

CHAPTER VI

COMMERCIAL ACTIVITIES

6.1 Overview of State Public Sector Undertakings

Introduction

6.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State working PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Uttarakhand, the State PSUs occupy a moderate place in the State economy. The working State PSUs registered a turnover of ₹ 2,539.52 crore for 2010-11 as per their accounts finalised as of September 2011. Their turnover was equal to 4.87 *per cent* of State Gross Domestic Product (GDP) for 2010-11. Major activities of State PSUs are concentrated in power sector. The working PSUs incurred a Loss of ₹ 221.62 crore in 2010-11. They had employed 0.19 lakh¹ employees as of 31 March 2011. The State PSUs do not include seven prominent Departmental Undertakings (DUs) of the Government which carry out commercial operations. Audit findings of these DUs are incorporated in Chapter-II of this Audit Report.

6.1.2 As on 31 March 2011, there were 24 PSUs as detailed in the table-6.1.1 below. None of these companies were listed on the stock exchange.

Table-6.1.1

Type of PSUs	Working PSUs	Non-working PSUs ²	Total
Government Companies ³	18	04	22
Statutory Corporations	02	-	02
Total	20	04	24

Audit Mandate

6.1.3 Audit of Government Companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government Company is one in which not less than 51 *per cent* of the Paid up Capital is held by Government(s). A Government Company includes a subsidiary of a Government Company. Further, a Company in which 51 *per cent* of the Paid up Capital is held in any combination by Government(s), Government Companies and Corporations controlled by Government(s) is treated as if it were a Government Company (deemed Government Company) as per Section 619-B of the Companies Act.

6.1.4 The accounts of the Government Companies are audited by Statutory Auditors who are appointed by the Comptroller & Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

¹ As per the details provided by 16 PSUs.

² Non-working PSUs are those which have ceased to carry on their operations.

³ includes 619-B companies.

6.1.5 Audit of Statutory Corporations is governed by their respective Legislations. Out of two Statutory Corporations, CAG is the sole auditor for Uttarakhand Parivahan Nigam. In respect of Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam, the audit was entrusted to CAG with effect from 2003-04 to 2008-09 and then extended upto 2013-14 under Section 20(1) of CAG (DPC) Act, 1971.

Investment in State PSUs

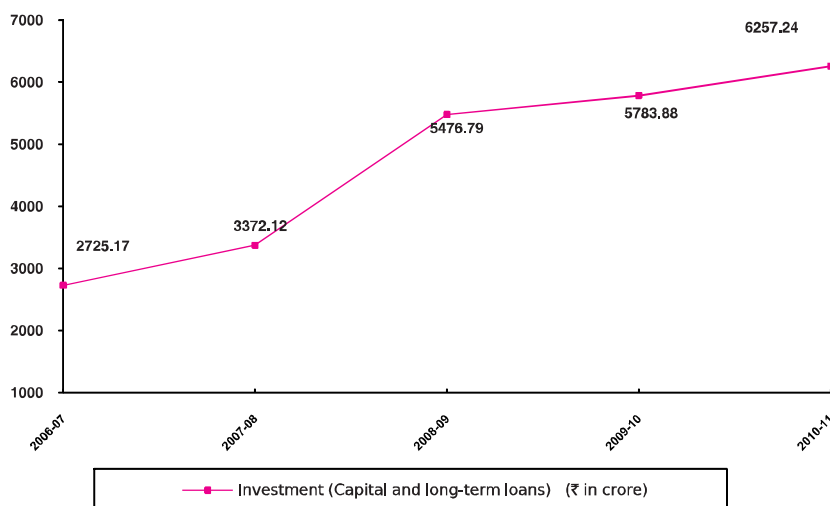
6.1.6 As on 31 March 2011, the Investment (Capital and Long Term Loans) in 24 PSUs (including 619-B Companies) was ₹ 6,257.24 crore as per details given in the table-6.1.2 below.

