt basis, as adopted by CERC) after six years and amended[246] the tariff regulation accordingly. Since GCV is higher than the UHV of coal, adoption of the formula based on GCV implies that lesser quantity coal[247] is required to generate the same quantum of energy. The impact of belated implementation of CERC's methodology by WBERC led to burden of excess fuel cost of ₹ 815.78 crore on consumers for 2016-17 i.e. 34 *paise*/unit as follows in **Table 3.1** below:

Table 3.1: Extra coal cost passed on to consumers

Generating station	Calorific value of coal, in terms of UHV, as determined by WBERC (kCal/kg)	Calorific value of coal, in terms of GCV, as calculated by Audit (kCal/kg)	Coal required to produce the annual generation determined by WBERC (MT)	Coal required on the basis of GCV, as determined by Audit (MT)	Excess coal allowed (MT)	Average price of coal (₹ /MT)	Extra cost passed on to consumers (₹ in crore)
(1)	(2)	(3)	(4)	(5)	6 =(4-5)	(7)	8 = (6 x 7)/ 1,00,00,000
KTPS	3,193.70	3,957.58	50,07,274	40,40,785	9,66,489	3,314.24	320.32
BkTPS	3,880.03	4,419.33	44,54,160	39,10,610	5,43,548	3,658.76	198.87
BTPS	3,802.13	4,512.67	13,26,860	11,17,940	2,08,920	4,246.24	88.71
STPS	3,902.68	4,051.69	23,01,746	22,17,095	84,652	3,378.19	28.60
SgTPS-I	3,889.89	4,583.00	22,07,116	18,73,323	3,33,793	4,278.01	142.80
SgTPS-II	4,098.76	4,737.90	6,13,468	5,30,711	82,756	4,408.47	36.48
Total			**1,59,10,625**	**1,36,90,464**	**22,20,160**		**815.78**

(Source: Annual Accounts, APR Application and APR order)

Thus, by not amending the tariff regulation, in line with CERC's tariff regulations, in time, as stipulated in the Electricity Act, 2003, WBERC allowed excess coal cost of ₹ 815.78 crore, to WBPDCL, for the financial year 2016-17, which, in turn, led to additional tariff burden to consumers.

[243] *The heat produced in kilocalories (kCal) by complete combustion of one kilogram of coal.*

[244] *Established heat value of fuel, based on the weighted average of the actual quantum of fuel received.*

[245] *GCV for computation of energy charges should be done considering the weighted average 'GCV of coal as received basis', less 120 kCal, on account of variation during storage at generating stations.*

[246] *Vide Regulation 65 dated 21 January 2020 and effected from 1 April 2020 onwards.*

[247] *Total heat (kCal) required from coal to generate energy /weighted average heat value of coal (kCal).*

WBERC, in reply (January 2023) stated that as per Tariff Regulations, 2011, the calculation of fuel cost was on UHV basis. This was amended to GCV in January 2020 in line with CERC Tariff Regulations 2014 (February 2014) wherein calculation of fuel cost was on GCV of coal on receipt basis.

The reply of WBERC was an admission of the undue time taken to amend the regulations. Had the amendment been effected timely, tariff burden on consumers would have decreased by 34 paise/unit[248] in 2016-17.

WBPDCL stated (December 2023) that the State Commission has all the powers and authority to determine the tariff and govern other businesses of WBPDCL as laid down in the said Act.

Reply of WBPDCL did not address the issue of lack of timeliness in amending the tariff regulations by WBERC. Further, WBERC is to be guided by the principles and methodologies specified by CERC, in determination of tariffs applicable to generating and transmission companies. However, with respect to the CERC Tariff Regulations 2014 issued/notified in February 2014, WBERC had belatedly amended its Regulations in January 2020 for calculation of fuel cost, resulting in excess coal cost being allowed by WBERC.

Recommendation 1:

SPSEs should assess the quantum of regulatory assets strictly in line with applicable regulations and recognise them in their books of accounts in accordance with the relevant accounting standards.

3.10 Audit Objective 2: Whether the gap between tariff and costs was being minimised, leading to reduction of regulatory assets.

As per the report of NITI Aayog, GoI (August 2021), most of the power distribution companies in India (DISCOMs) were incurring losses every year, with the quantum of losses having risen to ₹ 90,000 crore in 2021. Due to these accumulated losses, DISCOMS were unable to: (a) pay for generators on time (b) supply high quality uninterrupted power to their consumers (c) build infrastructure, due to lack of funds and (d) meet renewable power obligations, for supplying pollution free renewable energy (since the initial cost of setting up of renewable generating stations and rate of power is high).

Towards improving the situation, a number of Central Government schemes, *viz*. Ujwal DISCOM Assurance Yojana (UDAY), Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS), had been launched over the years, to: (a) provide electricity 24 x 7, (b) reduce AT&C losses up to 15 *per cent* (c) increase the collection and billing efficiency of the DISCOMS (d) build infrastructure for supplying quality power, in the rural and urban areas in the country and (e) reduce the gap (zero) between the average cost of supply and the average tariff of electricity per unit.

[248] *(₹ 815.78 crore/24,290.287 MU) x 10.*

3.10.1 Decisions affecting efficiency parameters

(A) Excess power purchase cost allowed by WBERC

Para 5.11 of NTP, 2016[249] *inter alia*, lays down the framework for performance based cost of service regulation, with regard to aspects common to generation, transmission and distribution. Except for the cases referred to in para 5.11(h)(2)[250], the operating parameters in tariffs should be at "normative levels".

As per Schedule 9J of WBERC Tariff Regulations, 2011, the norm for distribution losses is 17.50 *per cent*. As per amendment (July 2013) to the tariff regulations, for excess distribution losses beyond the normative distribution losses, the disallowance on account of excess power purchase costs, due to distribution losses exceeding the norms for distribution losses will be limited to an amount equal to the sum of return on equity (ROE) and the net UI[251] (unscheduled interchange) receivable amount.

As observed from the FPPCA order for WBSEDCL, for the financial year 2017-18, issued by WBERC on 16 March 2022, the actual distribution loss of WBSEDCL, for the financial year 2017-18 was 26.69 *per cent,* against the normative distribution loss of 17.50 *per cent*. The excess power purchase cost, due to excess distribution loss, was ₹ 1,451.33 crore. However, WBERC restricted the disallowance to ₹ 372.36 crore, which was equal to the ROE of financial year 2017-18. This action was not in consonance, with NTP, 2016, which aimed at progressively reflecting increased efficiencies. Similarly, in the APR Order of WBSEDCL, for the financial year 2018-19, against the excess power purchase cost of ₹ 982.23 crore, WBERC restricted the disallowance to ₹ 372.36 crore, which was equal to the ROE of financial year 2018-19.

As per NTP 2016, the amount of disallowance due to T&D loss in excess of norms, for the years 2017-18 and 2018-19, should be ₹ 2,433.56 crore (₹ 1,451.33 crore + ₹ 982.23 crore). However, as per the WBERC tariff regulations 2011/2013, WBERC disallowed only ₹ 744.72 crore (₹ 372.36 crore + ₹ 372.36 crore). Thus, the amount disallowed fell short by ₹ 1,688.84 crore (₹ 2,433.56 crore – ₹ 744.72 crore), and an amount of ₹ 1,688.84 crore[252], representing excess power purchase costs, was passed on to consumers, by not adhering to NTP 2016.

WBERC, in reply (January 2023) stated that excess power purchase cost was disallowed over normative distribution loss, as per provision in the Tariff Regulations, 2011, as amended in July 2013.

The reply of WBERC did not address the fact that WBERC had benchmarked (April 2011) distribution losses at 17.50 *per cent*. Moreover, according to NTP 2016, where prevailing operations were much below the norms, initially the revenue requirement should be determined at "relaxed" levels, but WBERC had continued with the existing norm for distribution losses. Besides, WBERC's

[249] *Para 5.3 (f) of the erstwhile National Tariff Policy, 2006.*

[250] *Para 5.3 (h)(2) of the erstwhile National Tariff Policy, 2006.*

[251] *UI is the mechanism developed to improve grid efficiency, grid discipline, accountability and responsibility, by imposing charges on those who defer from their scheduled generation or drawal.*

[252] ₹ *{(1,451.33 + 982.23) – (372.36+372.36)}.*

regulation was in deviation of the NTP 2016, which stated that proven inefficiency needed to be penalised. However, WBERC restricted disallowance of excess power purchase cost (₹ 744.72 crore) to the aggregate of RoE and net UI charges, instead of the entire amount (₹ 2,433.56 crore)[253] arising from distribution loss in excess of 17.50 *per cent*. Consequently, WBERC had burdened consumers with ₹ 1,688.84 crore, by admitting WBSEDCL's inefficiency, contrary to the NTP 2016.

(B) Injudicious fixation of operating norms for SgTPS Stage-II units

CERC frames tariff regulations, in pursuance of Section 3(1) of the Electricity Act, 2003. Further, State Electricity Regulatory Commissions (SERC, herein WBERC) are to be guided by the principles and methodologies specified by CERC, in determination of tariffs applicable to generating and transmission companies.

Audit observed that while fixing the operating norms of Sagardighi Thermal Power Station (SgTPS), units III and IV (SgTPS stage-II) by WBERC, different norms were applicable for varying periods of time. The details are shown in **Table 3.2** below:

Table 3.2: Operating norms for Sagardighi TPS

Operating Norms	Fixed by WBERC in July 2013	Fixed by WBERC in July 2017 (on the basis of CERC Tariff regulations, 2014)	Fixed by WBERC in July 2021(on the basis of review applications of WBPDCL)
AEC (in percentage)	9.00	5.25	9.00
Station Heat Rate[254] SHR (kCal/kwh)	2,276	2,276	2,424

(Source: Tariff Regulation, Tariff order, APR order and other order)

It is evident from the above that-

- o Based on the amended (July 2013) tariff regulations, WBERC had fixed the operating norms (AEC – 9 *per cent* and SHR – 2,276 kCal/kwh) of the Sagardighi Thermal Power Station (SgTPS), units III and IV (SgTPS stage-II). These two units, with a capacity of 500 MW each, had commenced commercial operations from July 2016 and December 2016 onwards, respectively.
- o WBERC fixed (July 2017) the operating norms of SgTPS Stage II, *viz*. AEC and SHR were fixed as 5.25 *per cent* and 2,276 kCal/kwh, respectively. This was at par with the CERC Tariff Regulations, 2014, issued in February 2014.
- o WBPDCL submitted a review application (February 2021) before WBERC, to fix an appropriate SHR for SgTPS Stage II. WBERC thereafter altered (July 2021) the AEC norms to 9 *per cent*. In its subsequent order (April 2022), WBERC reduced the SHR from 2,276 kCal/kwh to 2,424 kCal/kwh.

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253 *(₹ 1,451.33 crore + ₹ 982.23 crore).*

254 *The heat energy input required at a TPS in Kilo Calorie (Kcal) to generate one kilo watt hour (kwh) of electrical energy.*

- o WBERC issued (July 2022) the APR and FCA orders, for the financial year 2016-17, on the basis of the revised operating norms (AEC & SHR).

