

OVERVIEW Section A

Functioning of State Public Sector Undertakings (Power Sector & Non-Power Sector)

Telangana State was formed on 02 June 2014, following the bifurcation of erstwhile composite State of Andhra Pradesh (AP) into Telangana and the residual State of AP as per the AP Reorganisation Act, 2014.

Audit of Government Companies is governed by Sections 139 and 143 of the Companies Act, 2013. The financial statements of Government Companies are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG). These financial statements are also subject to supplementary audit by the CAG.

As on 31 March 2018, Telangana had 75 State Public Sector Undertakings (PSUs) consisting of three Statutory Corporations and 72 Government Companies (including 20 Inactive Companies) under the audit jurisdiction of the Comptroller & Auditor General of India (CAG). Two Government Companies, namely, A.P. Tribal Power Company Limited and Infrastructure Corporation of Andhra Pradesh Limited and 19 Inactive Companies were still under demerger process. The working PSUs as per their latest finalised accounts and information furnished registered a turnover of ₹ 73,561.62 crore during 2017-18. The turnover relative to the Gross State Domestic Product (GSDP) of Telangana was 9.76 *per cent*.

As on 31 March 2018, the investment (Capital and Long Term Loans) in 75 PSUs was \gtrless 88,918.89 crore. The power sector received investments of \gtrless 5,630.70 crore (73.69 *per cent*) out of total investment of \gtrless 7,640.68 crore made during the period from 2014-15 to 2017-18.

1. Functioning of State Power Sector PSUs

As on 31 March 2018, there were eight Power Sector PSUs in Telangana. Out of which, one Government Company *viz*, A.P. Tribal Power Company Limited is still under demerger process. During 2017-18, the aggregate turnover of Power Sector PSUs was ₹ 56,713.81crore. The turnover relative to the Gross State Domestic Product (GSDP) of Telangana was 7.52 *per cent* indicating a fairly important role played by the Power Sector PSUs in the economy of the State. The Government of Telangana's investment in these Power Sector PSUs on historical cost basis was ₹ 20,785.24 crore which included equity infusion of ₹ 7,723.00 crore under UDAY scheme.

Stake of Government of Telangana

As on 31 March 2018, the total investment (equity and long term loans) in eight Power Sector PSUs was \gtrless 47,946.37 crore. The investment consisted of \gtrless 11,213.63 crore (23.39 *per cent*) towards equity and \gtrless 36,732.74 crore (76.61 *per cent*) in long-term loans. Out of the total long term loans of \gtrless 36,732.74 crore, $\end{Bmatrix}$ 4,509.85 crore (12.28 *per cent*) was availed from the State Government and balance \gtrless 32,222.89 crore (87.72 *per cent*) was availed from financial institutions.

Performance of Power Sector PSUs

The eight Power Sector PSUs at the aggregate level incurred losses of $\overline{\mathbf{x}}$ 13,533.43 crore during the period 2014-18. The Power Generating Companies earned profits of $\overline{\mathbf{x}}$ 3,518.77 crore as also the Transmission Company - TSTRANSCO which earned profits of $\overline{\mathbf{x}}$ 531.12 crore. The distribution companies (DISCOMs) suffered losses amounting to $\overline{\mathbf{x}}$ 17,580.43 crore resulting in a net loss of $\overline{\mathbf{x}}$ 13,533.43 crore in Power Sector in Telangana. Profits of the Singareni Collieries Company Limited in 2017-18 was 1.47 times higher than the previous year, mainly because of increased volume of business in power segment.

Against the paid-up capital investment of \gtrless 7,131.53 crore, the accumulated losses in the Power Sector PSUs was \gtrless 22,593.14 crore as of March 2018 resulting in negative net worth of \gtrless 15,461.61 crore.

Coverage of this Report

Part-I of this report contains one Performance Audit of Setting up of Singareni Thermal Power Plant (STPP) at Jaipur and four compliance audit paragraphs.

