Chapter II

Performance Audit of Government Company

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2 Maharashtra State Electricity Distribution Company Limited

2.1 Power Purchase Agreements with Independent Power Producers

Executive Summary

Introduction

Maharashtra State Electricity Distribution Company Limited (Company) is the distribution licensee for the State except Mumbai and certain Suburban area. The peak demand of the area served by the Company increased from 13,846 Mega Watts (MW) in 2008-09 to 15,261 MW in 2012-13. However, deficit of power decreased from 2,811 MW in 2008-09 to 1,166 MW in 2012-13.

Considering competitive environment as envisaged in the Electricity Act, 2003 and constraints of the Public Sector in creation of adequate capacity, Ministry of Power (MoP), Government of India issued (January 2005) competitive bidding guidelines allowing Independent Power Producers (IPPs) to participate in capacity building through competitive bidding. The Government of Maharashtra (GoM) also formulated (March 2005) policy to promote investment in power sector by IPPs and offered financial/administrative support. As the purchase of power from IPPs was increasing, the Performance Audit of Power Purchase Agreements (PPAs) with IPPs was considered necessary.

Capacity additions through Government support

The GoM executed Memorandum of Understandings (MoUs) with eight IPPs (12,168 MW) and issued letter of support to 30 IPPs (39,631 MW) out of which six IPPs (4,120 MW) had commissioned their plants by June 2013. All IPPs including those who executed MoUs with the GoM participated in the competitive bidding. If such IPPs get financial support from the GoM, the competitive bidding would not provide level playing field. The GoM had also not ensured whether the benefits (tax exemption), if given, had been passed on to consumers through tariff quoted by them.

Renewable energy

Though, the Company's purchase of power from renewable sources increased during 2008-13, it was still below the target fixed by Maharashtra Electricity Regulatory Commission (MERC). The State Government has also not made efforts to develop solar energy source where 35 MW of power per sq. km. could be generated. GoM developed only 20 MW from this source so far.

Purchase of power on long term basis

Purchase of power on long/medium term increased from 81 MUs in 2008-09 to 7,789 MUs in 2012-13. There were instances where the Company purchased costlier power on short/medium term basis from IPPs instead of procuring power on long term basis thereby incurring additional expenditure of ₹57.61 crore. The Company executed PPAs with Adani Power Maharashtra Limited (APML) and JSW Energy (Ratnagiri) Limited (JSWERL) for gross capacity instead of net capacity of power generating units as indicated in tender resulting in avoidable payment of capacity charges of ₹ 31.12 crore to JSWERL. Further, the Company paid incentive of ₹ 22.48 crore to JSWERL considering Scheduled Commercial Operation Date (SCOD) as per bid documents instead of negotiated SCOD agreed by supplier and approved by MERC.

Inadequate performance guarantee

Performance guarantees obtained from IPPs as per terms of tender were of lower value than liquidated damages to be recovered in the event of default. There was a shortfall of ₹260 crore in four PPAs.

Power purchase on medium term basis

The Company accepted request of IPP for reduction in availability of capacity at delivery point without approval of MERC. As a result, the requirement of power was met through short term purchase during December 2011 to August 2012 at extra cost of ₹33.88 crore. Similarly, there was a shortfall in purchase of power on medium term basis from APML and Company resorted to short term purchase at additional cost of ₹ 90.85 crore during November 2011 to November 2012.

Purchase of power on short term basis

The purchase of power on short term basis increased from 1,257 MUs in 2008-09 to 6,312 MUs in 2012-13. The Company executed PPA with Wardha Power Company Limited, Hyderabad for purchase of power on short term basis but purchased infirm power generated before commercial operation at rate agreed for firm power. As per MERC/MoP guidelines, no capacity charges were payable for infirm power. However, the Company paid capacity charges of ₹21.16 crore to IPP.

Recommendations

The Audit has made five recommendations which include ensuring of financial benefits provided to IPPs, if any, by the GoM being passed on to consumers, development of solar energy source, payment of energy charges as per terms of tender, review of performance guarantee and purchase of costly power at minimum level etc.

Introduction

2.1.1 Maharashtra State Electricity Distribution Company Limited (Company) was incorporated (June 2005) on unbundling of the erstwhile Maharashtra State Electricity Board (MSEB) as a part of reforms in power sector. The Company is the Distribution Licensee for the State except Mumbai and certain Suburban areas and is vested with distribution of reliable and quality supply of electricity at reasonable and competitive rates so as to boost agricultural, industrial and overall economic development of the State.

The peak demand of the area served by the Company increased from 13,846 Mega Watts (MW) in 2008-09 to 15,261 MW in 2012-13. However, deficit of power decreased from 2,811 MW in 2008-09 to 1,166 MW in 2012-13. In order to meet the accelerating demand through a competitive environment as envisaged in the Electricity Act, 2003 and also considering the constraints of the Public Sector Undertakings (PSUs) in creation/management of adequate generation capacity, the Ministry of Power (MoP), Government of India (GoI) issued (January 2005) Competitive Bidding Guidelines (CBG), allowing Independent Power Producers (IPPs) to participate in capacity building through Case-1 or Case-2 tariff bidding process. The glossary of terms used in the performance audit report has been given in **Annexure-7**.

The Company executed (September 2008 to February 2013) a total of eleven long term Power Purchase Agreements (PPAs) for total capacity of 6,875 MW. Out of the total contracted capacity, supply of 2,380 MW power was started by June 2013 from three IPPs namely JSW Energy (Ratnagiri) Limited (JSWERL), Coastal Gujarat Power Limited (CGPL) and Adani Power Maharashtra Limited (APML). The Scheduled Delivery Dates (SDD) in respect of seven PPAs will be due during March 2014 to February 2017 and in case of one PPA (680 MW), the Company encashed the performance guarantee. The Company had not executed any PPA with IPPs under Case-2.

The Performance Audit Report on Power Purchase Management was included in the Audit Report of the Comptroller and Auditor General of India for the year ended 31 March 2008 (Commercial), Government of Maharashtra (GoM). The Committee on Public Undertakings (COPU) observed (September 2012) that power purchased by the Company from private power generators was costly and recommended that the burden passed on to consumers should be reduced.

Organisational set up

2.1.2 The Management of the Company is vested in a Board of Directors (BoD) comprising of eight Directors appointed by the State Government. The day-to-day activities of the Company are looked after by the Managing Director (MD) who is assisted by Director (Finance), Director (Operations) and Director (Projects).

Scope and Methodology of Audit

2.1.3 The present performance audit conducted during April to July 2013 covered scrutiny of all the eleven long term PPAs (more than seven years), two medium term PPAs (more than one year to seven years) and ten out of 24 tenders for short term purchases (up to one year) finalised during 2008-09 to 2012-13. Audit examination involved scrutiny of tender documents, evaluation of offers, execution of PPAs, approvals/orders of Maharashtra Electricity Regulatory Commission (MERC), day ahead scheduling of demand and supplies approved by State Load Despatch Centre (SLDC), bills raised by and payments effected to IPPs for supply of power *etc*.

Audit objectives

2.1.4 Objectives of Performance Audit were to ascertain as to whether:

- Requirement of power was properly assessed and purchase of power on long term basis planned accordingly;
- The Memorandum of Understandings (MoUs)/PPAs executed by the State Government/Company were in line with the prescribed guidelines/rules/ regulations;
- The terms and conditions of the PPAs executed in mutual interest were in compliance to the ultimate objective of least cost to the consumers;
- Payments were made strictly as per terms of PPA/tender;
- Monitoring mechanism was in place to oversee timely implementation of projects taken up by IPPs; and
- Reciprocal contractual obligations as per PPAs existed.

Audit criteria

2.1.5 The audit criteria adopted for achieving the stated objectives were derived from the following documents:

- Electricity Act, 2003, Rules, Regulations, Policies and guidelines issued there under by State Government, MoP (GoI), Central Electricity Authority (CEA), appropriate Regulatory Commissions *etc.;*
- MoUs signed by the State Government with the IPPs;
- Standard bidding documents including model PPA issued by MoP;
- PPA entered into by the Company with various IPPs;
- Backing down reports issued by SLDC; and
- Agenda notes and minutes of BoD.

Audit findings

2.1.6 We discussed the audit objectives with the Company during an 'Entry Conference' held on 21 May 2013. The audit findings were reported to the Company and the State Government in August 2013. The Management replied to the audit findings in November 2013 and replies of State Government were awaited (December 2013). The audit findings were discussed in an 'Exit Conference' held on 12 November 2013, which was attended by the MD of the Company who also held the additional charge of the Principal Secretary (Energy), GoM. The views expressed by the Management in their replies/ meeting have been considered while finalising the performance audit report. The audit findings are discussed below:

Planning

2.1.7 MERC issued directives from time to time to form a technical committee to scientifically assess the power requirement of the State. Pending formation of such committee, the Company had been assessing the requirement of power based on the Electricity Power Survey (EPS) Reports published by the CEA and making purchase proposals to MERC for approval.

Details of power purchased by the Company from different sources during the five years up to 2012-13 were as under:

(In MUs)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
(a) Power purchased from Central/State sector					
Central Sector	27,739	32,586	36,713	37,580	34,273
State Sector	46,316	46,694	42,460	43,216	43,388
Total from Central and State Sector	**74,055**	**79,280**	**79,173**	**80,796**	**77,661**
Percentage to total purchase	92.72	92.75	87.54	81.89	78.39
Cost per unit (₹)	**2.13**	**2.41**	**2.78**	**3.08**	**3.40**
(b) Power purchased from private sector					
IPPs (long/medium term)	81	73	1,208	4,627	7,789
Short term/spot trade	1,257	942	2,374	6,439	6,312
Renewable Energy	2,931	3,183	4,147	5,659	7,280
Total power purchased from private sector	**4,269**	**4,198**	**7,729**	**16,725**	**21,381**
Percentage to total purchase	5.34	4.91	8.55	16.95	21.58
Cost per unit (₹)	**4.47**	**4.82**	**4.01**	**4.07**	**3.85**
(c) Unscheduled Interchange purchase	**1,546**	**1,996**	**3,536**	**1,141**	**26**
Total Purchases (a+b+c)	**79,870**	**85,474**	**90,438**	**98,662**	**99,068**

It can be seen from above that the power procured from Central/State Public Sector reduced from 92.72 *per cent* in 2008-09 to 78.39 *per cent* in 2012-13 of the total purchase. The procurement from IPPs however increased from 5.34 *per cent* in 2008-09 to 21.58 *per cent* in 2012-13. In case of purchase from renewable source, the same increased from 2,931 MUs (3.67 *per cent*) in 2008-09 to 7,280 MUs (7.35 *per cent*) in 2012-13 of the total purchase.