In this regard, Audit observed the following:

- o In its review application (February 2021), WBPDCL had only prayed for a higher SHR, for SgTPS Stage II. The application had not made any mention of AEC norms, implying that WBPDCL had accepted the AEC norm of 5.25 *per cent* fixed by WBERC in July 2017. However, in July 2021, WBERC fixed the AEC norm at 9 *per cent,* unilaterally.
- o SgTPS stage-II had not crossed the AEC norm of 9 *per cent* since inception of its commercial operations, with the AEC having ranged from 5.75 to 7.38 *per cent*[255]*,* during financial years 2017-18 to 2020-21. Being a new unit, having capacity of 500 MW, its AEC should have been fixed considering its design specifications and as per the norms stipulated by CERC in its tariff regulation, 2014.

Thus, WBERC had amended the AEC and SHR norms, to the benefit of WBPDCL. The higher norms of AEC and SHR had resulted in excess fuel cost of ₹ 367.98 crore being allowed by WBERC, which eventually increased the tariff burden on consumers, during the financial years 2016-17 to 2020-21.

WBERC, in reply (January 2023), stated that, as per its order dated April 2022, the operating norms of SgTPS Stage II are fixed in the tariff regulations and any gains arising from better performance over applicable norms, are shared with the beneficiaries.

However, WBERC had fixed the operating norms for SgTPS stage II units on the lower side, as compared to the CERC Tariff Regulation, 2014 (issued in February 2014) and WBERC's earlier order (July 2017). Thus, WBERC had burdened consumers with additional tariffs, amounting to ₹ 367.98 crore.

(C) Non-consideration of actual transmission loss by WBERC

Para 5.11 of NTP, 2016[256], *inter alia, lays* down the framework for performance-based cost of service regulation, in respect of aspects common to generation, transmission and distribution. The norms are referred to be efficient, relatable to past performance, capable of achievement and are to progressively reflect increased efficiencies. Further, the operating parameters in tariffs should be at "normative levels" only and not at "lower of normative and actuals", with appropriate arrangement for sharing the gains of efficient operations with the consumers.

As per Schedule 9K of the WBERC Tariff Regulations, 2011, the norm of transmission loss (TL), for transmission licensees (here, WBSETCL), is 3.40 *per cent*. Against these norms, WBSETCL achieved transmission loss of 2.29 to 2.76 *per cent,* during 2017-21. However, WBSEDCL calculated its T&D losses after deducting the normative TL (3.40 *per cent*), which was admitted by WBERC, while issuing the FPPCA orders of WBSEDCL. Since, actual T&D losses were more than the T&D losses admitted by WBERC as shown below, the T&D losses, as well as the excess power purchase costs were under reported.

[255] *7.38 per cent (2017-18), 6.42 per cent (2018-19), 6.69 per cent (2019-20) and 5.75 per cent (2020-21).*

[256] *Para 5.3 (f) of the erstwhile National Tariff Policy, 2006.*

Table 3.3 shows the T&D losses of WBSEDCL, calculated and admitted by WBERC, in its orders up to financial year 2019-20, *vis-à-vis* the actual T&D losses, after considering the actual TL losses incurred by WBSETCL, during 2017-21.

Table 3.3: TL and T&D losses, considered by WBERC, *vis-à-vis* the actual TL and T&D losses

Financial year	Transmission Loss (TL) and Transmission and Distribution loss (T&D), considered by WBSEDCL & WBERC (in *per cent*)		Actual TL and T&D loss (in *per cent*)		Under/(Over) reported TL and T&D loss (in *per cent*)	
	TL	T&D	TL	T&D	TL	T&D
(1)	(2)	(3)	(4)	5=(3+2-4)	6 =(4-2)	7= (5-3)
2017-18	3.40	26.69	2.76	27.33	(0.64)	0.64
2018-19	3.40	23.00	2.48	23.92	(0.92)	0.92
2019-20	3.40	18.56	2.61	19.35	(0.79)	0.79
2020-21*	3.40	20.89	2.29	22.00	(1.11)	1.11

(Source: Secure meter data and Annual Reports of WBSEDCL, figures in brackets showing over reported loss)

**Order by WBERC is yet to be issued*

Thus, WBERC failed to adhere to NTP 2016, by considering the actual operating performance, instead of past performance, allowing WBSEDCL to show lower T&D loss. As a result, there was under reporting of the energy available for sale by WBSEDCL. The under reporting of energy available had implications on the per unit energy cost, as shown in **Table 3.4**.

Table 3.4: Energy (MU) under reported by WBERC during financial years 2017-18 to 2019-20

Financial year	Net purchased energy available with WBSEDCL for distribution, calculated by WBERC (MU)	Net purchased energy available with WBSEDCL for distribution, calculated by Audit (MU)	Energy under reported (MU)
(1)	(2)	(3)	4 = (3-2)
2017-18	33,592.048	33,843.922	251.874
2018-19	34,525.990	34,900.275	374.285
2019-20	36,741.960	37,082.405	340.445

(Source: WBERC's tariff orders)

This resulted in under-reporting of excess power purchase cost of ₹ 387.72 crore[257] during 2017-2020, thereby increasing the tariff burden of consumers to the same extent.

WBERC, in reply (January 2023), stated that it had allowed normative transmission loss, since WBSETCL failed to provide actual transmission loss, duly certified by SLDC.

[257] ***2017-18***: *251.874 MU x 373.32 paise;* ***2018-19***: *374.285 MU x 408.65 paise;* ***2019-20***: *340.445 MU x 413.39 paise*

The reply of WBERC shows that the actual TL loss which is available at SLDC, and which, in turn, is under the administrative control of WBSETCL, could have been easily made available. Moreover, the reported T&D loss of WBSEDCL, mentioned in **Table 3.3**, will increase, if the actual transmission loss of WBSETCL is considered.

In reply (January 2023), WBSEDCL stated that, as a Distribution Licensee, WBSEDCL is paying the power purchase cost based on the implemented schedule and, subsequently, deviation from the implemented schedule is trued up, based on the meter reading of interface meter of transmission system. Hence, there is no scope of passing excess power purchase costs.

The reply of WBSEDCL overlooks the issue that had the actual TL loss been taken into account, the T&D loss would increase. Moreover, WBSETCL has been efficient in performance, but WBERC had not revised the norms to progressively reflect the increased efficiencies in transmission losses. Besides, WBERC has not prescribed the gain-sharing ratio between WBSETCL and consumers. Consequently, better performance of WBSETCL (transmission licensee), by achieving lower TL losses (ranging between 2.29 *per cent* and 2.76 *per cent* during 2017-21), as compared to norms (3.40 *per cent*), was neither reflected in WBSEDCL's account, nor admitted by WBERC. Thus, the excess power purchase cost was allowed by WBERC. This under-reporting of T&D losses resulted in avoidable purchase of power to meet the demand of consumers, leading to extra power purchase costs with no benefit accruing to the consumers.

3.10.2 Reduction in Transmission and Distribution (T&D) losses

The Aggregate Technical and Commercial (AT&C)[258] loss and Transmission and Distribution (T&D) loss[259] act as yardsticks for measurement of performance of DISCOMs. In October 2002, the Hon'ble Supreme Court[260] of India had upheld that it was the duty of a licensee to reduce T&D losses. Further, WBERC had fixed 17.50 *per cent* as the normative T&D loss for WBSEDCL, in its tariff regulation and tariff orders for the period 2017-22.

Against this, T&D losses considered by WBSEDCL & WBERC were 26.69, 23.00, 18.56, 20.89 and 15.11 *per cent*, during the respective years of the period 2017-22. Thus, WBSEDCL failed to achieve the targeted T&D loss fixed by WBERC, in four out of five years covered by Audit. Non-achievement of the targeted T&D loss resulted in: (a) excess power being required to meet the demand of consumers (b) extra costs being incurred for additional power purchase, affecting the financial health of WBSEDCL and (c) extra power purchase costs being disallowed by WBERC, in line with the tariff regulations. Thus, an amount of ₹ 1,688.84 crore, representing excess power purchase costs, was passed on to consumers, due to higher T&D losses as indicated in ***Paragraph 3.10.1(A)***.

GoWB had participated in Central sponsored schemes, *viz*. DDUGJY, SAUBHAGYA and Integrated Power Development Scheme (IPDS) aimed at

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[258] *AT&C loss means gap between energy input and the energy for which revenue is actually realised from the consumers.*

[259] *T&D loss means gap between energy input and energy billed to the consumers.*

[260] *Vide a case between WBERC and CESC, a private DISCOM in West Bengal.*

creating infrastructure in urban and rural areas and providing last mile connectivity to power for all. The funding patterns were 60, 30 and 10 *per cent* from Central, State and own fund. Audit observed that, in spite of considerable funds, amounting to ₹ 5,004.59 crore[261], having been received from GoI under these schemes, and an amount of ₹ 6,705.42 crore[262] {balance amount (₹ 1700.83 crore) received from GoWB and own funds} having been expended there-against, to strengthen the distribution infrastructure in urban and rural areas, till 2020-21, the T&D losses remained higher than the norms fixed by WBERC. Further, in 32, out of 77 divisional offices, the AT&C losses were more than 30 *per cent*. The higher AT&C and T&D losses had occurred mainly due to: (a) poor billing efficiency[263] (b) defective meters, for which average bills were raised (c) failure of Distribution Transformers (DTRs) and overloaded DTRs and (d) long feeders & lines and overloaded feeders/lines.

In reply (January 2023) WBSEDCL stated that various steps were taken to reduce the T&D and AT&C losses which ultimately came down from 30.78 *per cent* and 35.98 *per cent* from 2015-16 to 15.11 *per cent* and 16.65 *per cent* in 2021-22 respectively.

3.10.3 Effect of operational performance on Regulatory Assets

MoP, GoI, had announced (December 2014) a Comprehensive Award Scheme for Meritorious Performance in the Power Sector, for thermal power stations, with a view to according recognition to power stations, based on their all-round performance, by integrating the four operational parameters, *viz*. Station Heat Rate (SHR)[264], Auxiliary Power Consumption (APC), Specific Secondary Fuel Oil Consumption (SOC)[265] and peaking Plant Load Factor (PLF). WBERC also fixed operating norms for generating stations, through its tariff regulations. Generating Companies claimed fixed costs as per their actual expenditure in the APR application. WBERC by applying prudence check with its applicable tariff regulations, first determined the amount to be receivable by the entity. Thereafter, WBERC determined the admitted amount as per actual PAF achieved against normative PAF. Non-achievement of the targeted operational norms resulted in: (a) excess fuel[266] being required to produce power (b) extra costs being incurred for procuring excess fuel, affecting the financial health of WBPDCL and DPL and (c) extra fuel costs being disallowed by WBERC, in line with tariff regulations.

