

CHAPTER-I

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1.1 The power sector can be broadly segmented into generation, transmission and distribution sectors. The distribution sector consists of five Power Distribution Companies (DISCOMs) viz. Dakshinanchal Vidyut Vitran Nigam Ltd. (DVVNL), Madhyanchal Vidyut Vitran Nigam Ltd. (MVVNL), Paschimanchal Vidyut Vitran Nigam Ltd. (PVVNL), Purvanchal Vidyut Vitran Nigam Ltd. (PuVVNL), and Kanpur Electricity Supply Company (KESCO) under the holding company Uttar Pradesh Power Corporation Ltd (UPPCL). The DISCOMs are responsible for supply and distribution of energy to the consumers (industry, commercial, agriculture, domestic *etc.*) of Uttar Pradesh. The distribution sector is the weakest link in Power Sector value chain of generation, transmission and distribution in terms of financial and operational sustainability.

The Government of India (GoI) and Government of Uttar Pradesh (GoUP) had launched various schemes and initiatives from time to time aimed at improving operational and financial health of DISCOMs, which attained limited success and DISCOMs continue to be a resource drain on the economy.

During November 2015, the GoI launched the Ujwal DISCOM Assurance Yojana (hereafter referred to as UDAY Scheme) with the objective of financial and operational turnaround of DISCOMs. The Scheme was envisaged as a path-breaking reform for realising the vision of affordable and accessible 24x7 Power for All.

Implementation of Scheme in Uttar Pradesh

1.2 The GoI approved UDAY Scheme to improve the operational and financial efficiency of DISCOMs vide Office Memorandum (OM) dated 20 November 2015. The OM required that an agreement be signed amongst the respective State Government, DISCOMs and GoI stipulating responsibilities of the State Government, DISCOMs and GoI for achieving financial and operational milestones as described in the UDAY Scheme.

Accordingly, a tripartite Memorandum of Understanding (MoU) was signed on 30 January 2016 amongst Ministry of Power (MoP), GoI; GoUP and UPPCL (on behalf of the five DISCOMs of Uttar Pradesh).

The Scheme envisaged following financial and operational outcomes:

- **Financial outcomes:** Take over of 75 *per cent* of outstanding debts of DISCOMs and funding of future losses of DISCOMs in a graded manner by GoUP;
- **Operational outcomes:** Reduction of Aggregate Technical and Commercial (AT&C)¹ losses to 14.86 *per cent* by 2019-20 and elimination of gap between

¹ Aggregate Technical & Commercial (AT&C) losses means combination of energy loss (technical loss + theft + inefficiency in billing) and commercial loss (default in payment + inefficiency in collection).

Average Cost of Supply (ACS)² and Average Revenue Realisation (ARR)³ by 2019-20.

To achieve the above outcomes of financial and operational turnaround, the tripartite MoU provided the following targeted activities:

- **Financial activities:** GoUP was required to take over debt of DISCOMs of ₹ 44,403.89 crore (75 per cent of total debt of ₹ 59,205.19 crore⁴ outstanding as on 30 September 2015) till 30 June 2016, take over future losses of DISCOMs for the years 2016-17 to 2019-20 in a graded manner and issue/guarantee the bonds for meeting the current losses *etc.*
- **Operational activities:** The DISCOMs were required to improve billing efficiency and collection efficiency, install smart meters for all the consumers⁵ consuming above 200 units per month by 31 March 2020, install meters at all the feeders and distribution transformers (DTs) by 30 September 2016 and 30 September 2017 respectively, achieve feeder segregation for agricultural and non-agricultural consumers by 31 March 2018 and undertaking measures for demand side management and energy efficiency.

Audit Objectives

1.3 The Performance Audit was conducted with the objectives to assess whether:

- The directives pertaining to financial parameters envisaged in the UDAY Scheme and tripartite MoU have been adhered to and the overall objective of financial turnaround of DISCOMs was achieved; and
- The targeted operational improvement and intended outcomes were achieved by implementing operational efficiencies as envisaged in the UDAY Scheme and tripartite MoU.

Audit Criteria

1.4 Audit findings were benchmarked against the criteria sourced from the following:

- Provisions of Office Memorandum of the UDAY scheme issued by MoP;
- Provisions of MoU signed amongst MoP, GoUP and UPPCL;
- Directions/instructions issued by MoP and GoUP from time to time;
- The Electricity Act, 2003, Electricity Supply Code, 2005 (Supply Code, 2005) and directions/tariff/true-up orders issued by Uttar Pradesh Electricity Regulatory Commission;
- Agenda and Minutes of Meetings of Board of Directors of DISCOMs and UPPCL;
- Terms of lending agreements of DISCOMs under UDAY Scheme;
- Progress against targets as reflected on UDAY dashboard.

² Average Cost of Supply (ACS) means total expenditure incurred divided by total input of energy in units during a specific period.

³ Average Realisable Revenue (ARR) means total revenue (including subsidy on receipt basis and all other incomes) divided by total input of energy in units during a specific period.

⁴ Including bonds issued under Financial Restructuring Plan (FRP)-2012 prior to 30 September 2015 amounting to ₹ 5,270.13 crore.

⁵ Excluding agricultural consumers.

Audit Scope and Methodology

1.5 The Performance Audit was conducted during January 2021 to May 2022⁶ and December 2022 with a view to assess the effectiveness and efficiency in implementation of the UDAY Scheme and performance of DISCOMs, pre and post implementation of UDAY Scheme. Since, implementation period of the UDAY Scheme was from 2015-16 to 2019-20, Audit covered the period from 2015-16 to 2020-21 (updated up to October 2022) so that a comparison of pre and post UDAY position could be made.

In order to assess the performance against the obligations of GoUP and DISCOMs as envisaged in OM of the Scheme and MoU, records of the Energy Department, GoUP (Department), UPPCL and headquarters of five DISCOMs were examined.

To examine the operational achievements, Audit scrutinised the relevant records of 18 Circle Offices which were selected on the basis of high and low AT&C losses and quantum of increase/decrease in their AT&C losses during scheme period and 64 Electricity Distribution Divisions under these Circle Offices (**Appendix-1.1**).

Entry Conference was held on 8 February 2021 wherein the audit objectives, scope and methodology were discussed with the Department/Management. An Exit Conference was held on 8 July 2022 with the Management and on 28 March 2023 with the Government to discuss the audit findings. Replies of UPPCL were received in July/August 2022 and March 2023. During finalisation, the Performance Audit Report was revised and issued to the Energy Department, GoUP in August 2023 for response. Replies of the Department, received in October 2023, have been suitably incorporated in the Report.

⁶ The audit was started in January 2021 at UPPCL Headquarters but due to COVID pandemic it remained suspended intermittently and field audit in four DISCOMs (DVVNL, MVVNL, PVVNL, PuVVNL) could be started only in December 2021.