Capacity additions through Government support

2.1.8 The State Government formulated (March 2005) its policy to promote investment in power sector by IPPs. The policy, *inter-alia,* stipulated that a) Financial (tax benefits) and administrative support will be provided by the State Government; b) Generating Projects were to be set up by IPPs in the State on its own or jointly with MSEB or its successors; c) Buy back guarantee of power by MSEB or its successors to the extent of 2,000 MW or 50 *per cent* of the total generation during first five years through competitive bidding process; and d) IPPs were bound to sell power to the extent of 50 *per cent* of power generated within the State.

The State Government executed (April 2005) MoUs with eight IPPs **(Annexure-8)** and issued Letter of Supports (LoS) to another 30 IPPs **(Annexure-9)** for implementation of projects of total capacity of 12,168 MW and 39,631 MW respectively. Out of above, two IPPs[25] who executed MoUs (1,450 MW) and four IPPs[26] (2,670 MW) to whom LoS were issued commissioned their plants by June 2013. Deficiencies in monitoring these projects had already been brought out in the **Paragraph No.2.2.22** of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010 (Commercial), Government of Maharashtra.

We observed that the Company has been purchasing power through competitive bidding. The IPPs who entered into MoUs with the State Government also participated in the competitive bidding and a PPA was executed (February 2010) with JSWERL. We observed that if such IPPs get financial benefits from the State Government as per the term of MoUs, the competitive bidding would not provide a level playing field. Further, the State Government/Company had not ensured as to whether the benefits, if given to the IPPs, had been passed on to consumers through tariff quoted by the IPPs in response to competitive bidding.

The Government stated (December 2013) that the details of financial benefits availed by IPPs, if any, would be collected from concerned Departments and IPPs.

Purchase from Renewable Energy

2.1.9 The MERC had fixed targets for purchase of power at six *per cent* of total consumption from renewable sources during 2010-11, seven *per cent* during 2011-12 and eight *per cent* during 2012-13. During 2010-12, the power purchased from solar and hydro renewable energy sources was 12.02 Million Units (MUs) and 1.10 MUs respectively. As against the target, there was shortfall of 439 MUs in purchase of power from solar source and 10 MUs from hydro source during 2010-12 for which the Company was liable to pay regulatory charges. The MERC, however, relaxed the condition and stated (December 2012) that no regulatory charges for shortfall in purchases would be levied provided the Company meets the shortfall in target for hydro power by 2013- 2014 and for solar power by 2015-16.

We observed that there was huge potential (35 to 49 MW per sq. km) for development of solar source in the State. However, the actual tapping was only 20 MW (August 2012). Thus, the State Government/Company needs to take effective steps to develop the solar source of power so that shortfall could be met within the time limit prescribed by MERC and payment of regulatory charges avoided.

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[25] JSWERL: 1,200 MW and Tata Power Limited: 250 MW.

[26] APML (1,980 MW), EMCO Energy Private Limited (300 MW), Gupta Energy Private Limited (120 MW) and Ideal Energy Private Limited (270 MW).

Finalisation of Power Purchase Agreements

Long term PPAs

2.1.10 As per the CBG, the power procurement was to be made through competitive bidding process. In case of procurement on long term basis, the construction period of four years was allowed to participating bidders and they were to quote rate per unit from the SDD fixed after four years from the date of PPA. The Company executed total 11 PPAs as detailed below:

Sl. No.	Name of IPP	Date of PPA	Capacity agreed (MW)	SDD	Actual date of COD	Actual date of commencement of supply
1	Coastal Gujarat Power Limited, Ahmedabad	22 April 2007	760 (Share of the State out of total agreed capacity of 3,800)	22 August 2012 (Unit 1) 22 February 2013 (Unit 2) 22 August 2013 (Unit 3) 22 February 2014 (Unit 4) 22 August 2014 (Unit 5)	7 March 2012 (Unit 1) July 2012 (Unit 2) October 2012 (Unit 3) January 2013 (Unit 4) March 2013 (Unit 5)	7 March 2012 (Unit 1) July 2012 (Unit 2) October 2012 (Unit 3) January 2013 (Unit 4) March 2013 (Unit 5)
2	Adani Power Maharashtra Limited, Ahmedabad	8 September 2008	1,320	14 August 2012	30 March 2013 (Unit 2) 14 June 2013 (Unit 3)	30 March 2013 (Unit 2) 14 June 2013 (Unit 3)
3	Lanco Mahanadi Power Private Limited, Hyderabad	25 September 2008	680	04 September 2012	Terminated on 28 May 2013	NA
4	JSW Energy Ratnagiri Limited, Mumbai	23 February 2010	300	01 October 2010	01 September 2010	01 September 2010
5	Emco Energy Limited, Bangalore	17 March 2010	200	17 March 2014	7 February 2013	NA
6	Indiabulls Power Limited, New Delhi	22 April 2010	450	22 April 2014	-	NA
7	Indiabulls Power Limited, New Delhi	05 June 2010	750	05 June 2014	-	NA
8	Adani Power Maharshtra Limited, Ahmedabad	31 March 2010	1,200	31 March 2014	-	NA
9	Adani Power Maharshtra Limited, Ahmedabad	09 August 2010	125	09 August 2014	23 September 2012	NA
10	Adani Power Maharshtra Limited, Ahmedabad	16 February 2013	440	16 February 2017	23 September 2012	NA
11	Indiabulls Realtech Limited, New Delhi	24 April 2012	650	24 April 2016	-	NA
Total			**6,875**			

In this connection, we observed the following:

Purchase of additional quantity

2.1.11 The Company submitted (June 2006) a proposal to MERC for purchase of 4,000 MW power on long term basis to meet the shortfall in peak demand as per 16th EPS published by CEA. However, MERC approved (October 2006) purchase of 2,000 MW only on the ground that a) long term power procurement and annual rolling plan based on detailed demand forecast was not submitted and b) demand supply gap during peak and off peak hours was not looked into by the Company. The Company invited (November 2006) tender for purchase of 2,000 MW power on long term basis. Based on the queries of bidders during pre bid meeting held in June 2007, the Company submitted (July 2007) petition to MERC for approval of revised bid documents. The same was approved by MERC in January 2008 and issued to qualified bidders. The Company received (February 2008) financial bids from 11 IPPs of which nine quoted rates ranging from ₹ 2.64 to ₹ 3.18 per unit for a total quantity of 4,621 MW and two quoted ₹ 3.45 and ₹ 4.69 per unit for 125 MW and 200 MW respectively. The Company executed (September 2008) long term PPAs with two IPPs[27] for purchase of 2,000 MW power at levellised tariff of ₹ 2.64 and ₹ 2.70 per unit. In addition, 300 MW was also purchased, with separate approval of MERC (November 2009) from JSWERL against this tender.

Meanwhile, during the course of bidding process in the above tender, BoD decided (August 2007) to purchase an additional quantity of 2,000 MW power from the qualified bidders but only after approval of MERC. The Company, however, instead of approaching MERC for approval, invited (October 2007) fresh tender for procurement of the additional 2,000 MW. The petition filed (August 2008) seeking *post facto* approval to the second tendering process was, however, rejected (November 2008) by MERC as the prior approval for the same was not obtained and this tender was cancelled (May 2009). The Company re-submitted (May 2009) proposal to MERC for purchase of 2,000 MW (-20/+ 30 *per cent*) power based on 17th EPS published by CEA which was approved (July 2009) by MERC. Accordingly, the Company re-invited (August 2009) tender and executed (between March and June 2010) long term PPAs with three IPPs[28] for purchase of 2,600 MW power at levellised tariff from ₹ 2.88 to ₹ 3.28 per unit.

Thus, the initial failure in adopting scientific method for assessing the power requirement and not following the decision of the BoD resulted in higher rates in the subsequent tender which will have financial implication over the contract period of 25 years. Further, if the requirement was correctly assessed and adequate quantity purchased against the first tender, the power supply could have been available in 2012-13 and reduced the requirement of short term purchase at higher rate.

The Management replied that the review of power position was a continuous process and the staggered purchase was a judicious decision. It was further stated that if entire power of 4,900 MW were contracted in the first tender itself the Company would have faced a situation of huge surplus power, resulting into backing down of certain units and payment of capacity charges without availing the power.

[27] APML (1,320 MW) and Lanco Mahanadi Power Private Limited (680 MW).

[28] APML (1,200 MW), EMCO Limited (200 MW) and Indiabulls Power Limited (1,200 MW).

The order of the BoD after their decision for procurement of additional quantity of 2,000 MW in August 2007 was not followed by the management leading to delay of more than two years. The need for power of 4,900 MW was established as there were increasing short term purchases, incidences of load shedding and peak power deficit of 2,013 MW and 1,166 MW during 2011-12 and 2012-13 respectively.