(A) WBPDCL

WBERC issued FCA and APR orders, for the period from financial year 2013-14 to financial year 2016-17, in regard to WBPDCL, between

[261] *DDUGJY – ₹3,061.70 crore, Saubhagya –₹187.87 crore; IPDS – ₹1,755.02 crore.*

[262] *DDUGJY – ₹3,565.95 crore, Saubhagya –₹246.25 crore; IPDS – ₹2,893.22 crore.*

[263] *Billing efficiency is an indicator of the proportion of energy that has been billed to consumers, in comparison to the energy supplied in that area.*

[264] *SHR is a parameter to assess the efficiency of a thermal power station. It represents the heat energy required in Kilo Calories (Kcal) to generate one kilo watt hour (kwh) of electrical energy.*

[265] *SOC represents the consumption of fuel oil (in ml) required to generate one kilo watt hour (kwh) of electrical energy.*

[266] *Coal and oil.*

August 2017 and July 2022. Scrutiny of records pertaining to the Annual Accounts of WBPDCL, the FCA and APR applications for the financial years 2013-17 and WBERC's orders, indicated the following:

(a) Excess consumption of fuel

The operational performance of the generating stations of WBPDCL, for the period 2013-17, is shown in **Table 3.5** below:

Table 3.5: Operational performance of generating stations of WBPDCL

Generating Station	Operational parameter	Norm	Actual			
			2013-14	2014-15	2015-16	2016-17
KTPS	APC	9.60	11.21	10.40	11.13	10.85
	SOC	2.00	2.36	1.09	2.72	2.02
	SHR	2,700.00	2,752.53	2,995.00	2,757.00	2,735.00
BkTPS	APC	9.00	10.18	9.34	10.19	9.95
	SOC	1.30	2.13	1.01	2.15	0.76
	SHR	2,470.00	2,514.70	2,494.00	2,509.00	2,489.00
BTPS-I	APC	10.40	12.85	11.91	14.53	11.48
	SOC	2.50	12.65	8.69	11.94	6.66
	SHR	3,050.00	3,173.55	3,174.00	3,077.00	3,013.00
BTPS-II	APC	9.00	Not Applicable		14.53	No separate order was issued and claim made
	SOC	1.75			11.94	
	SHR	2,430.00			3,077.00	
STPS	APC	9.00	9.85	9.09	8.66	8.26
	SOC	1.00	1.61	1.74	0.69	0.26
	SHR	2,425.00	2,445.64	2,465.00	2,594.00	2,496.00
SgTPS-I	APC	9.00	12.51	10.85	13.39	12.77
	SOC	1.00	1.32	0.90	2.03	1.01
	SHR	2,345.00	2,376.70	2,956.00	2,580.00	2,375.00
SgTPS-II	APC	9.00	Not Applicable			6.94
	SOC	1.00				10.44
	SHR	2,424.00				2,491.00

(Source: FCA/ APR orders)

Note: Norms unit APC in per cent, SOC in ml/kWh and SHR in Kcal/kWh

SgTPS-II operating norms in Tariff order 2016-17 were APC-5.25 and SHR- 2,276. APC was later revised to 9 per cent in tariff order 2018-20 (July 2021) and SHR was revised to 2424 in April 2022 and while determining FCA for the year 2016-17, revised norms were considered by WBERC

It is evident from the above that:

- ✓ Auxiliary Power Consumption (APC) of all generating stations was higher than the norms fixed by WBERC, except in STPS (2015-16 and 2016-17) and SgTPS-II (2016-17).
- ✓ Specific Oil Consumption (SOC) of all generating stations was higher than the norms fixed by WBERC, except in KTPS (2014-15), BkTPS (2014-15 and 2016-17), STPS (2015-16 and 2016-17), and SgTPS-I (2014-15).
- ✓ Station Heat Rate (SHR) of all generating stations was higher than the norms fixed by WBERC.

Non-achievement of the targeted operational norms, fixed by WBERC, resulted in consumption of excess fuel[267] by WBPDCL, during 2013-17 (as tabulated in **Table 3.6**).

Table 3.6: Excess fuel cost disallowed by WBERC

Particulars	2013-14	2014-15	2015-16	2016-17
Excess consumption of coal (MT)	17,83,328.20	14,20,930.56	6,38,840.20	7,83,065.39
Excess cost on coal disallowed (₹ in crore)	553.83	383.76	216.51	295.13
Excess consumption of oil (KL)	25,438.83	321.24	18,492.58	11,766.91
Excess cost on oil disallowed (₹ in crore)	145.78	1.05	102.41	42.64
Total fuel cost disallowed (₹ in crore)	699.61	384.81	318.92	337.77

(Source: FCA/ APR orders)

Thus, non-achievement of targeted norms resulted in incurring of extra cost by WBPDCL, on account of excess fuel, which was also disallowed by WBERC to the extent of ₹ 1,741.11 crore.

WBPDCL in its reply (November 2022) stated that an amount of ₹ 757.35 crore was disallowed by WBERC. However, orders of WBERC for the period 2013-17 had been challenged by WBPDCL and applications filed before APTEL.

The audit observation was based on the actual consumption of fuel incurred by WBPDCL, whereas WBPDCL had restricted its claim to fuel consumption, based on the norms in the FCA application submitted to WBERC. Thus, while WBERC had disallowed claim of ₹ 757.35 crore, WBPDCL had not claimed ₹ 983.76 crore, adding up inadmissible fuel costs of ₹ 1,741.11 crore, for the period from 2013-14 to 2016-17.

(b) Non-recovery due to poor Plant Availability Factor

The Plant Availability Factor (PAF) of a power plant is the amount of time that it is able to produce electricity over a certain period. WBERC, in its Tariff Regulation (April 2011), *vide* Schedule 9A, fixed the PAF of each generating station. **Table 3.7** shows the normative and actual PAF, as well as the fixed costs claimed and allowed by WBERC, during 2013-17.

Table 3.7: Year-wise fixed costs of WBPDCL admitted by WBERC

Financial Year*	Normative PAF (*per cent*)	Actual PAF (*per cent*)	Fixed costs claimed by WBPDCL	Fixed costs considered by WBERC, based on the normative PAF	Fixed costs admitted by WBERC, considering the actual PAF	Fixed costs disallowed due to poor PAF
			(₹ in crore)			
(1)	(2)	(3)	(4)	(5)	(6)	7=(5-6)
2013-14	85.00	70.50	2,412.42	2,232.57	2,044.26	188.31
2014-15	85.00	71.85	2,553.56	2,197.31	2,065.55	131.76
2015-16	85.00	60.62	2,557.43	2,077.85	1,687.01	390.84
2016-17	85.00	67.54	3,180.64	2,918.20	2,411.65	506.55
Total			**10,704.05**	**9,425.93**	**8,208.47**	**1,217.46**

(Source: FCA/ APR orders)
**APR orders issued up to September, 2022.*

[267] *Excess consumption of **coal** – 46,26,160.50 MT and **oil** – 60,788.09 KL.*

Audit observed that, due to the poor PAF of the generating stations of WBPDCL, out of the total fixed cost of ₹ 10,704.05 crore, claimed by WBPDCL, WBERC considered ₹ 9,425.93 crore as the claim, based on normative costs, in the APR orders of 2013-17. Due to non-achieving of the normative PAF by WBPDCL, WBERC admitted ₹ 8,208.47 crore only. Thus, due to non-achieving of the normative PAF, ₹ 1,217.46 crore was disallowed.

Scrutiny of records showed that WBPDCL attributed the poor performance of the generating stations, in its APR applications before WBERC, mainly to: (a) ageing effect of the generating stations of KTPS[268] and BTPS[269] (b) poor coal quality and (c) frequent forced outages.

WBPDCL in its reply (November 2022) accepted the audit observation and stated that due to shortage of coal received from coal companies during 2013-15 and post de-allocation of coal blocks (April 2015), WBPDCL was entirely dependent on the supplies of coal from Coal India Limited, hence it failed to attain the normative PAF. However, after receipt of captive coal mines and starting of coal extraction from mines, their PAF had improved to 86 *per cent* during 2021-22.

WBPDCL in its latest reply (December 2023), reiterated that deallocation of mines led to scarcity in availability of coal and issues in quality of coal supplied by Coal India Limited (CIL) resulted in excess consumption of coal.

On the issue of quality of coal supplied by CIL, the Performance Audit on Fuel Management in Thermal Power Stations of West Bengal which was incorporated in Audit Report of the C&AG (Performance and Compliance Audit) for the year ended 31 March 2019-20, had already covered issues/findings in this regard.

(B) DPL

WBERC issued FCA and APR orders, for the period from financial year 2013-14 to financial year 2015-16, in regard to DPL between February 2017 and July 2022. Scrutiny of records pertaining to the Annual Accounts of DPL, FCA and APR applications for the financial years 2013-16 and WBERC's orders, indicated the following:

(a) Excess consumption of fuel

The operational performance of the distribution functions of DPL, for the period 2013-16, is tabulated in **Table 3.8**.

Table 3.8: Operational performance of DPL

Sl. No.	Particulars	Financial year		
		2013-14	2014-15	2015-16
1	Normative T&D loss (*per cent*)	5.20	5.20	5.20
2	Actual T&D loss (*per cent*)	5.33	5.72	5.21
3	Normative APC (*per cent*)	9.30	8.61	8.73
4	Actual APC (*per cent*)	11.47	13.35	10.75
5	Normative SHR (kCal/Kwh)	2,747.00	2,425.00	2,425.00
6	Actual SHR(kCal/Kwh)	3,273.18	3,098.84	2,534.96
7	Excess quantum of energy purchased (MU)	36.73	10.60	1.01

[268] *Six units of 210 MW each were commissioned between 1984 and 1993.*

[269] *Four units of 60 MW each and one unit of 210 MW, were commissioned in 1965-66 and 1982, respectively.*

Sl. No.	Particulars	Financial year		
		2013-14	2014-15	2015-16
8	**Excess cost of power purchased, disallowed by WBERC (₹ in crore)**	**12.10**	**5.13**	**0.44**
9	Actual coal consumption (₹ in crore)	400.44	284.30	440.84
10	Normative coal consumption (₹ in crore)	304.70	207.40	369.25
11	**Excess coal consumption disallowed (₹ in crore)**	**95.74**	**76.90**	**71.59**
12	Actual oil consumption (₹ in crore)	61.51	22.72	25.43
13	Normative oil consumption (₹ in crore)	15.97	7.29	9.66
14	**Excess oil consumption disallowed (₹ in crore)**	**45.54**	**15.43**	**15.77**
15	Total fuel and power purchase cost disallowed (₹ in crore) (8+11+14)	153.38	97.46	87.80

(Source: FCA/ APR orders)

Thus, against the targeted 5.20 *per cent* of T&D loss, fixed by WBERC, DPL achieved a marginally higher T&D loss (ranging between 5.21 to 5.72 *per cent*), which resulted in excess power purchase cost of ₹ 17.67 crore. Further, due to non-achievement of the operational norms fixed by WBERC (*viz*. SHR and APC), extra fuel cost of ₹ 320.97 crore was not recovered.