Table-6.1.2 (₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	1679.97	2438.24	4118.21	2111.59	27.05	2138.64	6256.85
Non-working PSUs	0.39	-	0.39	-	-	-	0.39
Total	1680.36	2438.24	4118.60	2111.59	27.05	2138.64	6257.24

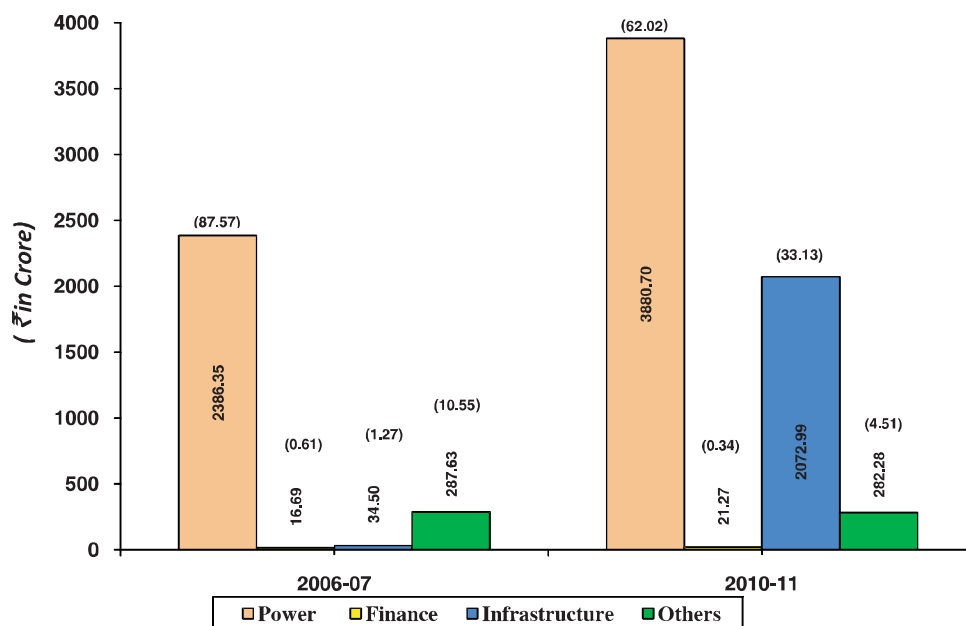
A summarised position of Government Investment in State PSUs is detailed in **Appendix 6.1**.

6.1.7 As on 31 March 2011, 99.99 *per cent* of the total Investment in State PSUs was in working PSUs and the remaining 0.01 *per cent* in non-working PSUs. This total Investment consisted of 59.20 *per cent* towards Capital and 40.80 *per cent* in Long Term Loans. The Investment increased by 129.61 *per cent* from ₹ 2,725.17 crore in 2006-07 to ₹ 6,257.24 crore in 2010-11 as shown in the graph below:



6.1.8 The Investment in various important sectors of the Economy and their percentage thereof at the end of 31 March 2007 and 31 March 2011 are indicated in the bar chart. Though the major Investment was in power sector (62.02 *per cent*), the thrust of Investment in the State was shifting towards infrastructure

sector, the percentage of which rose from 1.27 per cent in 2006-07 to 33.13 per cent in 2010-11.



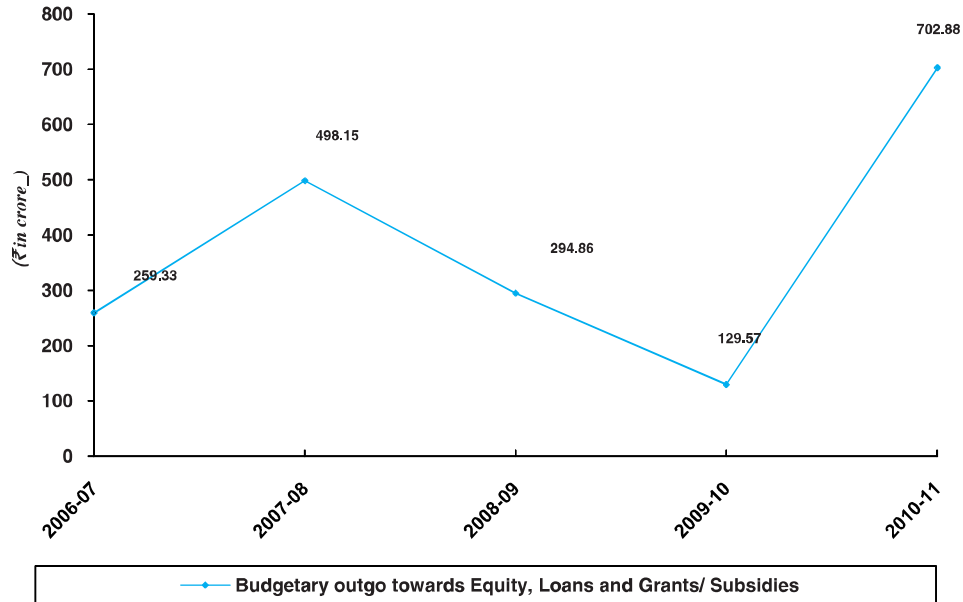
(Figures in brackets show the percentage of sector investment to total investment)