Acceptance of belated SDD

2.1.12 The Company executed (September 2008 to February 2013) four long term PPAs with Adani Power Maharashtra Limited (APML) thereby contracting for entire capacity of their Tiroda Project as detailed below:

Sl. No.	Date of PPA	Unit(s) covered in PPA	Installed capacity (MW)	Agreed capacity (MW)	Agreed levellised tariff rate (₹ per unit)	SDD	Date of commissioning
1	08 September 2008	2	660	1,320	2.64	14 August 2012	30 March 2013
		3	660				14 June 2013
2	31 March 2010	4 and 5	1,320	1,200	3.28	31 March 2014	In progress
3	09 August 2010	1	660	125	3.28	09 August 2014	23 September 2012
4	16 February 2013			440	3.28	16 February 2017	
			3,300	**3,085**[29]			

We observed that two PPAs for supply of 125 MW and 440 MW from Unit 1 were executed without following competitive bidding process. The Company executed these two PPAs on the basis of requests received (January 2010 and January 2011) from APML offering power on similar terms and conditions of PPA for Units 4 and 5. Though, the proposal for 440 MW was received in January 2011, the same was submitted to MERC for approval in May 2012 which was approved in December 2012. The CBG stipulated that the SDD shall be decided by the Company if the offered capacity was less than 500 MW. Though, the requisitioned capacity of two PPAs was less than 500 MW, the Company agreed to the SDD after four years from the date of signing of PPAs. In fact, Unit 1 had already commissioned on 23 September 2012 prior to execution of PPA for 440 MW. The Company should have insisted SDD from the date of commissioning of the Unit and/or taken steps for pre-ponement of SDD with mutual consent as provided in the PPA, considering the power deficit position and uncertainty of supply from the 680 MW project of Lanco Mahanadi Power Private Limited (LANCO) and 1,320 MW Project of APML (Units 2 and 3) scheduled in 2012-13. During September 2012 to March 2013, the Company purchased costlier power on short/medium term basis from Unit 1 of APML at rates ranging from ₹ 3.87 to ₹ 4.10 per unit and from other IPPs at ₹ 3.66 to ₹ 4.32 per unit instead of availing power on long term basis at ₹ 3.28 per unit from APML (125 MW

[29] This is after deduction of power required for auxiliary consumption except for Units 2 & 3.

from 23 September 2012 to 15 February 2013 and 565 MW from 16 February 2013 onwards). Thus, the Company incurred additional expenditure of ₹ 57.61 crore which included ₹ 19.08 crore in respect of power purchased from APML on short/medium term from Unit 1.

The Management stated that they had followed the MoP guidelines in determining SDD after four years from the date of PPA. As the Company had a right to decide the SDD for 125 MW and 440 MW as the offered capacity was less than 500 MW and as was done previously in case of PPA (February 2010) with JSWERL, the management failed to take recourse to clauses in the agreement to protect the interest of the Company and thus incurred an avoidable expenditure of ₹ 57.61 crore.

Deviation in contracted capacity

2.1.13 As per the bid documents approved by MERC, contracted capacity was the net capacity (excluding auxiliary consumption) at delivery point and the bidders were required to quote accordingly. The Company, however, deviating from the condition of tender, mentioned in the PPAs with APML and JSWERL that contracted capacity was gross capacity instead of net capacity of power generating Units. Hence, the Company has been making payment of capacity charges on the basis of gross capacity. In these two cases, the contracted capacity as per the tender condition worked out at 1,202 MW and 273 MW respectively after reckoning auxiliary consumption at nine *per cent* prescribed by MERC. Thus, payment of capacity charges of ₹ 31.12 crore[30] to JSWERL for power purchased from 1 September 2010 to 31 March 2013 was avoidable. APML had, however, commenced supply only in March 2013 and June 2013 from Unit 2 and Unit 3 respectively and capacity charges payable could be worked out on completion of one year.

The Management replied that they would be approaching MERC for clarification regarding fixation of contracted capacity as the bid documents and PPA were approved by MERC and will take suitable action as per the directions of the MERC. The reply was not acceptable since contracted capacity was the net capacity at delivery point as per the bid document.

Inadequate performance guarantee

2.1.14 As per terms of PPA, the IPPs are required to complete the initial formalities within the stipulated period of twelve months from the date of PPA. In the event of failure, IPPs were liable to furnish additional Performance Guarantee (PG) at the rate of ₹ 1.50 lakh per MW per week and complete the formalities within another six months. The Company had a right to terminate the PPA and invoke the PG for recovery of Liquidated Damages (LD) in case of failure of IPPs. The table below shows the details PPA wise of

[30] Net of excess payment of capacity charges of ₹ 33.91 crore for 2012-13 less penalty of ₹ 2.79 crore recovered during 2010-11 and 2011-12.

PG furnished, LD to be recovered in case of termination of four PPAs and shortfall in PG:

Sl. No.	Particulars	Emco Energy Limited	Indiabulls Power Limited (IBPL)	APML	IBPL	Total
1	Date of PPA	17 March 2010	22 April 2010	31 March 2010	05 June 2010	-
2	Contracted Capacity (MW)	200	450	1,200	750	**2,600**
3	SDD	17 March 2014	22 April 2014	31 March 2014	05 June 2014	
4	Formalities to be completed	17 March 2011	22 April 2011	31 March 2011	05 June 2011	-
5	Extension by six months	17 September 2011	22 October 2011	30 September 2011	5 December 2011	-
6	PG given at the rate of ₹ 30 lakh per MW (₹ in crore)	60	135	360	225	**780**
7	LD payable at the rate of ₹ 40 lakh per MW in case of termination (₹ in crore)	80	180	480	300	**1,040**
8	Short fall (7-6) (₹ in crore)	20	45	120	75	**260**

It is expected that PG should be equal to LD payable so that financial interest of the Company can be protected in the event of default by IPPs. It was seen from above that there was shortfall of ₹ 260 crore as the Company obtained PG of ₹ 780 crore against LD of ₹ 1,040 crore from the four IPPs. The Company did not ensure the completion of initial formalities by IPPs within the prescribed time nor did it raise the demand for additional PG because of the delay.

In case of fifth PPA with LANCO for 680 MW, we observed that LANCO did not complete initial formalities such as possession of site and furnishing of fuel supply agreement within the period extended up to 3 December 2010. Accordingly, the Company demanded (January 2011) additional PG of ₹ 15.30 crore which was not paid by LANCO. The Company belatedly invoked (March 2013) the PG of ₹ 51 crore against LD of ₹ 68 crore (₹ 10 lakh per MW) recoverable. Thus, the PG obtained was not adequate to recover LD and difference of ₹ 17 crore was yet to be recovered from LANCO (October 2013).

The Management stated that they had demanded additional PG from EMCO and APML and LD from LANCO.

Payment under Power Purchase Agreements

Scrutiny of power purchase bills paid to IPPs revealed the following:

Excess payment on account of incorrect application of indices

2.1.15 Seven distribution licensees[31] including the Company entered into (April 2007) long term PPA with Coastal Gujarat Power Limited (CGPL) for purchase of 3,800 MW power from its Mundra Ultra Mega Power Project (UMPP) situated in Gujarat. The allocation to the Company was 760 MW (20 *per cent*). The first Unit was commissioned on 7 March 2012.

As per PPA, Escalable Energy Charge (EEC) was to be computed by assuming index as 100 for the first month after date of Bid Deadline (BD). Thereafter, the value of the escalation index would be computed for each month by applying the per annum escalation rates specified by Central Electricity Regulatory Commission (CERC). The month was defined as a period of 30 days from the date of event or else the calendar month.

We observed that the BD for PPA with CGPL was 22 December 2006 and hence the escalation index for EEC was to be reckoned from 22 January 2007 as per contractual terms. Instead, Company granted the benefit of escalation index from 23 December 2006 onwards for the reasons not on record. The additional EEC paid to CGPL during 7 March 2012 to 31 March 2013 worked out to ₹ 6.42 crore.

Similarly, escalation in capacity charges were payable assuming the value of index as 100 for the first month after the date of scheduled COD. As the commercial operation of the first unit was scheduled to commence on 22 August 2012, the escalation was to be allowed from 21 September 2012. Instead, Company paid escalation charges from 6 April 2012 onwards by considering the date of actual commencement of commercial operation of the unit. This resulted in excess payment of capacity charges to the extent of ₹ 32.25 lakh.

The Management admitted that they would be seeking legal opinion on the matter before taking appropriate action.

Excess payment of incentive

2.1.16 As discussed in **Paragraph 2.1.11, t**he Company invited tender (November 2006) for purchase of 2,000 MW power on long term basis. The tender condition stipulated that Scheduled Commissioning Operation Date (SCOD) shall not be later than 48 months and bidder may offer SCOD before expiry of 48 months from the date of PPA. It was also provided that if the supply of power starts before SCOD, incentive between ₹ 0.01 and ₹ 0.16 per

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[31] Other Parties: (1) Ajmer Vidyut Vitran Nigam Limited (2) Gujarat Urja Vikas Nigam Limited (3) Haryana Power Generation Corporation Limited (4) Jaipur Vidyut Vitran Nigam Limited (5) Jodhpur Vidyut Vitran Nigam Limited and (6) Punjab State Electricity Board.

unit was payable and in case of delay, penalty was leviable. In response, JSWERL offered 300 MW power at levellised tariff of ₹ 2.72 per unit and stood fourth lowest. The offer of JSWERL was not considered and bid security was returned (December 2008).

We observed that offer of JSWERL was however, negotiated (December 2008) by the High Power Committee[32] and same was accepted subject to MERC approval on the conditions that:

- SCOD shall be 1 October 2010;
- Penalty clause to be applicable for delay beyond 1 October 2010; and
- Adoption of tariff quoted in the bid document.

The MERC approved the above proposal on 27 November 2009 and PPA was executed with JSWERL on 23 February 2010. As per the terms of PPA, SCOD was 1 October 2010 and incentive was payable if the power was supplied before 1 October 2010. The Company should have indicated the rate and period of incentive in the PPA with reference to SCOD on 1 October 2010. Instead, the Company mentioned incentive rates between ₹ 0.01 and ₹ 0.16 per unit applicable during January 2009 to December 2012 which was not relevant in the instant case. JSWERL achieved COD on 1 September 2010 and supplied power from that date. The Company paid incentive of ₹ 22.60 crore to JSWERL for the period from September 2010 to 31 December 2012. As the offer of JSWERL was finalised through negotiation by accepting SCOD on 1 October 2010, incentive of ₹ 0.12 crore was only payable for September 2010. This resulted in excess payment of incentive of ₹ 22.48 crore to JSWERL.

The Management stated that the incentive was paid as per the SDD as defined in the Request for Proposal (RFP) documents (15 January 2013). Hence, the incentive was paid up to December 2012 and there was no undue payment to JSWERL. The reply is not correct as incentive was payable if power was supplied before the SCOD of 1 October 2010 as agreed by JSWERL and approved by MERC. Further as this PPA was on terms and conditions of the negotiations the incentive laid down in the RFP was not applicable.