DPL in its reply (November 2022) accepted the audit observation and stated that action had been taken to reduce the T&D loss from 5.33 *per cent* (2013-14) to 4.32 *per cent* (2016-17). Further, during 2013-16, SHR and APC were in excess of norms due to low station PLF, low load factor, frequent tripping, insufficient coal supply, etc that were beyond their control.

(b) Non-recovery due to poor PAF

In terms of regulation 6.4.2 of the tariff regulations of WBERC (April 2011), the recovery of fixed costs, for the generating stations of DPL, is to be made against the targeted availability. Schedule 9A of the tariff regulations sets the PAF of DPL at 79 *per cent* in 2013-14 and 85 *per cent* during 2014-16. **Table 3.9** shows the normative and actual PAF, as also the fixed costs claimed and allowed by WBERC, during 2013-16.

Table 3.9: Year-wise fixed costs of DPL, admitted by WBERC

Financial Year*	Normative PAF *(per cent)*	Actual PAF *(per cent)*	Fixed costs claimed by WBPDCL	Fixed costs considered by WBERC, based on the normative PAF	Fixed costs admitted by WBERC, considering the actual PAF	Fixed costs disallowed, due to poor PAF
			(₹ in crore)			
(1)	(2)	(3)	(4)	(5)	(6)	7=(5-6)
2013-14	79.00	56.18	609.16	539.44	419.43	120.01
2014-15	85.00	29.33	675.96	526.40	273.74	252.66
2015-16	85.00	37.49	877.61	689.83	401.29	288.54
Total			**2,162.73**	**1,755.67**	**1,094.46**	**661.21**

(Source: FCA/ APR orders)
**APR orders issued up to September, 2022.*
Note: For 2013-14, WBERC had fixed the normative PAF at 79.00 per cent, based on the age profile of the generating units of DPL.

Audit observed that, due to the poor PAF of the generating stations, out of the total fixed costs of ₹ 2,162.73 crore, claimed by DPL, WBERC considered ₹ 1,755.67 crore only as the claim, in its APR orders of 2013-16. Due to non-achievement of the targeted PAF by DPL, WBERC admitted ₹ 1,094.46 crore. Thus, non-achievement of the targeted PAF, led to an amount of ₹ 661.21 crore[270] having been disallowed.

Scrutiny of records showed that the DPL had attributed the poor performance of its generating stations, in its APR applications before WBERC, mainly to: (a) the ageing effect of Unit-7[271] and (b) poor coal quality, containing higher ash, causing frequent outages.

While accepting audit observation, the DPL stated (November 2022) that running old generating units, non-availability of coal, delay in undertaking overhauling and frequent outages resulted in achieving of poor PAF when compared to norms fixed by WBERC.

3.10.4 Carrying cost of Regulatory Assets

As per Section 110 of the Electricity Act, 2003, the Central Government shall, by notification, establish an Appellate Tribunal, to be known as the Appellate Tribunal for Electricity (APTEL), to hear appeals against the orders of the adjudicating officer or the Appropriate Commission under the Act. APTEL directed (November 2011) all State Electricity Regulatory Commissions to allow the carrying cost[272] of regulatory assets to the utilities, in the ARR of the year in which the regulatory assets are created, to avoid the problem of cash flow to the distribution licensees.

Since, DISCOMs face cash flow problems for procuring power and to meet their day to day operations, early order for recovery of regulatory assets would help to reduce the cash burden. Accordingly, due to delays in recovery of regulatory assets, DISCOMs were compelled to take short/long term loans, which attract interest. Regulation 5.6.5.4 of the Tariff Regulations 2011 provides that WBERC may allow, if considered necessary, interest on temporary financial accommodation taken by the generating company/licensee from any source to a reasonable extent of unrealised arrears from the consumers/beneficiaries.

For financial year 2017-18, WBSEDCL had claimed carrying cost of ₹ 2,158.51 crore, on its regulatory assets. However, WBERC decided not to consider this carrying cost, on the ground that there was no provision for allowing carrying cost, in the tariff regulations made by WBERC. Further, WBERC, in its letter (October 2019) to the Forum of Regulators (FOR)[273], stated that, for WBSEDCL, no regulatory assets had been created for the period 2015-16 to 2017-18. Since regulatory assets were not created by WBERC for the given period, thus, carrying costs on them were also not allowed.

[270] *₹ 1,755.67 crore minus ₹ 1,094.46 crore.*

[271] *Unit-7 of 300 MW was commissioned in 2008.*

[272] *The interest expenses, on regulatory assets, from the date of their recognition by WBERC, to the date of the recovery order issued thereagainst.*

[273] *As per the NTP 2006/2016, the FOR had been constituted by the Central Government, under the provisions of the Act, which would, inter alia, facilitate consistency in approach, specially in the area of distribution.*

Despite the above directions, WBSEDCL contested the APR order (which had disallowed ₹ 2,158.51 crore) of WBERC for the financial year 2017-18 and preferred an appeal before APTEL[274]. As per records made available to Audit, the petition was pending as of October 2022 before APTEL. Further, WBSEDCL had claimed an amount of ₹ 1,787.19 crore[275], as carrying cost on regulatory assets, through its APR applications for the subsequent financial years 2018-19 and 2019-20. WBERC in its APR orders (July 2022), for the financial years 2018-19 and 2019-20, again disallowed carrying costs, on grounds that: (a) WBSEDCL had not resorted to additional borrowings, to meet the gap, in the absence of release of the regulatory assets claimed and (b) WBSEDCL had not claimed interest on temporary accommodation[276], as laid down in the regulation 5.6.5.4 of tariff regulations 2011.

In reply (January 2023), WBSEDCL stated that, in the financial years 2011-12 and 2012-13, WBERC had allowed the carrying costs on regulatory assets. However, the carrying costs on regulatory assets were not allowed by WBERC, for which WBSEDCL preferred a petition before APTEL. The matter is pending.

The reply, however, did not consider that regulatory assets for the period 2015-16 to 2019-20 were required to be created by WBSEDCL, with prior approval of WBERC. The regulatory assets created in 2011-12 and 2012-13, were approved by WBERC in September 2013 and June 2014, respectively. Consequently, WBERC had admitted carrying costs. Moreover, WBSEDCL had not been able to substantiate that it had resorted to additional borrowings or temporary accommodation on account of regulatory assets, during 2018-19 and 2019-20. Hence, the possibility of interest on regulatory assets being admitted, was remote.

3.10.5 Partial recovery of costs relating to controllable items

WBERC, in its tariff regulations[277], segregated the items of Annual Revenue Requirement (ARR), into two categories i.e. 'controllable[278]' and 'uncontrollable[279]'. The chances of recovery of actual expenditure, through tariff, is remote, if the excess expenditure incurred falls under 'controllable' items. On scrutiny of the APR applications and annual accounts of WBSEDCL and WBSETCL, along with the APR orders of WBERC, Audit observed that, failure of these SPSEs, to control the admitted controllable fixed charges (as defined in the tariff orders of WBERC), had resulted in incurring of excess expenditure, which was ultimately disallowed by WBERC, through its APR orders.

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[274] *Vide DFR No. 148 of 2022 dated 28 April 2022.*

[275] *₹ 784.74 crore in financial year 2018-19 and ₹ 1,002.45 crore in financial year 2019-20.*

[276] *Temporary accommodation means temporary/short term financial loan, taken from a lending agency, to a reasonable extent of the arrears unrealised from the consumers / beneficiaries.*

[277] *Amended on 25 April 2011, vide Regulation 48/WBERC.*

[278] *Controllable items means those elements of ARR for which the entitlement is controllable or the expenditure can be controlled by the concerned licensee or generating company for whom ARR is determined at the amount for such element permitted by WBERC in the tariff order, subject to specific conditions, as permitted under tariff regulations.*

[279] *Uncontrollable items means those elements of ARR for which expenditure depends on certain external factors and which are not fully controllable by the licensee or generating company.*

Table 3.10 along with ***Appendix-23*** shows the year-wise excess fixed charges of SPSEs, disallowed by WBERC and the reasons thereof.

Table 3.10: Year-wise excess fixed charges of SPSEs

SPSE	APR Order of WBERC for the financial year	Particulars	Cost disallowed (₹ in crore)	Reasons
WBSEDCL	2017-20	Meter reading & billing distribution costs	64.00	These are controllable items. WBERC disallowed the expenditure which was in excess of allowed costs in the tariff orders.
		Collection franchisee and franchisee costs	17.86	
		LT maintenance & mobile service costs	2.30	This is an uncontrollable item. WBSEDCL failed to justify the excess expenditure to WBERC.
Total (A)			**84.16**	
WBPDCL	2016-17	Coal & ash handling charges	22.47	These are controllable items. They were disallowed by WBERC on the basis of actual generation of power, proportionate to the targeted generation.
		Operation & Maintenance charges	7.96	
	2017-20 (APR orders yet to be issued by WBERC)	Coal & ash handling charges	65.55	In the past, such costs, incurred in excess of the amounts allowed in the applicable tariff orders, had been disallowed by WBERC
		Operation & Maintenance charges	242.37	
Total (B)			**338.35**	
WBSETCL	2015-20	Repair & Maintenance charges	31.48	These are controllable items. WBERC disallowed the expenditure which was in excess of the expenditure allowed in the tariff orders.
		Administrative & General charges	8.57	
Total (C)			**40.05**	
Grand Total (A+B+C)			**462.56**	

(Source: APR order)

Thus, failure of the SPSEs, to control their fixed charges, had resulted in disallowance of excess expenditure incurred, amounting to ₹ 462.57 crore, by WBERC. As a result, these SPSEs had to absorb the extra expenditure of ₹ 462.57 crore.

WBPDCL, in its reply (November 2022), accepted the audit observation and stated that WBERC, without asking to produce additional documents in respect of C&A expenses, disallowed the excess costs incurred over and above the expenses allowed in its tariff orders. Further, since WBPDCL considered normative O&M expenses while booking RA, thus excess O&M expenditure disallowed by WBERC had no impact on the books of accounts.

Audit observed that books of accounts of WBPDCL show the actual cost incurred during the year. Thus, the gap between actual and allowed expenditure would be mitigated through own fund management, mainly from working capital loans, affecting the company's financial health. Interest costs, if any, are also to be passed on to consumers, increasing the tariff burden.

WBPDCL in its latest reply stated (December 2023) that WBERC has restricted the expenditure incurred by it to the amount proportionate to the actual generation as compared with the cost allowed in the tariff order based on normative target generation instead of actual expenses incurred, the decision of WBERC was challenged before APTEL.

The reply of WBPDCL is not acceptable since WBERC allowed expenditure on C&A and O&M considering the actual generation with respect to the targets set for generation. Moreover, outcome of the petition at APTEL is still pending (January 2024).

WBSETCL, in its reply (December 2022), stated that R&M expenses have been going up due to climatic extremities in the Bay of Bengal and coastal region which are beyond WBSETCL's control. Further, after disallowance of R&M expenditure by WBERC, in 2017-18, WBSETCL submitted a review application (June 2022) to WBERC.