Budgetary outgo, Grants/Subsidies, Guarantees and Loans

6.1.9 The details regarding budgetary outgo towards Equity, Loans, Grants/Subsidies, Guarantees issued in respect of State PSUs are given in **Appendix 6.2**. The summarised details are given in the table-6.1.3 below for three years ended 2010-11.

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	256.14	3	104.01	3	603.71
2.	Loans outgo from budget	5	36.55	2	24.32	3	65.70
3.	Grants/Subsidy outgo	2	2.17	6	1.24	3	33.47
4.	Total Outgo (1+2+3)	-	294.86		129.57	5	702.88
5.	Guarantees issued	1	3.15	2	277.54	2	279.98
6.	Guarantee Commitment	2	1,143.15	3	1,428.81	3	289.75

6.1.10 The details regarding budgetary outgo towards Equity, Loans and Grants/Subsidies for past five years are given in a graph below:



The budgetary outgo in State PSUs in the form of Equity, Loans and Grants ranged between ₹ 129.57 crore and ₹ 702.88 crore during 2006-07 to 2010-11.

6.1.11 The amount of Guarantee Commitment as on 31 March 2009 was ₹ 1143.15 crore (two PSUs) which increased to ₹ 1428.81 crore (three PSUs) as on 31 March 2010 and decreased to ₹ 289.75 (three PSUs) as on 31 March 2011. The State Government charged Guarantee fee at the rate of one *per cent* in case of all PSUs and two *per cent* in case of defaulting PSUs. Guarantee fee of ₹ 12.72 crore was paid to State Government by two PSUs (Power Transmission Corporation of Uttarakhand Limited and Uttarakhand Jal Vidyut Nigam Limited) during 2010-11.

Reconciliation with Finance Accounts

6.1.12 The figures in respect of Equity, Loans and Guarantees outstanding as per records of State PSUs should match with that of the figures appearing in the Finance Accounts of the State. In case the figures do not match, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2011 is given in the table-6.1.4 below.

Table-6.1.4

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	1289.34	3791.56	2502.22
Loans	448.80	2465.29	2016.49
Guarantees	1309.00	289.75	1019.25

6.1.13 We observed that the differences occurred in respect of 20 PSUs and some of the differences were pending reconciliation since 2003. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

6.1.14 The financial position and working results of PSUs are detailed in **Appendix 6.3**. A ratio of PSUs Turnover to State GDP shows the extent of PSUs activities in the State economy. Table-6.1.5 below provides the details of working PSUs Turnover and State GDP for the period from 2006-07 to 2010-11.