Non recovery of liquidated damages

2.1.17 The long term PPA, executed (September 2008) with APML for 1,320 MW power from Units 2 and 3 of Tiroda Power Plant, provided SCOD on 14 August 2012. However, the Units were commissioned on 30 March 2013 and 14 June 2013 respectively. As per terms of PPA[33], LD of ₹ 487.74 crore for the delay in supply was not recovered.

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[32] Chief Secretary, GoM, Principal Secretary (Finance), GoM, Principal Secretary (Industries), GoM, Secretary (Energy), GoM and Managing Director-MSEDCL.

[33] At the rate of ₹ 10,000 per MW per day for the first 59 days and thereafter payable at ₹ 15,000 per MW per day.

The Management stated that payment against the bills of energy supplied by APML was withheld for recovery of LD.

Medium term Power Purchase Agreements

The Company entered into two PPAs (August and October 2011) for purchase of 775 MW power on medium term basis (more than one year to seven years).

2.1.18 The Company executed (August and October 2011) PPAs with JSWERL and APML for supply of power on medium term basis (one year and one day) at a contracted capacity of 300 MW and 475 MW respectively. Scrutiny of these PPAs revealed the following:

2.1.19 The terms of PPA (August 2011) with JSWERL provided for supply of power of 300 MW at delivery point out of total capacity of 900 MW (3 units) from Ratnagiri Plant during August 2011 to August 2012. The quoted tariff consisted of Capacity and Energy Charges. The capacity charges were payable up to 85 *per cent* of the contracted capacity beyond which no capacity charges were payable but incentive at the rate of ₹ 0.25 per unit was payable. Accordingly, purchase rate for units supplied up to 85 *per cent* was ₹ 4.10 per unit and ₹ 3.22 per unit for supply made beyond 85 *per cent*.

We observed that JSWERL had supplied power at capacity ranging between 95.50 *per cent* and 100 *per cent* of 300 MW from Units 2, 3 and 4 during 25 August 2011 to 30 November 2011 (JSWERL had already executed long term PPA for Unit 1). Subsequently, JSWERL requested (November 2011) the Company to consider supply exclusively from Unit 2 with gross capacity of 300 MW thereby reducing the net availability to 275 MW at delivery point. The Company accepted (December 2011) the request without seeking approval from MERC and lost an opportunity of purchasing 396.20 MUs[34] during December 2011 to August 2012 which would have been available at cheaper rate of ₹ 3.22 per unit. In order to meet the power deficit, the Company purchased 1,510.57 MUs through short term purchase from the same plant (Unit 3 and 4) from JSW Power Trading Company Limited (JSWPTCL)[35] at rates ranging between ₹ 3.70 and ₹ 4.41 per unit. Thus, the Company incurred avoidable expenditure of ₹ 22.79 crore on purchase of 396.20 MUs through short term.

Similarly, the Company paid capacity charges on the basis of gross capacity of 300 MW instead of declared net capacity of 275 MW which resulted in avoidable payment of capacity charges of ₹ 11.09 crore.[36]

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[34] Contracted quantity of 1,936.80 MUs less actual supply of 1,540.60 MUs during December 2011 to August 2012.

[35] An associate of JSW group.

[36] Being the difference between actual capacity charges of ₹ 252.54 crore paid to JSWERL for the contractual period from 25.8.2011 to 25.08.2012 and the amount of ₹ 241.45 crore (Capacity charges ₹ 238.30 crore and incentive ₹ 3.15 crore) payable if the declared capacity were considered.

Thus, by deviating from the contractual terms the Company incurred avoidable expenditure of ₹ 33.88 crore.

The Management stated that request of the JSWERL was accepted as it could not supply power of 300 MW from one unit considering auxiliary consumption and supply from other units was not viable in case of non availability of other contracts. The reply is not correct as JSWERL had agreed to supply 300 MW at delivery point from the total capacity of 900 MW of its generating station and not from a particular unit of the generating station.

2.1.20 The terms of PPA (October 2011) for supply of power during November 2011 to November 2012 provided that APML would offer power of 475 MW at delivery point out of surplus power from two plants located at Tiroda, Maharashtra and Mundra, Gujarat. As per terms of PPA, the purchase rate payable was ₹ 4.10 per unit for supply up to 85 *per cent* of the contracted capacity and ₹ 2.25 per unit for supply of power beyond 85 *per cent* as capacity charges were not payable beyond 85 *per cent* supply. APML offered a total quantity of 3,593.48 MUs up to 85 *per cent* of the capacity at delivery point during November 2011 to November 2012.

We observed that there was no specific provision in PPA for penalty in case seller did not supply power beyond 85 *per cent* of the capacity agreed. Though power was available, APML did not supply beyond 85 *per cent.* The shortfall of 624.52 MUs during November 2011 to November 2012 was met by purchase of power on short term basis at higher rates ranging from ₹ 3.46 to ₹ 4.36 per unit as compared to ₹ 2.25 per unit from APML. If power was supplied by APML at agreed capacity of 475 MW at delivery point, expenditure of ₹ 90.85 crore during the said period could have been avoided.

The Management stated that it was not mandatory on the seller to supply full contracted quantum and that considering the outages *etc*. the seller had supplied power around 83 and 83.70 *per cent* of the contracted capacity. The reply was not convincing as the Company had exclusive right to purchase the entire contracted capacity from the IPP. Further, there was a loss of ₹ 90.85 crore to the Company since the short term power purchased was at higher rates.

Irregular payment of capacity charges pending reconciliation

2.1.21 As per the terms of PPA, the capacity charges were payable for the power corresponding to the available capacity declared by IPPs but not availed by the Company for the reasons of rescheduling of its requirement or backed-down[37] instructions given by State Load Despatch Centre (SLDC).

We, however, observed that the Company paid capacity charges on the basis of backed down data submitted by IPPs without verifying the same with the data maintained by SLDC. Test check of bills paid to JSWERL revealed that there was discrepancy in backed down data relating to the period from February to March 2012 and July to August 2012. As per the SLDC report

[37] A term used to indicate reduction in generation based on the instruction from SLDC.

capacity charges of ₹ 2.35 crore were payable as against ₹ 4.24 crore actually paid. Thus, there was irregular payment of ₹ 1.89 crore.

Further, no capacity charges were payable if power could not be supplied due to transmission constraints. However, the capacity charges of ₹ 3.64 crore were paid to APML for rejection of transmission access during the period from January 2012 to March 2012 without ascertaining the reasons for rejection of access by SLDC.

The Management stated that certificates from SLDC for backed down units and confirmation of reasons for rejection of open access have been called for.

Short term Power Purchase Agreements

The short term/spot purchases increased from 1,257 MUs during 2008-09 to 6,312 MUs during 2012-13. During this period, the Company finalised 24 tenders for purchase of power on short term basis (less than one year). Scrutiny of 10 tenders revealed discrepancy in one tender as discussed below:

Excess payment for infirm power

2.1.22 The Company executed (13 May 2009) a short term PPA with Wardha Power Company Limited (WPCL), Hyderabad for the purchase of 50 MW to 300 MW firm power round the clock between 15 November 2009 and 31 October 2010 from their 540 MW (4 x 135 MW) Power Plant at Wardha. As per the terms of PPA, the comprehensive[38] tariff rate was determined at ₹ 5.50 per unit for the period from 15 November 2009 to 31 October 2010 except ₹ 4.23 per unit during 1 June 2010 to 31 August 2010.

The commissioning of the plant was delayed due to *force majeure* conditions. WPCL requested (9 April 2010) the Company to permit the flow of infirm power generated up to the date of commercial operation and pay for such power at the rates as applicable/decided by MERC/Company from time to time. The PPA did not provide rate for infirm power. However, the tariff Regulations of MERC as well the CBG issued by MoP provided for the payment of energy charges alone and not the capacity charges for the purchase of infirm power. Thus, instead of offering rate for energy charges, the Company decided (15 May 2010) to purchase infirm power at the rates (inclusive of capacity charges) agreed in the PPA for firm power.

WPCL supplied 36.087 MUs of infirm power (generated by Unit 1) between 15 April 2010 and 30 June 2010 and 26.80 MUs (generated by Unit 2) during October 2010 for which the Company paid at the rate of ₹ 4.23/₹ 5.50 per unit instead of energy charges payable at the rate of ₹ 1.465 per unit. Thus the decision of the Company to pay PPA rates for the infirm power was not as per

[38] Inclusive rate without distinctive break up into capacity and energy charges.

the MERC regulations and resulted in excess payment of ₹ 21.16 crore.[39] It was found that in the other cases,[40] the Company had paid only energy charges for infirm power at the rates ranging from ₹ 1.03 to ₹ 1.44 per unit during 2010-2013.

The Management stated that considering the prevailing higher rates for short term power purchase it was considered beneficial to procure infirm power at PPA rates. It was further stated that the Company saved ₹ 68 crore by purchasing infirm power at PPA rates as compared to other costly sources. The Company was to pay the IPP the PPA rates only for firm power. The rates for infirm power are not influenced by market factors and only energy charges should have been paid in accordance with regulations as was practiced by the Company in other similar cases.

Monitoring mechanism

Non submission of progress Reports

2.1.23 As per the terms of PPAs, the IPPs were required to notify the Company in writing at least once in a month the progress made in satisfying the conditions and to disclose all the relevant material information requested by the Company in respect of development, construction, operation and/or maintenance of the Projects. MERC, during the approval proceedings for purchase of 300 MW power from JSWERL, also observed (September 2009) that the Company was not serious about monitoring the projects. We, also, observed that the Company had not evolved any system for periodical review/ monitoring of the achievement of prescribed milestone by calling for monthly Progress Reports from the IPPs.

The Management admitted that IPPs were not submitting progress report on monthly basis, though it was required as per PPA.

Internal Audit

We observed that the cost of purchase constituted major element of the cost of operation which was 79 to 86 *per cent* during the period under review. The internal audit was however not commensurate with the size of business. The Company had not prepared internal audit manual for power purchase payments.

The Management admitted that before releasing payment of power purchases the internal check system was in place and that the internal audit was conducted on test check[41] basis. It was further agreed to prepare manual for the use of internal audit.

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[39] In the absence of relevant information in the PPA, the loss has been calculated with reference to energy charges of ₹ 1.465 per unit for Wardha Power Plant agreed for by WPCL in the medium term PPA executed with Reliance Infrastructure Limited in June 2010.