Audit observed that since R&M expenses are controllable items, thus claiming excess expenditure than that allowed in the tariff order is not acceptable. Further, climatic extremities were not specified in APR applications made to WBERC upto 2020-21.

WBSETCL in its latest reply stated (January 2024) that while determining the tariff WBERC has on its own applied certain change in principles for finalizing the ARR by considering only the Transmission line length (CkM) as the sole parameter of Business Volume and ignored the Sub-station Capacity Addition as parameter of Business Volume Growth. WBSETCL also replied that they had filed review petitions before WBERC, contending these grounds, on which revision orders were awaited (January 2024). WBSETCL further stated that during 2015-20, new substations were commissioned or came under their administrative control, thereby there was increase in A&G charges.

Reply of WBSETCL needs to be viewed in light of the fact that WBERC determined the R&M and A&G according to their Tariff Regulations and did not admit the excess cost incurred by WBSETCL.

In reply (January 2023), WBSEDCL stated that the orders of WBERC, for the financial year 2017-18, disallowing fixed costs, have been challenged in APTEL. The matter is pending at APTEL.

3.10.6 Sale of surplus power to those other than licensee or any consumer

The Tariff Regulations of WBERC[280] indicate the methodology of "***sharing of benefit from selling of power to those other than licensee or any consumer".*** Under the applicable regulation, income from the selling of surplus power, reduced by the expenses relating to such activity, is to be shared equally (50:50) between the consumers and the power selling company (herein, WBSEDCL).

[280] *Vide Regulation 5.15.2(iv) of Tariff Regulation, 2011 read with Schedule-5 on tariff for retail sale of electricity.*

Further, to work out the net aggregate revenue requirement for determination of tariff for retail sale of electricity by a distribution licensee, the permitted benefit from such sale of power was, *inter alia*, required to be deducted from the gross sale of power.

In this regard, Audit observed that:

- WBSEDCL had sold surplus power, amounting to 15,655.22 MU[281], during 2017-22, to consumers other than its own consumers and licensees.
- WBERC in its APR orders, computes the total revenue requirement for the financial year, by considering the allowable fuel and power purchase costs and fixed costs. Thereafter, by deducting the other income[282] and revenue already realised during the year, through energy bills raised on consumers, WBERC finally determines the balance revenue recoverable from consumers.
- WBERC had not mentioned the components of expenses relating to sale of power in the extant tariff regulations. Instead, WBSEDCL considered the average pool power purchase cost[283] and related transmission charges, for expenses incurred on the sale of surplus power and accordingly, calculated the benefit arising out of sale of surplus power during 2017-22.
- Subsequently, the methodology of calculation of average pool power purchase cost had been modified by WBERC, in its APR orders for the financial years 2018-19 and 2019-20 (issued in July 2022), by excluding the cost of power purchased from hydro, renewable and co-generation sources. APR orders from financial year 2020-21 onwards were yet to be issued by WBERC (as of October 2022). Since, the costs of power purchased from hydro, renewable and co-generation sources are higher than the costs of purchase from thermal sources, the methodology adopted by WBERC ultimately reduced the average pool power purchase cost[284].
- During 2017-20, WBSEDCL computed benefit amounting to ₹ 656.46 crore, on sale of surplus power. WBERC, in its APR orders for the period 2017-20, allowed an equal share of benefit, amounting to ₹ 328.23 crore (50 *per cent* of ₹ 656.46 crore), on sale of surplus power to consumers.
- WBSEDCL and WBERC should have determined the cost of sale of surplus electricity by taking into account the fixed and variable costs. However, WBSEDCL and WBERC were only considering the cost of power purchase from thermal stations and adding the associated transmission charges only. Had the total costs (fixed and variable) of surplus power been considered, the cost of the surplus electricity sold would be in excess of revenue from

[281] *2,121.35 MU, 1,857.60 MU, 1,253.00 MU, 2,735.19 MU and 7,688.07 MU during financial years 2017-18 to 2021-22, respectively.*

[282] *Includes benefit on sale of surplus power, interest credit, non-tariff income and withheld amount on un-deposited terminal benefits.*

[283] *The average pool power purchase cost means the cost of procurement of power from different sources divided by the quantum of power procured.*

[284] *In financial year 2018-19, the actual average pool power purchase cost per unit was 408.65 paise, whereas WBERC had considered 289.97 paise in its APR order. Similarly, in financial year 2019-20, it was considered as 289.46 paise against the actual cost of 413.39 paise.*

sale of this electricity. However, selling price was less than the cost of procurement. So, there was net loss and benefit sharing does not arise. Since WBSEDCL and WBERC did not consider the fixed costs incurred on sale of surplus power and the actual average power purchase costs, they allowed excess recovery from consumers, which, in turn, increased the tariff burden.

- It is evident from the statement (***Appendix-24***) that, against actual net revenue requirement of ₹ 64,821.02 crore during 2017-20, the revenue realised through energy bills was ₹ 62,023.84 crore. Thus, the actual balance revenue recoverable was ₹ 2,797.18 crore[285] during 2017-20. However, WBERC, in its APR orders for the period 2017-20, allowed WBSEDCL the balance revenue recoverable amount of ₹ 3,125.41 crore, after considering the benefit on sale of surplus power of ₹ 328.23 crore to consumers, as stated *ibid*. Thus, the excess revenue recoverable amount, allowed to WBSEDCL, by WBERC, was ₹ 328.23 crore[286], which in turn, increased the tariff burden on consumers (***Appendix-24***).

WBSEDCL replied (April 2023) that if it does not sell power above variable cost in power market to part recovery of the fixed/ capacity charge of the generators, consumers will be penalized more since they have to pay for the entire capacity charges due to back-down of generators.

In further reply, WBSEDCL stated (March 2024) that sale of excess power is done where recovery of full fuel cost (variable cost) of generation along with part of fixed cost (capacity charge) of power purchase is ensured. Such recovery of part fixed cost reduces the tariff of the consumers since such burden of full capacity charge of power station is payable by consumers in any case.

However, Audit observed that while computing amount of benefit (from sale of power to others) to be shared with consumers, the fixed costs incurred to supply power to consumers were not considered. Audit observed that instead of sharing profit with consumers, tariff burden was passed on to them.

3.10.7 Power purchase cost by WBSEDCL

The costs of power purchase contributed nearly 80 *per cent* of the total costs of WBSEDCL. Audit observed that:

- The cost of power purchase from CESC (Calcutta Electric Supply Corporation), a private company, in radial mode[287], was higher than the cost of average power purchase from other power producers or suppliers. The rate was higher, on an average, at ₹ 3.61 per unit[288], during 2017-22, for which an amount of ₹ 31.06 crore[289] was paid in excess.

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[285] *₹ 64,821.02 crore minus ₹ 62,023.84 crore.*

[286] *₹ 3,125.41 crore minus ₹ 2,797.18 crore.*

[287] *Different feeders radiate from a sub-station or a generating station and feed the distributors at one end.*

[288] *Average Power Purchase Cost/per unit of WBSEDCL during 2017-20 was ₹ {(2.75 + 3.03 + 3.00)/3} = ₹ 2.93, whereas the actual power purchase cost/per unit from CESC was ₹ 6.54.*

[289] *Total power purchase from CESC: 2017-22: {(37.71 MU + 12.68 MU + 8.47 MU + 12.99 MU + 14.20 MU) x ₹ 3.61 per unit}/10.*

While accepting audit observation, WBSEDCL stated (January 2023) that due to unavailable network in some areas, power was taken from CESC to supply power to the consumers. However, in some such areas, WBSEDCL is now developing their network.

- A Power Sale Agreement (PSA) had been executed (October 2011), to purchase power of 100 MW, between WBSEDCL and PTC (Power Trading Corporation), on Round The Clock (RTC) basis, from Baglihar Hydro Electric Project (BHEP), located at the Doda district of Jammu & Kashmir, for 10 years, up to June 2021. The rate of power was fixed as ₹ 3.72 per unit. However, WBSEDCL decided[290] (September 2020) to terminate this PSA on the ground that: (a) the market available rate was lower than the tariff of BHEP, (*i.e.*₹ 3.72/unit) and (b) it would not fulfill the HPO[291] and RPO[292], in the near future.

In this regard, Audit observed that WBSEDCL had started purchasing (September 2019) power of 607 MU, annually, from *Manngdechhu* Hydro Electric Project (MHEP), of Bhutan, at ₹ 4.19 per unit. WBSEDCL had projected the procurement of power, from BHEP, as being 1,712.42 MU[293] @ ₹ 3.72 per unit. Since the tariff rate of BHEP was lower than the tariff of the MHEP of Bhutan, by ₹ 0.47/unit, termination of the agreement with Baglihar involved extra avoidable expenditure of ₹ 27.13 crore[294], annually.

WBSEDCL stated (January 2023) that since power from BHEP did not fulfill the HPO and RPO obligation in future, the agreement was not executed further after its expiry (June 2021). However, PPA was made with *Manngdechhu* HEP of Bhutan in December 2018 and without consent of GoI, the agreement cannot be terminated.

The reply, however, had not considered the fact that WBSEDCL had entered into PPA with PTC for purchase of power from MHEP to meet the shortfall in peak demand during the summer and monsoon seasons. But, as discussed in ***Paragraph 3.10.9***, the peak demand in 2019-20 as per Load Generation Balance Report (LGBR) was 6,777 MW, against which WBSEDCL had PPAs aggregating to 9,153 MW and own generation capacity of 1,176 MW. The PPAs included BHEP (100 MW) and MHEP (231 MW).

WBSEDCL in its latest reply (March 2024) stated that fixation of tariff and terms & conditions for sale of power in respect of MHEP was mutually determined by GoI and Royal Govt. of Bhutan at the time of commissioning of the project. Further, there is no provision of unilateral withdrawal from the allocation of Mangdechhu power from WBSEDCL side without consent of MoP, GoI.

290 *Agenda No. 25 of 93 BoM dated 25.09.2020.*

291 *Hydro Power Obligation (the Quantum of power required to be supplied by a Distribution licensee). GoI (March 2019) directed that Hydro Power Projects, having more than 25 MW capacity and whose commercial operation started on or after 08 March 2019, will be treated as HPO, under Non-solar RPO.*

292 *Renewable Power Obligation is the quantum of power required to be supplied by a Distribution licensee these includes power source from hydel, solar, wind etc. which are renewable in nature.*

293 *For **2020-21**: 596.54 MU, **2021-22**: 557.94 MU and **2022-23**: 557.94 MU.*

294 *Working out to an average of 577.24 MU (for the financial years 2020-21 and 2021-22) x ₹ 0.47/unit (₹ 4.19 per unit minus ₹ 3.72 per unit) i.e. ₹ 27.13 crore.*

The reply had to be seen in light of the fact that WBSEDCL decided (25 September 2020) to treat the agreement with PTC as null and void stating that the replacement of Baglihar power with market available rate would be cheaper. However, as per the APR order of WBERC (dated 29.03.23) for the financial year 2020-21, it was observed that the average power purchase cost of WBSEDCL was ₹ 4.24/unit.