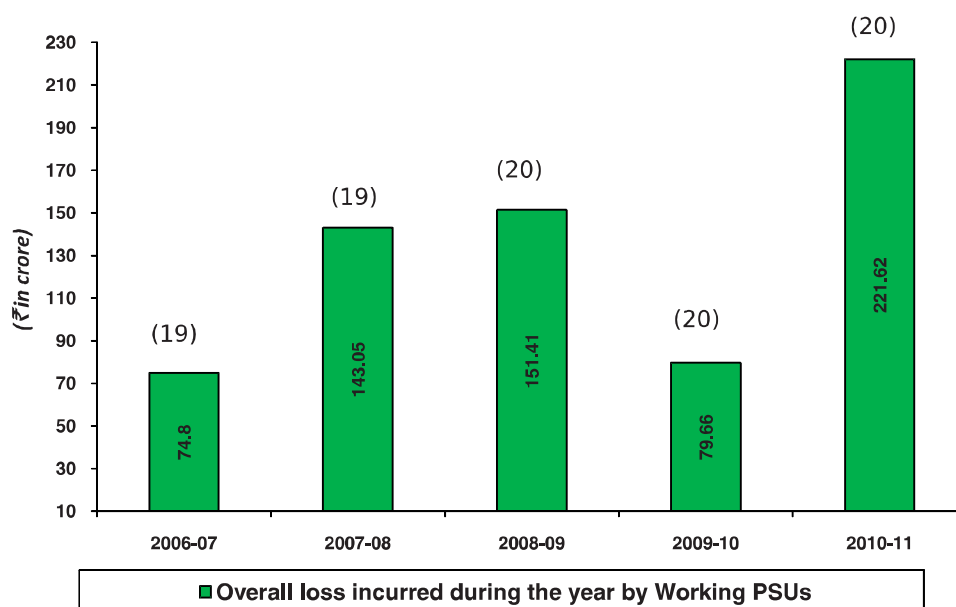
Table-6.1.5

(& in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover ⁴	1,366.26	1,481.94	1,527.06	1,722.95	2,539.52
State GDP	29,881.00	34,549.00	40,159.00	46,872.00	52,143.00
Percentage of Turnover to State GDP	4.57	4.29	3.80	3.68	4.87

The percentage of Turnover to the State GDP had declined from 2006-07 to 2009-10 and increased in the year 2010-11. This was mainly due to the fact that the Turnover of PSUs did not keep pace with the growth of the State GDP.

6.1.15 Losses incurred by State working PSUs during 2006-07 to 2010-11 are given below in the bar chart.



(Figures in brackets show the number of working PSUs in respective years)

It can be seen from the bar chart that overall Losses increased from ₹ 74.80 crore in 2006-07 to ₹ 221.62 crore in 2010-11. During the year 2010-11 out of 20 working PSUs, nine PSUs earned Profit of ₹ 75.41 crore and 11 PSUs incurred Loss of ₹ 297.03 crore. The main profit earning PSUs were State Industrial Development Corporation of Uttarakhand Limited (₹ 33.86 crore) and Uttarakhand Jal Vidyut Nigam Limited (₹ 26.49 crore). The main loss making PSUs were Uttarakhand Power Corporation Limited (₹ 243.05 crore), Power

⁴ Turnover as per the latest finalised accounts as of 30 September 2011.

Transmission Corporation of Uttarakhand Limited (₹ 26.97 crore), Uttarakhand Parivahan Nigam (₹ 14.67 crore) and Doiwala Sugar Company Limited (₹ 9.17 crore).

6.1.16 The reasons for the Losses incurred by the PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred Losses to the tune of ₹ 2075.19 crore and infructuous Investment of ₹ 9.29 crore which was controllable with better management. Year wise details from Audit Reports are stated in the table-6.1.6 below:

Table-6.1.6 (₹ in crore)				
Particulars	2008-09	2009-10	2010-11	Total
Net Profit (Loss)	(-) 151.41	(-) 79.66	(-) 221.62	(-) 452.72
Controllable Losses as per CAG's Audit Report	80.11	1,283.32	711.76	2075.19
Infructuous Investment	3.00	-	6.29	9.29

6.1.17 The above Losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable Losses would be much more. The above table shows that with better management, the Losses can be minimised. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

6.1.18 Some other key financial parameters of State PSUs are given in the table-6.1.7 below:

Table-6.1.7 (₹ in crore)					
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (<i>per cent</i>)	11.40	-	-	0.96	0.98
Debt	1950.91	2356.08	2387.65	2588.39	2,465.29
Turnover ⁵	1366.26	1481.91	1527.06	1722.95	2,539.52
Debt/ Turnover Ratio	1.43:1	1.59:1	1.56:1	1.50:1	0.97:1
Interest Payments	304.16	158.78	156.53	124.82	271.63
Accumulated Profits (losses)	(-)168.20	(-)291.71	(-) 283.60	(-) 420.39	(-) 807.79

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

6.1.19 It can be seen that the Debt figures had increased from 2006-07 to 2009-10, but slightly decreased in 2010-11. The Debt-Turnover ratio had decreased from 1.43:1 in 2006-07 to 0.97:1 in 2010-11 as the rate of increase in Turnover outstripped the rate of increase in Debt. The percentage of consolidated Return on Capital Employed of all PSUs was 11.40 in 2006-07 and after registering negative returns during 2007-08 and 2008-09, it improved and registered the return of 0.96 *per cent* during 2009-10 and 0.98 *per cent* during 2010-11. The accumulated Losses increased from ₹ 168.20 crore in 2006-07 to ₹ 807.79 crore in 2010-11.