[40] APML and JSWERL.

[41] Except for period from October 2011 to March 2012 when 100 *per cent* audit of bills was conducted.

Acknowledgement

2.1.24 Audit acknowledges the co-operation and assistance extended by different levels of the Management at various stages of conducting of the Performance Audit.

The matter was reported to the Government (August 2013); their reply had not been received (December 2013).

Conclusion

- ❖ The Company was not able to meet the peak demand and power deficit in the State was 1,166 MW during 2012-13.
- ❖ The State Government entered into Memorandum of Understandings with Independent Power Producers (IPPs) for building capacity additions and offered financial support in the form tax concessions. However, the State Government/Company had not ensured as to whether the benefits, if given, have been passed on to consumers through tariff quoted by them in response to competitive bidding.
- ❖ The State Government tapped 20 MW power from solar source of energy as against 35 to 49 MW per sq. km available in the State.
- ❖ The Company executed Power Purchase Agreements (PPA) by accepting delivery of power after four years though the plant was already commissioned and incurred extra expenditure of ₹ 57.61 crore on purchase of power on medium/short term basis.
- ❖ The contracted capacity indicated in bid documents was deviated in PPA resulting in avoidable payment of capacity charges of ₹ 31.12 crore to JSWERL.
- ❖ The performance guarantee mentioned in the PPA was not adequate to recover Liquidated Damages (LD) in case of default. There was a shortfall of ₹ 260 crore in four PPAs.
- ❖ The Company did not avail the benefit of full capacity agreed by JSWERL and APML for supply of power on medium term basis. The shortfall in procurement was made good through short term purchase. The total avoidable expenditure was ₹ 113.64 crore besides avoidable payment of capacity charges of ₹ 11.09 crore to JSWERL.
- ❖ The Company paid excess incentive of ₹ 22.48 crore to JSWERL due to defective conditions of PPA.
- ❖ The Company paid capacity charges of ₹ 21.16 crore for the infirm power though it was not payable as per the directives of Ministry of Power/ MERC.

Recommendations

- ❖ The State Government may ensure that benefits extended to IPPs for setting up power plants, if any, are passed on to consumers through tariff quoted by them in response to competitive bidding.

- ❖ Considering the huge potential for development of solar energy, the State Government/Company may take effective steps to develop this source.

- ❖ The Company may ensure proper interpretation of clauses of the PPA and that payment is made strictly as per provisions of PPA to safeguard the interest of consumers.

- ❖ The Company may periodically review/reconcile the quantum/cost of power purchased under various PPAs so that costlier power is not purchased.

- ❖ The Company may review provisions of PPA related to capacity offered, performance guarantee *vis-a-vis* LD to safeguard its financial interest.

2.2 Rajiv Gandhi Grameen Vidyutikaran Yojana

Executive Summary

Introduction

The Government of India (GoI) notified (March 2005) the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), a scheme for Rural Electricity Infrastructure Development and Household Electrification in the country. The scheme envisaged overall rural electrification by creating distribution network in each village which would be adequate to provide access to electricity to all Rural Households (RHHs) and cater to requirement of other sectors of village. The scheme also stipulated that Below Poverty Line (BPL) RHHs should be provided free of cost connections. The GoI provided financial assistance at 90 per cent of the project cost as capital subsidy and 10 per cent as loan from Rural Electrification Corporation Limited (REC). The Government of Maharashtra (GoM) appointed (August 2005) Maharashtra State Electricity Distribution Company Limited (hereinafter referred to as Company) as Implementing Agency for the scheme.

Planning

There were 113.42 lakh RHHs in 41,095 villages in the State, out of which 55.26 lakh RHHs (including 18.73 lakh BPL RHHs) were un-electrified as of March 2006. As the scheme envisaged overall rural electrification, it was necessary to conduct comprehensive village-wise survey to assess the requirement of distribution network (Sub-Stations, HT/LT lines, DTCs etc.). However, no such village-wise survey was conducted. The Company had proposed electrification of all BPL RHHs but the electrification of 29.19 lakh other than BPL RHHs and other sectors like public places, small scale industries etc. were not proposed under the scheme. Considering financial assistance of ₹ 4 lakh available per village located on normal terrain, total available financial assistance worked out to ₹1,450.14 crore as against ₹729.64 crore actually projected and sanctioned by REC for 30 projects undertaken during XI FYP. Thus, the opportunity of availing remaining financial assistance of ₹720.50 crore remained unexplored.

The GoM also did not plan rural electrification of 183 villages from Ahmednagar district served by Mula Parvara Electric Co-operative Society Limited and 168 villages from Bhiwandi Taluka in Thane district being served by Torrent Power Limited. Thus 351 villages were deprived of the benefits of ₹ 14.04 crore under the scheme.

Financial management

Funds released by REC for projects were to be retained in a separate Bank Account for each project and interest earned was to be taken as project income. The Company had received funds of ₹ 595.46 crore which were not immediately utilised and excess funds ranging from ₹ 9.82 crore to ₹ 180.63 crore during 2006-14 (up to September 2013) were utilised by the Company as working capital for other activities. As per the tripartite agreement, the State Government had not reimbursed ₹26.54 crore towards repayment of loan with interest and agency charges paid by the Company to REC. Further, the Company paid ₹37.45 crore towards taxes for which necessary claims for reimbursement as loan/subsidy were not preferred with REC after concurrence of the State Government as per terms of tripartite agreement.

Project and contract management

The four projects taken during X FYP were completed by 31 March 2010 after delay ranging from seven to 12 months and 30 projects taken during XI FYP were completed with delay ranging from six to 44 months. There was also non recovery of labour cess of ₹ 5.55 crore from the contractors and loss of revenue of ₹ 0.74 crore to the State Exchequer due to execution of contract agreements on stamp paper of lower value.

Revenue sustainability

The Company was facing problems in recovery of electricity charges from BPL RHHs. The arrears of ₹19.88 crore were recoverable from 2.89 lakh BPL RHHs from 17 projects against security deposit of ₹0.43 crore available with the Company. If the disconnections were resorted to, the purpose of the scheme gets defeated. The State Government did not fulfill its commitment for payment of subsidy to make the scheme financially viable and ensure revenue sustainability as per commitment given in tripartite agreement.

Monitoring

The State and District level Co-ordination Committees were set up by the State Government for reviewing rural electrification. No meeting was held by District Level Committees in 17 Districts while only one meeting was held at State level. The village wise electrification records were also not maintained by Gram Panchayats/Councils to assess the status of rural electrification on annual basis.

Impact assessment

The beneficiary survey conducted by Audit indicated lack of awareness of the scheme, collection of illegitimate money from beneficiaries, poor quality of CFL bulbs etc.

Recommendations

The Company has been facing problem in recovery of energy bills from BPL households. The State Government may therefore fulfil its commitment for payment of subsidy to ensure revenue sustainability. Further, the State Government may reimburse loans along with interest thereon and reimbursement of taxes as per the commitment given in tripartite agreement.

Introduction

2.2.1 The Government of India (GoI) notified (March 2005) Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY- hereinafter referred to as scheme) - a scheme for Rural Electricity Infrastructure development and Household Electrification in the Country. The scheme envisaged creation of electricity distribution network in each village which would be adequate to provide access to electricity to all Rural Households (RHH) and cater to requirement of agriculture and other activities including irrigation pump-sets, small and medium industries, khadi and village industries, cold storages, healthcare, education and Information Technology. The scheme also stipulated that Below Poverty Line (BPL) RHHs should be provided free of cost electricity connections. The scheme was implemented during X and XI Five Year Plan (FYP) (2002-12). The scheme was extended up to September 2013.

The Rural Electrification Corporation Limited (REC) was appointed (March 2005) by GoI as the nodal agency for implementation of the scheme during X and XI FYP through respective State Governments. The GoI provided financial assistance at 90 *per cent* of the project cost as capital subsidy and remaining 10 *per cent* as loan from REC. Besides, subsidy at the rate of ₹ 1,500 per connection during X FYP and ₹ 2,200 per connection during XI FYP was also provided for releasing free of cost connections to BPL RHHs.

The Government of Maharashtra (GoM) appointed (August 2005) Maharashtra State Electricity Distribution Company Limited (hereinafter referred to as Company) as Implementing Agency (IA) for the scheme. A separate Cell for the scheme was formed in the Head Office (HO) under the control of the Chief Engineer who reports to the Executive Director (Projects).

The Company implemented the scheme in 33 districts[42] through its Operation and Maintenance (O&M) Circles headed by the Superintending Engineer under the supervision of their respective Zonal Chief Engineers. Four projects were taken during X FYP and 31 projects during XI FYP.

The Performance Audit Report on the overall working of the Company was included in the Report of Comptroller and Auditor General of India for the year ended March 2011 (Commercial)-Government of Maharashtra. The Report was yet to be discussed by the Committee on Public Undertakings (November 2013).

Scope and Methodology of Audit

2.2.2 The Performance Audit conducted during July 2012 to December 2012 covered evaluation of the scheme implemented during 2004-05 to 2012-13. The audit examination involved scrutiny of records at HO and 10 O&M Circles dealt with 10 Projects[43] selected on the basis of population and cost of projects. For impact assessment, audit also relied on its independent beneficiary survey by selecting not less than five beneficiaries each from five villages from each block. In all 26 Blocks[44] from ten project areas were selected on the basis of Simple Random Sampling without Replacement method.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of discussing audit objectives to the top management during Entry Conference, scrutiny of records at HO and 10 O&M Circles selected for detailed audit, analysis of data, outcome of beneficiary survey conducted by audit, raising of audit queries, discussion of audit findings with management and issue of Draft Performance Audit Report to the State Government and Management of the Company for comments.

Audit objectives

2.2.3 Performance Audit was conducted with a view to ascertain whether:

- Detailed Project Reports (DPRs) were finalised in line with State Rural Electrification Policy (SREP) and end goals were achieved;

- Funds received under the scheme were utilised for the intended purposes;

[42] One project each in 31 districts and two projects each in Solapur and Thane-Total 35 projects.

[43] Ahmednagar, Amravati, Aurangabad, Buldana, Jalna, Nanded, Nasik, Sangli, Sindhudurg and Thane.