Hence, the decision to purchase power at higher cost from MHEP instead of extending the agreement for purchase of power from BHEP, led to higher power purchase cost.

3.10.8 Computation of monthly variable cost adjustment

Accumulation of regulatory assets, to obviate tariff shock on consumers, was likely to have an adverse impact on the sustainability of the licensees. In this regard, WBERC introduced MVCA[295] (Monthly Variable Cost Adjustment), in April 2011[296], recoverable on monthly sales by the licensee (herein, WBSEDCL), from its consumers, in order to avoid accumulation of regulatory assets and ensure reasonable cash flow to the distribution licensees. However, from April to December 2011, WBSEDCL had kept the recovery of MVCA in abeyance, at the behest of the State Government[297]. Further, WBERC directed (July 2014) the distribution licensees to compute MVCA, taking into consideration the related costs, failing which, WBERC would not allow such adjustment, in full, in future, during truing-up in APR. Contrary to WBERC's directions, WBSEDCL had not revised the MVCA of 23 paise per unit, since July 2016.

The process of submission of tariff petitions by each licensee, forecasting their net aggregate revenue requirement, and subsequent issue of tariff orders by WBERC, based on these petitions, is required to be completed before the start of the financial year for which the tariffs would be applicable. APR/ FPPCA petitions are, however, to be filed after the close of a financial year and are to be based on the actual expenditure incurred by the licensee. Orders are issued thereon by WBERC, after review of actual performance to the norms and adjusting the costs already recovered through the tariff order. This difference is realised/adjusted through the subsequent tariff order.

Scrutiny of the tariff and APR applications submitted by WBSEDCL and the tariff and APR orders issued there-against by WBERC, for the financial years 2017-18 to 2019-20, showed the following:

- In the tariff order for WBSEDCL, pertaining to the financial year 2017-18, WBERC had allowed power purchase of 39,798.83 MU (excluding the central and state transmission losses) at a cost of ₹ 13,51,278.40 lakh, *i.e.* at 339.53 paise per unit. However, in its FPPCA application, WBSEDCL claimed purchase of 37,916.755 MU, at the cost of ₹ 14,05,952 lakh (including rebate for timely payment), which was finally admitted by WBERC, in its APR order for the financial year 2017-18. Thus, the

[295] *Computed on the basis of fuel and power purchase cost of the preceding month of the month for which electricity bills are to be issued.*

[296] *Vide regulation 5.8.9 of tariff regulation 48 of 2011.*

[297] *As observed by the Committee on Public Undertakings in November 2014.*

average power purchase cost (PPC) per unit was 370.80 paise[298]. Hence, there was a gap of 31.27 paise per unit, which was to be recovered from the consumers, through MVCA.

- Against 31.27 paise/unit, recoverable from consumers, during financial year 2017-18, WBSEDCL calculated 23 paise/unit as the MVCA. GoWB, through subsidy, paid 23 paise/unit to those consumers who were consuming either, (i) not more than 300 units per month or (ii) below 900 units per quarter. This led to a short collection of 8.27 paise per unit on sale of 33,592.048 MU to consumers, with failure to collect revenue amounting to ₹ 277.89 crore[299].
- As per the Electricity Act, 2003, the tariff orders for the financial years 2018-19 and 2019-20 were to be fixed by WBERC, on or before 31 March 2018/2019. To this end, WBSEDCL had to submit tariff petition in November 2017 and November 2018. However, WBSEDCL submitted the petitions in July 2019, with delays of 21 months and 9 months. Consequently, the tariff orders, for the financial years 2018-19 and 2019-20, were issued belatedly, by WBERC, in August 2021. Due to delay in issue of tariff orders for the financial years 2018-20, WBSEDCL continued to raise bills on consumers at the rates mentioned in the existing tariff order, as applicable for financial year 2017-18, *i.e* the average PPC per unit continued to be treated as 339.53 paise/unit.
- The actual PPC per unit under the FPPCA order, of the financial years 2018-20, increased to 402.99 paise and 412.50 paise per unit, which resulted in short collection[300] of 63.46 paise and 72.97 paise per unit. GoWB allowed recovery of the subsidy amount of 23 paise per unit, through MVCA, as stated *ibid*. Thus, short collection of PPC per unit, for the financial years 2018-20, was 40.47 paise and 49.97 paise per unit, respectively.
- Thus, due to consideration of the MVCA at 23 paise per unit, arising from the failure to revise the MVCA in each month, consistent with actual costs, delays in submission of tariff applications and subsequent delays in issue of tariff orders for the years 2017-20, by WBERC, there was short collection of PPC, amounting to ₹ 3,511.04 crore **(*Appendix-25*).**

In reply (January 2023), WBSEDCL stated that it was not a fact that the difference between average power purchase cost (PPC) as per tariff order and average PPC, as per the annual FPPCA application, becomes the realisable MVCA for the whole year.

However, the reply does not respond to the observation that the MVCA was to be calculated based on the data of the previous month, mainly to ensure timely recovery of fuel and power purchase costs. Moreover, if the MVCA had been revised monthly, the amount recoverable through FPPCA, would have reduced significantly. This would have improved the liquidity position and reduced the amount of RAs.

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298 *{(14,05,952 lakh/37,916.755 MU) x 10)}.*

299 *(33,592.048 MU x 8.27 paise)/1000.*

300 *Financial year 2018-19: 402.99 paise per unit minus 339.53 paise per unit; financial year 2019-20: 412.50 paise per unit minus 339.53 paise per unit.*

3.10.9 Sale of surplus power through IEX

WBSEDCL, in its perspective plan for the financial years 2018-19 and 2019-20, forecasted the unconstrained peak demand and energy demand, for the summer, monsoon and winter seasons, as shown in **Tables 3.11(A)** and **3.11(B)**.

Table 3.11 (A): Forecasted peak demand (MW) during financial years 2018-19 and 2019-2020

Period	2018-19			2019-20		
	Summer	Monsoon	Winter	Summer	Monsoon	Winter
Normal (06.00 hrs to 17.00 hrs)	3,725	3,829	3,262	4,296	4,567	3,636
Peak (17.00 hrs to 23.00 hrs)	6,370	6,719	4,485	6,588	6,777	4,705
Off-peak (23.00 hrs to 06.00 hrs	4,853	5,092	3,101	5,064	5,386	3,524

Table 3.11 (B): Forecasted energy demand (MU) during financial years 2018-19 and 2019-2020

Period	2018-19				2019-20			
	Summer	Monsoon	Winter	Total	Summer	Monsoon	Winter	Total
Normal (06.00 hrs to 17.00 hrs)	4,926	5,104	4,169	14,199	5,702	6,071	4,682	16,455
Peak (17.00 hrs to 23.00 hrs)	4,140	4,664	2,991	11,795	4,294	4,464	3,136	11,894
Off-peak (23.00 hrs to 06.00 hrs	3,304	3,461	2,563	9,328	3,728	3,981	2,846	10,555
	12,370	**13,229**	**9,723**	**35,322**	**13,724**	**14,516**	**10,664**	**38,904**

(Source: LGBR)
{(Conversion of MW to MU =(MW x 24 hours x 365 days)/1000}

Thus, the maximum load, projected for financial year 2018-19 and 2019-20, was 6,719 and 6,777 MW, respectively. However, the actual peak load, achieved during the same period, was 6,677 and 7,181 MW. Against these, WBSEDCL has 9,153.33 MW of PPA, in addition to its own generation capacity of 1,175.920 MW.

In order to ensure uninterrupted power supply to consumers, WBSEDCL was required to arrange power to meet the demand. Accordingly, the Area Load Despatch Centre (ALDC)[301] reviewed, in advance of each financial year, the Load Generation Balance Report (LGBR)[302], in line with the anticipated enhanced system demand which could arise due to various reasons, such as enhanced load due to on account of the harvesting season, board exams, elections, etc.

After receipt of LGBR from ALDC, the Power Trading & Procurement (PT&P) wing of WBSEDCL prepared a conservative procurement plan ahead of the following financial year, under the short-term mode, to procure power to meet

301 *The ALDC was formed in compliance the regulatory guidelines and was entrusted with the procurement of power, through spot, short-term and long-term perspectives.*

302 *LGBR comprises of anticipated power supply from own generation, procurement through power purchase agreement and short-term power purchases and systems demand i.e. consumption of power in the system.*

the shortfall for different time blocks of a specific period not exceeding one year, based on the LGBR prepared by ALDC. As seen from tariff applications of WBSEDCL for the financial years 2018-19 and 2019-20, any incidental surplus energy, mainly during the off-peak and normal periods, was to be sold to different entities, after ensuring recovery of the power purchase costs.

In absence of data, Audit test-check of records of short-term power purchases and sales, through the Indian Energy Exchange (IEX)[303], during financial years 2018-19 and 2019-20, showed the following:

- The LGBR, prepared by the ALDC, for the financial years 2018-19 and 2019-20, showed that there was a need for short-term purchases of power, from IEX, amounting to 2,612 and 2,002 MU, respectively.
- Accordingly, WBSEDCL purchased short-term power amounting to 2,631 and 2,020 MU, from IEX, at an average rate of ₹ 4.93 and ₹ 4.03 per unit, for the financial years 2018-19 and 2019-20, respectively.
- Usually, short-term power is purchased for the peak period only. It was, however, observed that only 885 MU (34 *per cent*) and 547 MU (27 *per cent*) had been procured for the peak period, during the financial years 2018-19 and 2019-20. WBSEDCL had procured off-peak short-term power (23 hrs to 6 am of a day), amounting to 1,097.973 MU (42 *per cent* of the total purchases) and 708.537 MU (35 *per cent* of the total purchases), during the financial years 2018-19 and 2019-20, respectively.

It was an indication of inefficiency of WBSEDCL to forecast its short-term power purchase and its utilisation. Further, loss on sale of surplus power adversely impacted the financial health of WBSEDCL, which contributes to the growth of regulatory assets. The surplus power, mainly off-peak, sold through IEX, during the financial years 2018-19 and 2019-20, was 344 and 250 MU, respectively. The average rate for sale of surplus power was ₹ 2.99 and ₹ 3.71 per unit, which resulted in loss of sale of surplus power, amounting to ₹ 66.37 crore[304] and ₹ 7.99 crore[305], respectively. Consequently, it was seen that WBSEDCL's average selling price on IEX, was below the purchase price, leading to non-recovery of power purchase costs in deviation of the requirements.

While accepting the audit observation, WBSEDCL stated (January 2023) that, due to the volatility of power position in West Bengal, power was procured through IEX, and surplus power, if any, sold through IEX.

WBSEDCL further replied (March 2024) that it procures power from exchanges whenever there has been a shortfall of the same due to unit outage, sudden surge in demand due to weather conditions, etc. and sells power on exchanges whenever there is surplus of the same due to weather conditions and other factors.

However, the fact remained that surplus power was sold through IEX at a price lower than its purchase cost, which resulted in loss in sale of surplus power.