6.1.20 The State Government had not formulated any dividend policy for the PSUs under which PSUs would be required to pay a minimum return of Dividend

⁵ Turnover of working PSUs as *per* the latest finalised accounts as of 30 September 2011.

to the State Government. As per their latest finalised accounts, nine PSUs earned a Profit of ₹ 75.41 crore but no Dividend had been declared.

Arrears in finalisation of accounts

6.1.21 The accounts of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table-6.1.8 below provides the details of progress made by working PSUs in finalisation of accounts by September 2011.

Table-6.1.8

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of working PSUs	19	19	20	20	20
2.	Number of accounts finalised during the year	15	10	13	12	28
3.	Number of accounts in arrears	119	128	135	143	135
4.	Average arrears per PSU (3/1)	6.26	6.74	6.75	7.15	6.75
5.	Number of working PSUs with arrears in accounts	19	19	20	20	19
6.	Extent of arrears	1 to 20 years	1 to 21 years	1 to 22 years	1 to 23 years	1 to 24 years

6.1.22 As may be seen from above, the arrears in finalisation of accounts increased from 119 during 2006-07 to 143 during 2009-10 but decreased to 135 in 2010-11. It can be seen that the State PSUs failed to clear on an average at least one account per PSU during any of preceding four years from 2006-07 to 2009-10. As stated by the PSUs, lack of trained staff was the main reason for delay in finalization of accounts. The State PSUs need to take effective measures for early clearance of backlog in finalization of accounts and bring the position up-to-date.

6.1.23 In addition to above, there were arrears in finalisation of accounts by non-working PSUs also. Out of four non-working PSUs, one had gone into liquidation process, remaining three non-working PSUs had arrears of accounts for 21 to 24 years.

6.1.24 The State Government had invested ₹ 1216.43 crore (Equity: ₹ 866.04 crore, loans: ₹ 323.92 crore and Grants/ Subsidy: ₹ 26.47 crore) in five PSUs during the years 2002-03 to 2010-11 for which accounts have not been finalised as detailed in **Appendix 6.4**. Delay in finalisation of accounts may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

6.1.25 The Administrative Departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. The Principal Accountant General (PAG) brought the position of the arrears in finalisation of accounts to the notice of the concerned Administrative Departments and officials of the Government every quarter. We noticed that arrears in finalization of accounts of working PSUs increased from 119 in 2006-07 to 135 in 2010-11. As a result of this, the Net Worth of these PSUs could not be assessed in Audit. The PAG also brought the

matter to the notice of the Chief Secretary/ Finance Secretary, Government of Uttarakhand to expedite the clearance of backlog of arrears in accounts in a time bound manner.

Winding up of non-working PSUs

6.1.26 There were four non-working PSUs as on 31 March 2011. Of these, one PSU has commenced liquidation process.

6.1.27 The stages of closure in respect of non-working PSUs are given in the table-6.1.9 below:

Table-6.1.9

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	04	-	04
2.	Of (1) above, the No. under	-	-	-
(a)	liquidation by Court (liquidator appointed)	01	-	01
(b)	Voluntary winding up (liquidator appointed)	-	-	-
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	03	-	03

6.1.28 During the year 2010-11, no Company/Corporation was finally wound up. The only Company which had taken the route of winding up by Court order was under liquidation for more than 20 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously.