[44] Akole, Achalpur, Ambad, Baglan, Biloli, Buldana, Dhamangaon Railway, Dharni, Himayatnagar, Jat, Kalyan, Kavathemahankal, Khultabad, Kannad, Kudal, Mahoor, Malwan, Mantha, Nandura, Niphad, Rahata, Sangamner, Shahpur, Sindkhed Raja, Surgana and Walwa.

- Tenders were evaluated properly;
- Payments to contractors were made as per contractual terms;
- The conditions of the tripartite agreement executed between REC, State Government and the Company were complied by respective authorities; and
- Adequate and effective monitoring and evaluation mechanism at different levels was in place and remedial action taken on the basis of periodical review.

Audit criteria

2.2.4 In achieving its objectives, audit relied on the criteria prescribed in the following records:

- National Rural Electrification Policy (NREP) and SREP notified under Electricity Act, 2003;
- Guidelines/Instructions/Circulars issued by GoI/REC/State Government and Tripartite agreement executed between REC, State Government and the Company;
- Approval of DPRs by REC;
- Tenders documents and contract agreements; and
- Periodical Physical and Financial Progress Reports on the projects and minutes of meetings of the Board of Directors (BoD).

Audit findings

2.2.5 We discussed the audit objectives with the Company during an "Entry Conference" held on 13 July 2012. The audit findings were reported to the Company and the State Government in 4 January 2013. The Management replied to the audit findings in 26 April 2013 and endorsed by GoM on 21 May 2013. The audit findings were discussed in an "Exit Conference" held on 21 May 2013, which was attended by the Managing Director of the Company who also held the additional charge of the Principal Secretary (Energy), GoM. The views expressed by the Management/GoM in the meeting and their replies have been considered while finalising the performance audit report. The audit findings are discussed below:

Planning

2.2.6 A village was to be declared as electrified provided: (a) distribution network was in existence, (b) electricity was provided to public places like schools, panchayat offices, health centers, dispensaries, community centres, *etc*., and (c) RHHs electrified was at least 10 *per cent* of the total RHHs in the village. As per Census 2001, there were 113.42 lakh RHHs in 41,095 villages (including 5,085 un-electrified villages) in the State. Out of 113.42 lakh, 55.26 lakh RHHs (including 18.73 lakh BPL RHHs) were un-electrified as of March 2006. The planning for Rural Electrification (RE) was crucial to ensure the achievement of objectives of the scheme to provide an access to electricity to all RHHs by 2009 and minimum lifeline consumption of one unit per household per day as a merit good by year 2012. In this connection, audit observed the following:

Defective preparation of DPRs

2.2.7 The status of electrification of RHHs in the State before implementation of the scheme (as on March 2006) as stated in the SREP was as under:

(RHHs in lakh)

Sl.No.	Particulars	BPL	Others	Total
1	Number of RHHs as per Census 2001	31.11	82.31	113.42
2	Number of RHHs already electrified	12.38	45.78	58.16
3	Number of RHHs un-electrified (1-2)	18.73	36.53	55.26
4	Number of RHHs proposed/sanctioned for electrification under the Scheme	18.77	7.34	26.11
5	Number of RHHs not proposed under the Scheme (3-4)	(0.04)[45]	29.19	29.15

(Source: SREP and REC sanction letters)

The scheme envisaged overall RE and it was therefore necessary to conduct comprehensive village-wise survey to assess the requirement of distribution network (Sub-Stations, High Tension (HT)/Low Tension (LT) lines, Distribution Transforms (DT) *etc*.). We observed from the DPRs that the Company had proposed electrification of all un-electrified BPL RHHs. However, electrification of other RHHs and requirement of other sectors like agriculture, small scale industries, health centres, Gram Panchayats, Schools *etc*. were also not fully projected under the scheme. The Company projected electrification of only 7.34 lakh out of total 36.53 lakh un-electrified other than BPL RHHs leaving 29.19 lakh RHHs uncovered. This indicated that comprehensive survey was not conducted to assess the overall distribution network of each village before preparation of DPRs. The DPRs thus focused mainly on electrification of BPL RHHs thereby defeating the main objective of the scheme to provide access to electricity to all rural households by 2009 and overall electrification for economic growth of each village.

The scheme provided financial assistance at the rate of ₹ 13 lakh/₹ 18 lakh per un-electrified village and ₹ 4 lakh/6 lakh per electrified village located on normal terrain and hilly/tribal/desert areas respectively for projects undertaken during XI FYP. Considering minimum financial assistance of ₹ 4 lakh available per village located on normal terrain, total financial assistance available under the scheme worked out to ₹ 1,450.14 crore for 30 projects undertaken during XI FYP as against ₹ 729.64 crore actually projected and sanctioned **(Annexure-10)**. Thus, there was a scope for availing further

[45] It indicates excess BPL households proposed for electrification.

financial assistance of ₹ 720.50 crore under the scheme. We observed that there were 24.32 lakh RHHs from 24 districts in the State which were to be electrified as on 31 March 2012.[46]

The Management in its reply (April 2013), which was also endorsed by the State Government stated (May 2013) that:

- Field survey conducted before preparation of DPR indicated that there were 26.11 lakh un-electrified RHHs and the same have been proposed for electrification under the scheme.

- Agriculture, pump sets, small and medium industries, cold storages *etc.* were not eligible for subsidy and hence not proposed in the DPRs.

- There were 53,740 schools of which 12,912 were un-electrified (as of December 2006) for which required infrastructure was available.

- The subsidy was available at the rate of ₹ 1 lakh per village and not ₹ 4 lakh per village as stated by audit.

The reply was not convincing as:

- The Company's own record showed that there were 55.26 lakh un-electrified RHHs as on 31 March 2006 which were communicated (July 2007) to State Government for formulation of Rural Electrification Policy. As such, electrification of 29.19 lakh other than BPL RHHs mentioned in the SREP should have been proposed. Moreover, there were 24.32 lakh other RHHs to be electrified as on 31 March 2012.

- The scheme provided subsidy for overall rural development by strengthening distribution network that would also cater to the requirement of agriculture and other activities in the villages.

- The Company had not systematically obtained data on un-electrified schools and proposed distribution network for their electrification. Test check of DPRs for ten selected projects indicated that electrification of schools was not indicated/proposed at all in four projects (Buldana, Kalyan (Thane), Nasik and Sangli). In case of two projects (Amravati and Sindhudurg), 608 un-electrified schools were not projected under the scheme. In remaining four projects (Ahmednagar, Aurangabad, Jalna and Nanded), projection was not supported by adequate data.

- GoI had enhanced (February 2008) the subsidy from ₹ 1 lakh to ₹ 4 lakh per village (located on normal terrain) for intensive electrification[47] of villages taken up during XI FYP.

[46] The data as at the end of March 2013 was not available with the Company.

[47] Strengthening of distribution network of already electrified villages to meet the requirement of each village.

Non coverage of villages

2.2.8 The State Government had not planned RE of 183 villages in five Blocks (Newasa, Sangamner, Shrirampur, Rahata and Rahuri) of Ahmednagar districts which were being served by Mula Parvara Electric Co-operative Society Limited (MPECS) up to January 2011 and thereafter distribution activities of the area were taken over by the Company. Similarly, electrification was also not planned for 168 villages from Bhiwandi Taluka in Thane district being served by Torrent Power Limited (Distribution Licensee) since January 2007. Thus, 351 villages were deprived of the benefits under the scheme. The potential financial assistance foregone worked out to ₹ 14.04 crore (351 villages at the rate of ₹ 4 lakh per village).

The Management/Government stated that these villages were not under their jurisdiction when the DPRs were prepared and sent to REC for sanction. The reply was not acceptable as the State Government and the Company should have ensured that electrification of rural areas served by distribution licencees other than the Company should also have been covered and the benefits under the scheme availed.

Financial management

2.2.9 The Project wise financial assistance (excluding subsidy towards free of cost connections to BPL RHHs) was to be released by REC through State Government in three equal installments of 30 *per cent* each and fourth and final installment of 10 *per cent* on completion of the project. The scheme provided for release of first installment after execution of tripartite agreement,[48] loan documents and evaluation of bids and further installments on the basis of certificate for utilisation of funds to the extent of 80 *per cent* of funds received earlier. The subsidy for free of cost connections to BPL RHHs was to be released in two equal installments. The first installment was to be released by end of eighth month from the date of issue of Letter of Award (LoA) on submission of District-wise approved list of BPL RHHs and second installment after completion of the project.

[48] An agreement to be executed among REC, State Government and the Implementing Agency.

The position of funds sanctioned, received and utilised up to 2013-14 (up to October/November 2013) for 35 projects implemented during X and XI FYP was as under:

(₹in crore)

Year	No. of projects	Funds sanctioned	Funds received	Funds utilized		Unutilised funds	
				As per actual payment	As per physical progress	As per actual payment	As per physical progress[49]
2005-06	4	86.24	--	-	0	-	
2006-07	-		9.82	0	0	9.82	9.82
2007-08	30	729.64	16.80	16.54	20.84	10.08	5.78
2008-09	-	-	139.50	66.43	113.62	83.15	31.66
2009-10	-	-	200.77	103.29	163.09	180.63	69.34
2010-11	-	-	162.09	184.56	261.10	158.16	-29.67
2011-12	-	-	55.00	120.52	53.75	92.64	-28.42
2012-13	1	33.64	11.48	46.99	22.32	57.13	-39.26
2013-14	0	-	0	32.79	11.33	24.34	-50.59
Total	**35**	**849.52**	**595.46**	**571.12**	**646.05**	**24.34**	**-**

The Company received funds from REC on the basis of utilisation certificates furnished as per physical progress. However, the actual utilisation of funds (payments to the contractors) was far less than the funds received. Quantum of unutilised funds increased from ₹ 9.82 crore in 2006-07 to ₹ 180.63 crore in 2009-10 which decreased to ₹ 24.34 crore at the end of September 2013.

In this connection, we observed the following:

Non maintenance of project-wise separate Bank Accounts

2.2.10 The tripartite agreement provided that the Company should maintain project wise separate Bank Accounts for the funds received from REC. Instead, the Company opened a single Bank Account for all the projects and credited all the amounts received from REC in the said account. The funds were transferred to Cash Credit Account operated by the Company for its working capital requirements. Thus, the unutilised funds (till payment to contractors) were used by the Company to minimise the borrowing cost of the cash credit facility.