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[303] *IEX is India's premier energy marketplace, providing nationwide automated trading platform for the physical delivery of electricity. IEX is approved and regulated by the CERC and has been operating since 27 June 2008.*

[304] *{(₹ 4.93 – ₹ 2.99) x 342.13 MU}/10.*

[305] *{(₹ 4.03 – ₹ 3.71) x 249.64 MU}/10.*

3.10.10 Non-participation in UDAY scheme

MoP, GoI, had issued (November 2015) guidelines for the UDAY (Ujwal DISCOM Assurance Yojana) Scheme, for operational and financial turnaround of Power Distribution Companies (DISCOMS), with the aim of reducing AT&C losses to 15 *per cent,* in financial year 2018-19 and reducing the gap between the Average Cost of Supply (ACS) and the Average Revenue Realised (AvRR) to zero, by financial year 2018-19. A review meeting (July 2017) of the UDAY scheme revealed that due to participation in UDAY scheme, the savings realised at National level were: (a) reduction in power purchase costs of ₹ 1,800 crore (b) decrease in AT&C losses: ₹ 3,800 crore (c) reduction in interest cost of ₹ 15,086 crore and (d) reduction in booked losses of ₹ 11,045 crore.

To ensure uniformity in the calculation of ACS and AvRR, of each unit of power, the Central Electricity Authority (CEA), under MoP, GoI, had circulated (August 2017) the methodology for calculation of the gap between the ACS[306] and the AvRR[307].

The scheme was optional for the States to accept. It provided that 50 *per cent* of the DISCOM's debt be taken over by the State in financial year 2015-16 and 25 *per cent* in financial year 2016-17. Further, the State could take over the future losses of the DISCOM, in a graded manner[308].

However, after discussion with the DISCOM, GoWB decided not to take part in the scheme, on the grounds that:

- the DISCOM had been making profits since its inception.
- the scheme only considered the outstanding debts of the utility, without considering the regulatory receivables.
- GoWB had formulated a scheme entitled the West Bengal Power Financial Restructuring Scheme (WBPSFRS), with similar objectives.

However, the Ministry of Power, Government of India, did not approve the WBPSFRS scheme. Audit observed that the profitability of the DISCOM, as depicted was largely dependent upon the inclusion of regulatory income. Audit observed that non-participation in the UDAY scheme had the following impact:

- Against the ACS of ₹ 5.17, ₹ 5.50, ₹ 5.82, ₹ 6.12 and ₹ 5.22 per unit, for the respective years, during the period 2017-18 to 2021-22, the AvRR per unit was ₹ 4.93, ₹ 5.19, ₹ 5.41, ₹ 5.16 and ₹ 5.42. This resulted in a gap of ₹ (-)0.24, ₹ (-) 0.31, ₹ (-) 0.41, ₹ (-) 0.96 and ₹ (+) 0.20 per unit. Thus, the gap between ACS and AvRR had reduced to 0.20 in financial year 2021-22, whereas the UDAY scheme had aimed to reduce the gap by zero in financial year 2018-19 itself. Moreover, the 10th Annual Integrated Rating

306 *Includes costs/ other charges of the railway staff posted at the power stations, de-railment and re-railment charges, ash evacuation etc., as per railway regulations.*

307 *AvRR = (Revenue from sale of power +other income +subsidy received – subsidy booked)/ Total input energy.*

308 *Financial year 2017-18: 5 per cent loss of financial year 2016-17; financial year 2018-19: 10 per cent loss of financial year 2017-18; financial year 2019-20: 25 per cent loss of financial year 2018-19; and financial year 2020-21: 50 per cent of the previous years loss.*

& Ranking: Power Distribution Utilities of August 2022, observed that the WBSEDCL's metrics on the ACS-ARR gap trajectory was declining.

- The AT&C losses for the period 2017-22 were 27.33, 22.97, 20.10, 21.35 and 16.65 *per cent,* against 15 *per cent* targeted by the UDAY Scheme, by financial year 2018-19.
- WBSEDCL had projected that participation in the UDAY scheme would lead to saving of interest cost of ₹ 732 crore[309], from financial institutions, from the financial year 2017-18 onwards. However, due to non-participation in the UDAY scheme, debt (both short and long term) had increased from ₹ 11,705.99 crore in financial year 2017-18 to ₹ 16,452.12 crore in financial year 2021-22 (increase of 40.54 *per cent*). Accordingly, interest expenses had also increased, from ₹ 1,394.22 crore in financial year 2017-18 to ₹ 1,584.76 crore in financial year 2021-22 (increase of 13.67 *per cent*).
- The opportunity to reduce AT&C losses through UDAY was not utilised, preventing reduction in power purchase costs, which, in turn, had increased by 10.52 *per cent* (i.e. by ₹ 1,915.81 crore[310]).

In reply (January 2023) WBSEDCL stated that the non-participation in UDAY scheme was a decision of the State Government.

3.10.11 Release of electricity subsidy

To reduce the tariff burden on consumers, GoWB released upfront subsidy to Domestic (Rural & Urban) consumers having electricity consumption less than 300 units per month, *i.e.* below 900 units in a quarter. Further, on inauguration of the '*Hasir Alo*' Scheme[311] (April 2020), DoP, GoWB, decided to provide free electricity to poor Life Line Domestic Consumers, having electricity consumption less than 25 units per month or 75 units in a quarter, provided that the consumers had connected load less than 0.3 KW.

According to the Electricity Act, 2003[312] and Tariff Regulations of WBERC[313], the amount of subsidy is to be paid, by the State Government, in advance, to the licensee. Audit observed that the State Government had failed to: (a) allocate the proper subsidy amounts in the budget (b) pay the subsidy amounts in advance and (c) released amounts higher than the budget allocation, after receipt of actual demands from the licensee.

Table 3.12 shows the year-wise budget sanction and release of subsidy amount to WBSEDCL.

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309 *Taking over of 75 per cent of WBSEDCL's loan of ₹ 8,128 crore (i.e. ₹ 6,096 crore), by GoWB.*

310 *Power purchase cost in financial year 2018-19 was ₹ 18,206.55 crore and in financial year 2021-22 its was ₹ 20,122.36 crore.*

311 *GoWB had announced (March 2020), a new scheme called 'Hasir Alo', providing free electricity to the poor of the state. Under this scheme, no electricity charges would be levied on all poor Life Line Domestic Consumers having connected load upto 0.3 KW (300 watt), having quarterly consumption of electricity upto 75 units or monthly consumption upto 25 units.*

312 *Under Section 62.*

313 *Clause 2.3 of Regulation 48 of WBERC dated 25 April 2011.*

Table 3.12: Year-wise budget sanction and release of subsidy to WBSEDCL

Name of the scheme	Financial Year	Initial budget allocation (₹ in crore)	Release of subsidy amount (₹ in crore)	Subsidy booked by WBSEDCL (₹ in crore)
Upfront subsidy	2017-18	600.00	1,023.49	1,055[314]
	2018-19	600.00	1,087.26	982.00
	2019-20	600.00	1,018.80	1,084.00
	2020-21	600.00	1,105.51	1,114.00
	2021-22	600.00	1,206.82	1,207.00
Total (A)		**3,000.00**	**5,441.88**	**5,442.00**
Hasir Alo	2020-21	0.00	260.10	260.00
	2021-22	138.75	323.71	324.00
Total (B)		**138.75**	**583.81**	**584.00**
Grand Total		**3,138.75**	**6,025.69**	**6,026.00**

(Source: Year-wise budget sanction and release)

The above table indicates that, against ₹ 3,138.75 crore initially sanctioned in budget, the actual subsidy released to WBSEDCL amounted to ₹ 6,025.69 crore, against which WBSEDCL booked subsidy amounting to ₹ 6,026 crore, in its accounts.

Further, the subsidy amount was to be received in advance, *i.e.* on or before the first day of any financial year. However, Audit observed that the subsidy for the financial year 2021-22, amounting to ₹ 1,530.53 crore[315], was received in a staggered manner, during the financial year 2021-22. Thus, WBSEDCL was forced to subsidize the consumers from its own funds. Had DoP, GoWB, released the subsidy amount in advance, as stipulated in the Act and Regulation, WBSEDCL could have saved loss of interest, amounting to ₹ 88.06 crore (considering cash credit interest of 8 *per cent*) (***Appendix –26***).

While accepting the audit observation, WBSEDCL stated (January 2023) that the subsidy for the full financial year is not supposed to be received on or before the first day of any financial year.

The reply of the management is not acceptable on the ground that, as per Schedule 6 of Tariff Regulations, 2011, the amount of subsidy so agreed by the state government, is to be paid in advance directly to the licensee, in full, at the beginning of each financial year, or before implementation of any decision for which such grant of subsidy is decided.

Recommendation :

2. ***SPSEs should strive to strengthen its operational performance, to meet the laid down norms.***
3. ***WBERC should ensure that the provisions of the National Tariff Policy are followed, for fixing norms and finalising tariff/APR orders, to regulate the tariff properly and enable recovery of justifiable costs incurred by SPSEs.***

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314 *Includes of ₹ 143 crore as opening balance receivable from GoWB.*

315 *₹ 1,206.82 crore for upfront subsidy and ₹ 323.71 crore for Hasir Alo.*

3.11 Audit Objective 3: Whether the creation and recognition of regulatory assets had impacted the performance of SPSEs

The impact of creations and recognition of regulatory assets, on the performance of SPSEs, is discussed in the succeeding paragraphs.

3.11.1 Enhancement of borrowing limits

To meet the system demand and to ensure continuous supply to different categories of consumers in the state, WBSEDCL procures power from various[316] power supply agencies. WBPDCL supplied its entire generation to WBSEDCL, with the quantum of power supplied by WBPDCL, against the total requirement of WBSEDCL, for the period 2017-2022, ranging between 45 and 60 *per cent*. The remaining requirements were met through long/medium term power purchase agreements (PPAs) and procurement of short term power from the market. Between financial years 2017-18 and 2021-22, for WBSEDCL, the year-wise power purchase costs, as a percentage of the total costs, ranged between 75 *per cent* and 80 *per cent*. For procurement of power and to meet its working capital needs, WBSEDCL had enhanced its borrowing limit, of cash credit (CC) and short/ medium term loans, from ₹ 12,000 crore[317] to ₹ 15,000 crore[318], indicating the need to control the power purchase costs of WBSEDCL.

3.11.2 Excess interest burden

Cash is essential for the financial stability of a Company and its cash inflows and outflows need to be managed satisfactorily in order to meet payment obligations, plan for future payments and maintain adequate business stability.

Scrutiny of the cash flow statements, annual accounts, loan files, budget and expenditure etc., of the SPSEs covered in this report, revealed that there were wide changes in the financial health of the SPSEs, which ultimately increased their interest burden. **Table 3.13** indicates the changes in the financial health of the SPSEs, during 2017-22.