2. Performance Audit - Power Sector PSU

The Singareni Collieries Company Limited

Setting up of Singareni Thermal Power Plant at Jaipur

Performance Audit covers the planning and project execution stages of Singareni Thermal Power Plant (STPP) and its operational performance including compliance to environmental norms during the period September 2016 to March 2018. Important audit findings are enumerated below:

Planning

The Project was conceived on the ground that coal generated from the Company's own mines would be used in the STPP. This presumption however, ignored the changed reality brought about by the New Coal Distribution Policy (NCDP: October 2007), under which the coal allocation was to be made centrally. Naini coal mines (in Odisha) allotted by Ministry of Coal was to meet the future (from December 2020) coal needs of STPP. This necessitated supply of coal from Company's own mines under bridge linkage* resulting in payment of premium charges of ₹ 289.91 crore on procurement of 83.24 lakh MTs of coal. As a result the generation cost increased from the estimated ₹ 2.37 per unit to ₹ 3.42 per unit (March 2018). The STPP however, did not apply for swapping of coal linkage from Naini coal mines to Company's own mines.

The Company also planned to avail 150 MW (out of 1200 MW) power generated by STPP for its internal consumption. This assumption made in project planning was also ignored as STPP entered (January 2016) into a Power Purchase Agreement (PPA) with the State Power Distribution Companies (DISCOMs) to

^{*} Under Bridge Linkage, coal is supplied to end users on short term basis until the commencement of production from the allotted coal mines.

sell the entire 1,200 MW power generated by it. This resulted in purchase of power for mining activity at higher cost from the DISCOMs which entailed an avoidable expenditure of ₹ 288.96 crore during 2017-18.

The STPP was required to sell minimum 85 *per cent* of its generation capacity to DISCOMs and to award contracts through International Competitive Bidding (ICB) to claim Mega Power Project (MPP) status. The STPP however, calculated its net saleable power at 81 *per cent* by incorrectly deducting its Auxiliary Power consumption. STPP also awarded the Boiler-Turbine-Generator (BTG) contract to M/s. BHEL on nomination basis instead of ICB. Thus, the STPP lost the benefit of duty exemptions of ₹ 293.55 crore available under the MPP Policy.

Operational Performance

The STPP maintained the Station Heat Rate nearer to the norms fixed by the Telangana State Electricity Regulatory Commission (TSERC). But, STPP consumed 4.97 lakh MTs of coal valued ₹ 156.10 crore in excess of the norms allowed by the TSERC due to receipt of poor quality coal.

The Company took special measures like increasing the thickness of pressure parts and temperature range, etc., to reduce the boiler tube failures. Audit however, observed that during the year 2017-18, STPP lost a total of 1,053 hours due to multiple tube leakages in the boilers of Unit I & II which caused generation loss of 642.06 MU valued at ₹ 219.58 crore.

As per the boiler Performance Guarantee bestowed by the Original Equipment Manufacturer, the unburnt coal in both fly and bottom ash should be in the range of 1 per cent to 1.80 per cent. The actual presence of unburnt coal in bottom ash however, ranged between 2.14 per cent and 2.65 per cent resulting in loss of generation of 81.51 MU worth ₹ 27.87 crore during 2017-18.

Environmental Compliance

The STPP installed the Ambient Air Quality Monitoring System after two years of its Commercial Operation Date (December 2016). The average level of Sulphur Oxide was abnormally on high side in both the Units. Hence, the Central Pollution Control Board directed STPP to install Fuel Gas De-Sulphurisation Plant costing ₹ 800.00 crore.

Further, STPP incurred only \gtrless 12.85 crore (58 *per cent*) of the targeted amount of \gtrless 22.00 crore for Corporate Social Responsibility (CSR) activities and did not initiate any activity under the annual component of CSR activities. Annual social audit of schemes identified for CSR activities was also not conducted by STPP as of June 2018.

Monitoring of Outcomes

The STPP did not achieve the envisaged outcomes of use of coal from the Company's own coal mines and use of 150 MW power for its internal consumption. Further, STPP did not provide employment to land losers and local people as envisaged. The Company however, did not ensure that a monitoring mechanism was in place to ensure achievement of envisaged outcomes of STPP.

3. Compliance Audit –Power Sector PSUs

Compliance Audit observations included in this Report highlight deficiencies in the management of Power Sector PSUs with financial implications. The irregularities pointed out are broadly of the following nature:

Southern Power Distribution Company of Telangana Limited

The Company's decision to withdraw interest charges levied as per the Supreme Court's order resulted in loss of \gtrless 21.42 crore.

(Paragraph 3.1)

The Company also suffered loss of \gtrless 0.56 crore due to wrong categorisation and charging lower rates on one HT consumer.

(Paragraph 3.2)

Telangana Power Finance Corporation Limited

The Company was incorporated with higher amount of authorised share capital resulting in avoidable expenditure of \gtrless 2.40 crore.