Audit observed that as per directives of REC (April 2008/November 2011/ May 2012), unutilised funds should be kept in interest bearing account of Nationalised Banks and interest earned thereon should be accounted and used for cost of project by way of adjustments. As the Company had not kept such funds separately in interest bearing account, the credit to be passed on to project accounts could not be ascertained.

The Management/Government while accepting the facts stated that it had opened a single account for the scheme and funds were monitored through operation of single account. The non-opening of individual project accounts allowed the funds under the scheme to be utilised for working capital requirements of the Company which was not permissible under the scheme.

[49] Negative figures indicates more value of completed works than funds received.

Expenditure over and above BPL subsidy

2.2.11 The cost of each project was to be approved by the Monitoring Committee (MC) of Ministry of Power (MoP), GoI. While approving the cost, the MC disallowed excess expenditure on BPL connections over and above ₹ 2,200 per connection admissible under the scheme. Scrutiny of 30 projects indicated that the expenditure on BPL connections in 13 projects was within the admissible subsidy. However, the Company incurred additional expenditure of ₹ 8.85 crore over and above eligible subsidy in 17 Projects.[50] Though, the ownership of assets created under the scheme vested with the State Government, the Company had not taken up the matter for reimbursement of additional cost from the State Government so far (December 2013).

The Management while accepting the facts stated that additional expenditure will be claimed from the State Government after closure of the scheme and approval of final project cost by REC. The reply was not acceptable as the Company should have claimed the additional cost from the State Government in a phased manner on completion/commissioning of works instead of waiting till the closure of the scheme.

Non-reimbursement of loan and other charges

2.2.12 The REC released loan of ₹ 69.15 crore to the Company for implementation of projects under the scheme. As per tripartite agreement, the State Government had undertaken to repay the loan amount along with interest and other REC charges. The Company repaid loan of ₹ 0.71 crore along with interest of ₹ 31.58 crore and agency charges of ₹ 1.12 crore to REC up to November 2013; of which the Company had claimed (January 2013) interest of ₹ 25.42 crore and agency charges of ₹ 1.12 crore but the State Government had not reimbursed any amount to the Company so far (December 2013) thereby affecting the requirement of working capital of the Company.

Non submission of claims for reimbursement of taxes

2.2.13 The tripartite agreement provided that all statutory taxes/levies, whatsoever imposed/charged by any Government (Central/State) and/or any other local bodies/authorities on contractors for project(s) executed under the scheme shall also be eligible for reimbursement to the Company from REC as loan/ subsidy on production of documentary evidence and after obtaining necessary concurrence by the State Government. The contractors engaged for the works under the scheme were eligible for reimbursement of Value Added Tax (VAT), Works Contract Tax (WCT), and Service Tax (ST) *etc*. on production of documentary evidence. The Company paid VAT/WCT totaling ₹ 24.34 crore and ST of ₹ 13.11 crore to the contractors of 34 projects up to December 2013 but had not claimed the reimbursement of ₹ 37.45 crore till date (December 2013).

[50] Akola, Ahmednagar, Bhandara, Chandrapur, Kolhapur, Latur, Nandurbar, Nasik, Pune, Raigad, Ratnagiri, Sangli, Sindhudurg, Satara, Thane (Kalyan), Wardha and Yavatmal.

The Management/Government while accepting the fact stated that the claims would be preferred with the respective authorities after closure of contracts and reconciling the issues involved.

Project and contract management

2.2.14 The REC stipulated that all contracts under the scheme were to be awarded on turnkey basis and to be completed within a period of two years from the date of release of first instalment of financial assistance. The scope of work undertaken included construction/augmentation of sub-stations, construction of HT/LT lines, installation of DTs and release of free of cost connection to BPL RHHs. The target and achievement of rural electrification taken under the scheme during X and XI FYP (up to November 2013) were as under:

Sl. No.	Particulars	X FYP		XI FYP		Total	
		Target (freezed quantity)[51]	Actual	Target (freezed quantity)	Actual	Target (freezed quantity)	Actual
1	Construction of HT Lines (KM)	572	508	5,068	3,237	5,640	3,745
2	Construction of LT Lines (KM)	1,142	1,097	8,346	8,905	9,488	10,002
3	Installation of DTs (No.)	1,296	1,296	8,256	7,612	9,552	8,908
4	No of BPL connections released (in lakh)	2.09	2.09	9.94	9.95	12.03	12.04

Scrutiny of records indicated that four projects taken up during X FYP were completed by 31 March 2010 with delays ranging from seven to 12 months and 30 projects taken up during XI FYP were completed with delays ranging from six to 44 months (up to December 2012) and one project (additional project for Solapur) awarded in July 2012 was under progress (November 2013). Reasons for the delay was attributed by the Company to local problems such as delay in finalisation of location for erection of DTC, standing crops *etc*, shortage of energy meters and major material like HT/LT poles with manufacturers, poor response from BPL beneficiaries, hilly areas, difficulty in transportation of material *etc*. Though, the contracts were awarded on fixed rate basis, delay in completion of projects meant that the benefits of the scheme were belatedly passed on to the targeted beneficiaries.

[51] Freezed quantity represents the actual requirement noticed in survey during various stages of execution of work.

In this connection, the following observations were made in audit:

Extra expenditure due to injudicious decision to re-invite tender

2.2.15 The Company invited (April 2008) tender for rural electrification and releasing of BPL connections in Thane (Kalyan) Project area at an estimated cost of ₹ 17.84 crore computed on the basis of District Schedule of Rates (DSR) for 2006-07. The lowest bid of ₹ 21.94 crore received from SMS Infrastructure Limited, Nagpur was 22.95 *per cent* above the estimated cost put to tender. However, without evaluating the bid with reference to the latest DSR for 2008-09, the Chief Engineer (Distribution), Mumbai cancelled (June 2008) the tender and directed for fresh tendering on the plea that the lowest bid was on higher side.

The Company re-invited (July 2008) tender at an estimated cost ₹ 18.20 crore (original estimate of ₹ 17.84 crore with inclusion of additional items of ₹ 36 lakh) based on DSR for 2006-07. The lowest bid of ₹ 24.44 crore was received from Ramky Infrastructure Limited, Hyderabad which was 34.27 *per cent* above the estimated cost. The tender was approved (February 2009) on the ground that bid price was only 13.27 *per cent* above the estimated cost if the DSR of 2008-09 was considered and the contract was then accordingly awarded (March 2009) for ₹ 24.44 crore. We observed that the estimate for both the tenders were prepared based on DSR of 2006-07. The lowest offer against the first tender was only 1.95 *per cent* of the estimated cost if compared with DSR of 2008-09. Thus, incorrect evaluation of first tender resulted in additional expenditure of ₹ 2.02 crore (excluding value of ₹ 36 lakh for additional item included in the second tender).

The Management/Government stated that the tender was refloated to obtain reasonable and competitive rates in view of higher rates received for Thane Project as compared to rate received for another Circle (Vasai) in the same zone. However, the reply was not convincing as the Company did not have any parameter for rejection of tenders on the ground of higher cost.

Non-recovery of Labour Cess from the contractors

2.2.16 The Building and Other Construction Workers Welfare Cess Act, 1996 (Act) provided for collection of Labour Cess (LC) on the cost of construction incurred by the employer. As per Section 3 of the Act, cess shall be collected, at such rate not exceeding two *per cent* but not less than one *per cent* and paid to Building and Other Construction Workers Welfare Board (Board) to be constituted by the respective State Governments. The State Government, while constituting (August 2007) the Board, issued (April 2008) detailed instructions to all departments for the collection of cess at one *per cent* of cost of construction (excluding cost of land) retrospectively from 1 January 2008 and was to be paid to the Board within a period of 30 days from the date of collection.

We noticed that though there was no specific condition in the contract agreements for recovery of LC from the contractors engaged for RGGVY works, the contractors were bound by all labour laws and the Company was bound to recover the LC from the contractors. Based on payment of ₹ 554.58 crore made to contractors between April 2008 and November 2013, the LC to be recovered worked out to ₹ 5.55 crore which was not recovered by the Company. Thus, the statutory requirement for collection of LC and payment thereof to the Board was not complied with by the Company.

The Management/Government stated that as per the Act it was the responsibility of the employer *i.e.* contractors to pay LC to the State Government and not the Company. The reply was factually incorrect. As per the Act, the entity which bears the cost of construction is the "employer" and thus the Company which was the employer was responsible for recovery and remittance of LC.

Short payment of stamp duty

2.2.17 As per the Bombay Stamp Amendment Act, 2006, the stamp duty on agreements for works contracts up to ₹ 10 lakh was ₹ 100. The stamp duty for agreements exceeding ₹ 10 lakh was ₹ 100 *plus* ₹ 100 for every ₹ one lakh or part thereof above ₹ 10 lakh subject to a maximum of ₹ five lakh. The Company finalised (March 2008 to January 2010) contracts for 30 projects. As per tender condition, cost of stamp duties and similar charges imposed by the law was to be borne by the contractor.

We observed that all the contract agreements were executed on stamp paper of ₹ 100 each irrespective of the value of contract which ranged from ₹ 8.27 crore (Hingoli project) to ₹ 48.41 crore (Ahmednagar project). As per the Act, the total stamp duty payable by the contractors for 30 agreements worked out to ₹ 74.50 lakh as against ₹ 3,000 paid by the contractors. Thus, violation of the provisions of the Act resulted in loss of revenue of ₹ 74.47 lakh to the State Exchequer and undue benefit to contractors to that extent.

The Company while accepting this fact stated (April 2013) that action has been taken to execute new agreements on stamp paper as prescribed under the Stamp Duty Act.