Table 3.13: Impact on financial health of SPSEs

SPSE	Impact on financial health
WBSEDCL	Negative working capital rose by 53 *per cent.*
	Interest expenses rose by 14 *per cent.*
	Revenue deficit rose by 69 *per cent.*
WBPDCL	Short term borrowings rose by 69 *per cent.*
	Prolonged period, allowed by WBERC for recovery of arrear dues, resulted in taking of temporary accommodation.
	Interest of ₹ 180.97 crore was claimed on temporary accommodation, which carries the potential of increasing the tariff burden. Interest expenses rose by 92 *per cent.*

[316] *WBPDCL, DPL, NTPC (National Thermal Power Corporation Limited), NHPC (National Hydroelectric Power Corporation Limited), DVC (Damodar Valley Corporation), PTC (Power Trading Corporation of India Limited), etc.*

[317] *Approved by BoD dated 13 November 2017.*

[318] *Approved by BoD dated 24 July 2020.*

SPSE	Impact on financial health
WBSETCL	Negative working capital rose by 25 *per cent.*
	Borrowings rose by 8 *per cent.*
	Interest expenses rose by 8 *per cent.*
DPL	To liquidate the high-cost term loan of ₹ 2,690 crore for 10 years, taken from PFCL @11.15 *per cent* per annum, BoD of DPL approved[319] taking of loan, amounting to ₹ 2,675 crore at 8.65 *per cent per annum,* upto 15 years, from WBIDFC Limited. There would be saving in interest of ₹ 8 crore (₹ 27 crore – ₹ 19 crore) per month, amounting to ₹ 96 crore per annum, which would improve the cash flow of DPL. While this could assist DPL in improving its cash flow in the short term, in the long-term DPL will pay excess avoidable interest of ₹ 5.76 crore[320]. Thus, the decision to liquidate the high cost loan, by taking another loan over a longer tenure, would increase the interest burden of the Company and affect the financial health of the Company as well.

(Source: Annual Reports/APR/Minutes of BoD)
Notes: Temporary accommodation means a temporary/ short term financial loan, taken from lending agencies.

DPL, in its reply (November 2022), stated that, due to loan swapping, it had saved monthly interest of ₹ 8.00 crore. Further, considering the present value factor of 7.10 *per cent* of cash out-flow of interest, DPL had saved ₹ 26.17 crore.

However, examination of DPL's calculation by Audit showed that there was avoidable excess interest outflow of ₹ 5.76 crore.

WBSETCL, in its reply (December 2022), accepted the audit observation and stated that it was presently utilising the loan capital within the prescribed limits, and, to mitigate the interest burden, it had taken the initiative to swap high interest bearing loans, to rationalise the interest costs. WBSETCL further replied (April 2023) that the main reason for the increase in internal borrowing was due to increase in capital expenditure. Every year the company has incurred capital expenditure to the extent of ₹ 800-₹1000 crore.

While accepting the audit observation, WBSEDCL stated (January 2023) that the Company has tried to optimise the interest burden by means of loan swapping *etc.*

3.11.3 Effect on the credit rating of the SPSEs

The distribution function is a crucial link in the electricity chain, as it provides the last mile connectivity in the Electricity sector. With most of the country's distribution business coming under the state distribution sector, achieving improvements in the financial and operational performance of the State Power Distribution Utilities, is of paramount importance for the robust overall development of the Indian Power Sector. MoP, GoI, initiated (October 2019) action for development of an Integrated Rating Methodology, covering the State Power Distribution Utilities, keeping in view their poor financial health, due to multifarious factors. The credit rating was to be based on the following parameters: (a) Operational and reform parameter (52 score) (b) External parameters (15 score) and (c) Financial parameters (33 score). The 10th Annual Integrated Rating and Ranking of Power Distribution Utilities published

319 *Vide Agenda No. 4 of 625 BoM dated 22 February 2021.*

320 *Excess interest paid of ₹ 14.04 crore minus saving of interest on cash outflow of ₹ 8.28 crore.*

(August 2022) by MoP, GoI, evaluates DISCOMs' performance against three main parameters, *viz*.: (a) financial sustainability (75 *per cent* weightage) (b) Performance excellence (13 *per cent* weightage) and (c) external environment (12 *per cent* weightage). Most of the central and state government schemes are funded through PFC and REC loans. The loan policy circulars of PFC and REC dated 1 September 2022 and 19 January 2022, respectively, envisaged that the interest rates of loans taken by SPSEs, having credit rating B and C, shall be higher by 25 bps and 50 bps, respectively, than the interest rates of loan applicable to SPSEs of rating A.

As per the report (October 2019) of MoP, GoI, the rating of WBSEDCL (state owned distribution company) was B^+ (score between 50 and 65), which indicated moderate operational and financial performance capability. The key concern areas were identified as: (a) T&D and AT&C losses remaining higher than the trajectory fixed (b) Tariff order, APR & FPPCA orders and trueing-up[321] not having been done by WBERC, for the last five years (c) the Debt-Equity ratio (5.17:1) of WBSEDCL being very skewed, which affected credit ratings. Poor credit rating was also adversely affecting the Company's borrowing profile. However, as per the 10th Integrated Ratings and Rankings of MoP, GoI (August 2022), WBSEDCL has been assigned grade 'C', having declined from the earlier B^+ grade. The downward credit rating occurred due to: (i) holding of 25 *per cent* of the total regulatory assets of DISCOMs in India by WBSEDCL (b) failure to file tariff and APR applications in time (c) delay in issue of tariff and APR orders by WBERC. Out of the project loans of ₹ 5,544 crore, loans amounting to ₹ 3,918.77 crore (71 *per cent*) had been taken from REC and PFC, with a repayment period of 12 to 20 years. Due to the decrease in its credit rating, from B to C grade, the Company would be paying higher interest, in future.

The SPSEs had also engaged a Credit Rating Agency (CRA), to rate their long term and short term loans. **Table 3.14** shows the present rating of SPSEs by CRA.

Table 3.14: Present rating of SPSEs by CRA

SPSE	Name of rating agency	Rating of long term loans	Rating of short term loans	Remarks by CRA	Impact
WBSEDCL	Acuite Credit Rating Agency (ACRA)	BBB^+	A2	Pending confirmation of huge regulatory assets by WBERC, short term borrowings had increased.	The total borrowings (31 March 2022) stood at ₹ 16,454.15 crore, of which, project loans constituted ₹ 5,544 crore (34 *per cent*); Long term working capital loan and others stood at ₹ 4,106 crore (25 *per cent*); Short term loans amounted to ₹ 1,145 crore (7 *per cent*) and Cash Credit loans were ₹ 5,659 crore (34 *per cent*).

[321] *Process of reconciliation of actual expenditure during the Annual Performance Review (APR), with the amount admitted in tariff order.*

SPSE	Name of rating agency	Rating of long term loans	Rating of short term loans	Remarks by CRA	Impact
WBPDCL	ACRA	A	A2	It was stated in the report that: (a) there was moderate financial risk (b) the liquidity profile was adequate and (c) outlook of the company was stable.	WBPDCL had availed the moratorium granted, in view of COVID-19 pandemic situation, in regard to payment of instalment and interest of loans, amounting to ₹ 536.42 crore.
WBSETCL	ACRA	A	A	A stable outlook.	
DPL	ACRA	BBB^+	A2	Weak financial risk profile of DPL, marked by reducing net worth and weak debt protection metrics.	Had not availed any loan moratorium or additional COVID loans.

(Source: Credit Ratings Reports)

WBSETCL in its reply (December 2022) stated that current rating of WBSETCL was upgraded to A^+ with stable outlook from 2022.

While accepting the audit observation, WBSEDCL stated (January 2023) that the rating may improve in future.

3.11.4 Government's initiative to liquidate regulatory assets

To liquidate regulatory assets/receivables and arrear power purchase costs, the State Finance Department had released ₹ 4,563.16 crore as grants-in-aid, between October 2016 to May 2017, of which WBSEDCL received ₹ 2,647.09 crore and WBPDCL received ₹ 1,916.07 crore. GoWB had again formulated (2016) a scheme, entitled the 'West Bengal Power Financial Restructuring Scheme (WBPSFRS)', to liquidate borrowings and regulatory assets. However, MoP, GoI, had not approved (July 2018) the WBPSFRS scheme. Thus, the earlier initiative of GoWB, for liquidation of the regulatory assets/receivables, did not yield the desired results and the RAs have increased (as of 31 March 2022) to ₹ 18,330.17 crore and ₹ 7,764.48 crore, for WBSEDCL and WBPDCL, respectively. In the meanwhile, DoP, GoWB, communicated (July 2021) to WBERC that release of the accumulated regulatory assets/receivables, in one go, would have a catastrophic impact on the tariff bills, leading to tariff shock to the consumers. GoWB also stated that the current scale of regulatory receivables was so large that it was beyond their means to liquidate the regulatory assets, as they had done before. Consequently, GoWB directed WBERC to dispose of the pending APRs and FPPCAs within October 2021 under Section 108[322] of the Electricity Act, 2003.

WBSEDCL accepted the audit observation (January 2023).

3.11.5 Incentives under scheme for restructuring

MoP, GoI, had launched (July 2021) the Revamped Distribution Sector Scheme (RDSS), which aims to reduce the AT&C losses to pan-India levels of

[322] *The State Commission shall be guided by such directions in matters of policy involving public interest as the State Government may give to it in writing. (2) If any question arises as to whether any such direction relates to a matter of policy involving public interest, the decision of the State Government thereon shall be final.*

12-15 *per cent* and the ACS-AvRR gap to zero, by financial year 2024-25. All state-owned DISCOMs and State/UT Power Departments will be eligible for financial assistance under the scheme. Under this scheme, a state level Distribution Reform Committee (DRC) was to be constituted, for implementation of the scheme. The proposal was discussed in DoP, GoWB and a DRC was formed (November 2021) to implement the scheme in the state. According to the pre-qualification criteria of the scheme: (a) WBSEDCL will have to ensure that no new regulatory assets have been created in the latest tariff determination cycle (b) the State Government has to ensure 100 *per cent* payment of subsidy for the previous year and advance payment of subsidy upto the current period and (c) tariff orders should have been implemented *w.e.f.* from 1 April 2022, for the year 2022-23 and true-up should have been done for the financial year 2020-21.

In this regard, Audit observed that: (a) the true-up of WBSEDCL had been done by WBERC, up to the financial year 2019-20. Further, due to delay in finalisation of annual accounts for the financial year 2020-21, WBSEDCL had belatedly submitted (June 2022) its APR application for the financial year 2020-21, order on which was yet to be issued by WBERC (as of October 2022) (b) WBSEDCL had *suo moto* created regulatory assets and booked them in its accounts, for the financial year 2021-22 (c) GoWB failed to release subsidy in advance, for the financial year 2021-22, as brought out in ***Paragraph 3.10.11*** (d) the tariff order for the financial year 2022-23 had been issued by WBERC in July 2022, instead of being issued before commencement of financial year 2022-23.

In reply WBSEDCL stated (January 2023) that Monitoring Committee has approved WBSEDCL's proposal of RDSS in November 2022.

Recommendation 4:

SPSEs should make efforts to improve their liquidity position, borrowing and credit profile.