(Paragraph 3.3)

Telangana State Renewable Energy Development Corporation Limited

The Company did not adhere to the controls prescribed while releasing subsidies under the Bio-Gas Programme. This led to suspected fraud of ₹ 29.99 lakh.

(Paragraph 3.4)

4. Functioning of State PSUs (Non-Power Sector)

As on 31 March 2018, Telangana had 67 State Public Sector Undertakings (PSUs) in the Non-Power Sector. These PSUs included 64 Government Companies and three Statutory Corporations. During 2017-18, the aggregate turnover of these PSUs was ₹ 16,847.81 crore. The turnover relative to the GSDP of Telangana was 2.24 *per cent*.

Stake of the Government of Telangana

The amount of investment as on 31 March 2018 in the State PSUs (Non-Power Sector) was \gtrless 40,972.32 crore consisting of \gtrless 355.44 crore as equity and \gtrless 40,616.88 crore as long term loans. Out of this, the State Government invested \gtrless 5,742.82 crore (14 *per cent*) in 56 PSUs (38 working PSUs and 18 inactive PSUs) which consisted of \gtrless 320.92 crore towards capital and $\end{Bmatrix}$ 5,421.90 crore towards long-term loans.

Performance of Public Sector Undertakings

The 38 working PSUs together incurred loss of ₹ 2,018.50 crore during 2014-18. Out of the 28 PSUs which furnished their accounts/ information as on 31 March 2018, 12 PSUs earned profits and 12 PSUs incurred losses.Three PSUs reported nil profits and one working PSU namely, Telangana State Beverages Corporation Limited had break-even status. Major profit making PSUs during the year 2017-18 were, Telangana State Forest Development Corporation Limited (₹ 94.79 crore), Telangana State Minerals Development Corporation Limited (₹ 27.08 crore), Telangana State Warehousing Corporation (₹ 17.51

crore) and Telangana State Technology Services Limited (₹ 15.14 crore) while Telangana State Road Transport Corporation (TSRTC) incurred heavy losses (₹ 748.85 crore).

5. Compliance Audit – State PSUs (Non-Power Sector)

Compliance Audit observations included in this Report highlight deficiencies in the management of PSUs, with financial implications. The irregularities pointed out are broadly of the following nature:

Telangana State Civil Supplies Corporation Limited

The Company recovered cost of transportation of paddy to miller's premises at rates lower than the prescribed rate. This resulted in short recovery of \gtrless 34.08 crore.

(Paragraph 5.1)

The Company's failure to restrict its share of contribution towards Employees Provident Fund to the statutory limit resulted in extra expenditure of \gtrless 3.80 crore.

(Paragraph 5.2)

OVERVIEW Section B

Departments and Entities (other than Public Sector Undertakings) under Economic Sector

Chapter I: Overview of Economic Sector

There are 32 Departments at the Secretariat level headed by Additional Chief Secretaries/ Principal Secretaries/ Secretaries who are assisted by Directors/ Commissioners/ Chief Engineers and subordinate officers under them. During the year 2017-18, Economic Sector accounted for 20 *per cent* (₹ 29,758.51 crore) of the total expenditure (₹ 1,49,127.91 crore) of the Government of Telangana. Of the total expenditure of ₹ 29,758.51 crore incurred by 11 Departments during 2017-18, a major portion (94 *per cent*) was incurred by four top spending Departments. These were Irrigation & Command Area Development (44 *per cent*), Energy (21 *per cent*); Agriculture (17 *per cent*) and Roads & Buildings (12 *per cent*). This Report includes the results of audit of Irrigation and Command Area Development Department.

Chapter II: Compliance Audit – Economic Sector

Avoidable expenditure due to re-tendering of work

Lack of technical competence of Department in managing EPC contract led to delay in commencement of work and avoidable expenditure of ₹ 76.86 crore.

(Paragraph 2.1)

Loss of revenue due to inefficient disposal of de-silted soil and additional expenditure on lead charges

By dumping the de-silted soil without usage, contrary to Government instructions, the Department suffered revenue loss of \gtrless 30.59 lakh, besides incurring an additional expenditure of \gtrless 28.07 lakh on lead charges in transporting the silt to the dumping site.

(Paragraph 2.2)

Non-recovery of mobilization advances

Failure to recover mobilization advances, consequent to pre-closure/ termination of contracts, resulted in non-recovery of \gtrless 428.98 crore.

(Paragraph 2.3)