Revenue sustainability

2.2.18 We observed that there were delays in issuing of first bills to consumers. Considering initial period of two months for processing of bills, there were delays for more than one year to three years in issuing first bills in the ten selected projects. The delay in issue of first bills had an adverse impact on the paying capacity of BPL consumers. It was observed from the latest data of 17 Districts **(Annexure-11)** that there were 34,339 permanently disconnected BPL consumers from whom ₹ 8.48 crore were recoverable by November 2013. Further, there were also arrears of ₹ 11.40 crore recoverable from 2.55 lakh live BPL consumers from these 17 Districts. Thus, as against the total dues of ₹ 19.88 crore, the security deposit available with the Company was only ₹ 0.43 crore leaving shortfall of ₹ 19.45 crore **(Annexure-11).** As per the tripartite agreement, the State Government was required to fulfill its commitment regarding revenue sustainability and payment of subsidy for making the scheme financially viable. However, the Company had neither submitted proposal for suitable decision by the State Government nor had the State Government formulated a policy for disconnections, revenue sustainability and/or payment of subsidy to make the scheme financially viable.

The Management/Government while accepting the facts stated that action was initiated against the defaulters for late submission of New Service Connection reports and corrective measures would be taken to issue first bills in time. However, the Company/State Government was silent on the payment of subsidy to ensure viability of the scheme.

Franchisees not appointed

2.2.19 As per the condition of tripartite agreement, rural distribution system was to be managed through deployment of franchisees like Non Government Organisations (NGOs), users' associations, co-operatives or individual entrepreneurs in rural areas to ensure sustainability and improve services to consumers. State Government also committed that they will ensure determination of bulk supply tariff for franchisees in a manner that ensures their commercial viability.

The Management/Government stated that franchisees were not appointed as it was not commercially viable. The Company stated that the issue has been taken up with the Government and detailed guidelines in this regard were awaited (November 2013).

The non-fulfillment of the terms of agreement provided in the tripartite agreement regarding deployment of franchisees may lead to conversion of capital subsidy into interest bearing loans.

Failure of DTs within Guarantee Period (GP)

2.2.20 As per terms of contract awarded under the scheme, performance of equipment such as DTs, meters *etc.* was guaranteed for a period of five years. The contractor was liable to replace/correct defects noticed during Guarantee Period (GP) free of cost within 14 days from the date of notice failing which DTs may be repaired from outside agencies at the risk and cost of contractors. Test check of Kalyan (Thane) Project revealed that time taken by contractor for replacement of 40 transformers ranged from two to 22 months from the date of failure. The Management had not analysed the reasons for delay on the part of the field offices and contractors. As a result, the Company had to install the transformers from its own stock leading to blockage of Company's funds. Audit further observed that transformer failure rate in the Kalyan Project area was 32 *per cent*, which was higher as compared to failure rate in other project areas. The reasons for such abnormal failure rate were also not analysed by the Company. Thus, the quality of the DTs supplied by the contractor in the Thane (Kalyan) project area was sub-standard.

The Management/Government stated that all the transformers failed within GP have been repaired/replaced by the contractors before expiry of GP. The reply was not convincing as the Company should have got DTs repaired within the time prescribed in the tender for repairs/replacement instead of period of guarantee.

Monitoring

2.2.21 NREP and SREP provided that State Governments should set up committee at District level pursuant to section 166(5) of the Electricity Act, 2003 within three months from the date of issue of notification by GoI. The Committees were to co-ordinate and review the status of electrification in the districts. However, State Government set up such committees at State[52] and District[53] level only in December 2009 after a delay of 37 months.

However, we observed that only one meeting at State level was conducted in August 2010 and 39 meetings at District level during December 2009 to May 2012. We further observed that not a single District level meeting was held in 17 Districts while only one meeting each was conducted in 12 Districts. These committees were thus ineffective.

2.2.22 The NREP and SREP envisaged that the data on un-electrified villages/RHHs be obtained on annual basis from Gram Panchayat/Village Council to ascertain the progress of electrification of the village. However, no such records were being maintained by Gram Panchayats in the State. Thus, village wise status of electrification could not be ascertained.

2.2.23 There was an Internal Grievance Redressal Cell at Circle Level for addressing grievances of all consumers. Test check of 10 projects revealed that none of the circle offices had maintained separate records for complaints related to RGGVY indicating date of complaint, name of complainant, nature of complaint and date of redressal of complaints. Such records were also not maintained in the Head Office.

The Management/Government while accepting the fact stated that instructions have been given to concerned field offices for maintaining separate register for complaints under RGGVY scheme.

2.2.24 The overall performance of the scheme was reviewed by the Managing Director through Monthly Review Meetings. However, the same was not reported to BoD for evaluation.

The Management/Government stated that the progress/performance of work was reviewed by the Managing Director as per the prevailing practice of the Company.

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[52] The State Level Co-ordination Committee comprised of the Chief Secretary (GoM), Additional Chief Secretary (Revenue), Principal Secretary (Rural Development), Principal Secretary (Planning), Secretary (Energy), Managing Director (MSETCL) and Managing Director of the Company.

[53] The District Committee comprised of the Guardian Minister as Chairperson, District Collector, MP, MLA/MLC, Zilla Parishad President, and Representatives of consumers, Women Representatives as members and Superintending Engineer of concerned O&M Circle of the Company as Member Secretary.

2.2.25 The Company targeted electrification of 7.34 lakh other than BPL RHHs under the scheme. However, actual electrification against this target was not monitored by the Company.

Impact assessment

Beneficiary survey

2.2.26 The beneficiary survey of 130 villages selected from 10 projects was conducted by Audit during July to December 2012. Out of total 3,911 beneficiaries, 1,159 beneficiaries (30 *per cent*) were surveyed/interviewed on one to one basis. The survey was also conducted among 170 Sarpanchs, Ex-member of Gram Panchayats, School teachers, Gram Sevaks, Aanganwadi Sevikas *etc* (referred as village public authorities) from these villages. The outcome of the survey was as under:

Awareness of the scheme

2.2.27 The Scheme envisaged for conducting awareness programme by the State Governments/Company among the public so that they could understand the benefits under the scheme. Out of 1,159 beneficiaries surveyed, 813 beneficiaries (70 *per cent*) said that they were not aware of the scheme. The survey of 115 village public authorities indicated that 76 (66 *per cent*) were not aware of the scheme. This clearly indicated that the scheme was not given wide publicity to create awareness among beneficiaries.

The Management/Government stated that wide publicity was given by publishing notice in local news papers and displaying posters and pamphlets.

Unauthorised collection of money from beneficiaries

2.2.28 The Company collected ₹ 15 per connection as security deposit for releasing free of cost connections to the BPL RHHs. The survey indicated that 228 beneficiaries over and above the authorised amount of ₹ 15 paid additional amounts ranging from ₹ 30 to ₹ 3,985 per connection and aggregating to ₹ 1.20 lakh**.** Action taken, if any, by the Company against the responsible officials was awaited (December 2013).

The Management/Government stated that no such discrepancies were pointed out by three tier monitoring agencies. The Government may like to inquire into this matter.

Supply of CFL

2.2.29 The scheme provided supply of one CFL bulb free of cost to each BPL household at the time of releasing connection. The survey indicated that 347 beneficiaries were not provided with CFL. Further, 68 beneficiaries stated that CFL bulbs provided worked up to six months.

The Management/Government stated that no such complaints were received from beneficiaries.

Supply of electricity

2.2.30 As per the scheme, electricity supply was to be guaranteed for a minimum period of six to eight hours in a day. Majority of beneficiaries stated that electricity supply was more than eight hours. However, 26 Sarpanch reported that the DTs installed in their villages burnt frequently mainly due to heavy load, rain, thundering and oil leakage. Twenty eight beneficiaries complained that there was frequent failure of meters.

The Management/Government stated that there were no complaints for failure of DTs due to overloading. Moreover, such discrepancies were also not noticed by three tier monitoring agencies.

Facility for payment of bill

2.2.31 During the survey, 125 beneficiaries stated that they had not received the first bill for their connections so far (October 2012). In regard to the facilities for timely payment of bills, 42 Sarpanch stated that the bill collection centers should be in their villages. This indicated that there was a scope to improve the billing system and to make suitable arrangements for distribution and collection of electricity bills.

The Management/Government stated that the collection centres were available within eight kilometres of every village.

Free of cost connections to ineligible beneficiaries

2.2.32 The survey indicated that 53 beneficiaries from five projects[54] were provided free of cost connections on the basis of their names in Gram Panchayat list though they were in possession of Above Poverty Line (APL) Ration Cards.

The Management/Government stated that their names were in the list of BPL. However, these 53 beneficiaries were APL card holders. The Government may like to inquire into this matter.

Acknowledgement

2.2.33 Audit acknowledges the co-operation and assistance extended by different levels of management at various stages of conducting the performance audit. It also acknowledges the enthusiasm with which the Beneficiaries and other village authorities have participated in the survey and expressed their views on the issues related to the Scheme that helped the audit to come out with an appropriate report.

[54] Ahmednagar, Nasik, Sangli, Sindhudurg and Thane (Kalyan).

Conclusion

- The objectives of the scheme for overall rural electrification were not fully achieved. The DPRs prepared by the Company mainly focussed on electrification of BPL RHHs rather than overall rural electrification. As a result, potential financial assistance of ₹ 720.50 crore was lost.

- The State Government did not plan electrification of 351 villages from Ahmednagar and Thane districts which were served by distribution licensees other than the Company.

- The Company was facing problems in recovery of electricity bills and ₹ 19.88 crore was outstanding from 2.89 lakh BPL RHHs in 17 Districts. The State Government did not formulate any policy to make the scheme financially viable and ensure revenue sustainability as per commitment given in tripartite agreement.

- As per the tripartite agreement, the State Government had not reimbursed ₹ 26.54 crore towards repayment of loan with interest and agency charges paid by the Company to REC. Further, the Company has not preferred claim for reimbursement of taxes/duties of ₹ 37.45 crore.

- Labour cess of ₹ 5.55 crore was not recovered from contractors.

- The beneficiary survey conducted by audit indicated lack of awareness of the scheme, release of connections to ineligible beneficiaries, non-supply of CFL, unauthorised collection of money, delay in issue of bills and distantly located collection centres.

Recommendations

The Company has been facing problem in recovery of energy bills from BPL households. The State Government may therefore fulfil its commitment for payment of subsidy to ensure revenue sustainability. Further, the State Government may reimburse the loans and interest amounts paid by the Company to the REC. The Company may take steps to prefer the claims for reimbursement of taxes/duties initially paid by it.