Accounts Comments and Internal Audit

6.1.29 12 working Companies forwarded 18 audited accounts to PAG during the year 2010-11. As on 30 September 2011, 16 accounts were selected for Supplementary Audit and non-review certificates were issued in respect of two companies. The Audit Reports of Statutory Auditors appointed by CAG and the Supplementary Audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and CAG are given in the table-6.1.10 below:

Table-6.1.10

(₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	5	93.50	4	168.70	7	174.57
2.	Increase in loss	4	131.16	7	16.19	7	247.12
3.	Non-disclosure of material facts	3	2.47	3	169.52	6	1251.59

6.1.30 During the year, the Statutory Auditors had given qualified certificates for all the 18 accounts.

6.1.31 Some of the important comments on the accounts of Companies are stated below:

Uttarakhand Jal Vidyut Nigam Limited (2008-09)

- Non-provision of penal interest due to default in repayment of Principal and Interest on loan amount of LIC resulted in understatement of unsecured loan, interest payable to LIC and overstatement of profit by ₹3.25 crore.
- Non- provision of expenditure of ₹ 1.63 crore incurred on Sobla – II Project which came under submergence area of NHPC Project resulted in overstatement of capital work in progress and profit by ₹ 1.63 crore each.
- Non provisioning of Electricity charges of ₹ 9.44 crore billed against UP Irrigation Department during 2001 to March 2009, being doubtful of recovery, resulted in overstatement of sundry debtors as well as profit by like amount.
- Non-provision of penal guarantee fee payable to Uttarakhand Government resulted in understatement of current liabilities and overstatement of profit by ₹ 34.12 crore.

Uttarakhand Power Corporation Limited (2007-08)

- Non-provision of penal guarantee fee payable to the Government resulted in understatement of loss and current liabilities by ₹ 5.20 crore.
- Non provision of Interest Liability for the year 2006-07 and 2007-08 on account of Tax free ‘Power Bonds’ issued to Central Public Sector Undertakings by Uttarakhand Government resulted in understatement of sundry creditors as well as loss by ₹ 97.24 crore.

6.1.32 Audit in respect of Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam, entrusted to CAG under Section 20(1) of CAG (DPC) Act, 1971, had been finalized for seven accounting years (2003-04 to 2009-10) during 2010-11. Another Statutory Corporation, Uttarakhand Parivahan Nigam, of which CAG is the sole auditor, audit had been finalized for three accounting years (2006-07 to 2008-09) during the year 2010-11. The details of aggregate money value of comments of CAG are given in the table-6.1.11 below:

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in Profit	-	-	-	-	5	40.84
2.	Increase in Loss	1	0.23	1	2.11	5	5.25
3.	Non-disclosure of material facts	-	-	-	-	3	23.73
4.	Errors of classification	-	-	1	370.30	-	-

6.1.33 Important comments in respect of Statutory Corporations are stated below:

Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam (2009-10)

- Non -provision of interest of ₹ 12.61 crore on loan of ₹ 21.02 crore taken from Uttarakhand Government during 2002-03 to 2008-09 resulted in

understatement of liabilities and overstatement of surplus by ₹ 12.61 crore.

- Non-provision of Interest of ₹ 0.90 crore (upto 2006-07) payable to UP Jal Nigam resulted in understatement of liabilities and overstatement of surplus by ₹ 0.90 crore.

Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam (2008-09)

- The Nigam accounted for leave encashment and other retirement benefits (gratuity and pension) on cash basis instead of actuarial basis as required in AS 15.
- The Nigam showed General Provident Fund interest as its income amounting to ₹ 3.23 crore in contravention of its accounting rules/practice. The interest income should have been shown separately.

Uttarakhand Parivahan Nigam (2007-08)

- Non-provision of statutory benefits to employees as per actuarial valuation as required in AS 15.

6.1.34 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of twelve Companies for the year 2010-11 are given in the table-6.1.12 below:

Table-6.1.12

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 6.3
1.	Non-fixation of minimum/ maximum limits of store and spares	2	A 14, 15
2.	Absence of internal audit system commensurate with the nature and size of business of the company	5	A 4, 10, 13, 14 & 17
3.	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	2	A 2 & 10
4.	Lack of internal control over sale of Power	1	A13

Status of placement of Separate Audit Reports

6.1.35 The status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government, is given in the table-6.1.13 below:

Table-6.1.13

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Uttarakhand Parivahan Nigam	2004-05	2005-06 to 2008-09	NA	NA
2.	Uttarakhand Pey Jal Sansadhan Vikas Evam Nirman Nigam	2009-10	NA	NA	NA

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

Disinvestment, Privatisation and Restructuring of PSUs

6.1.36 The State Government had not formulated any plan of disinvestment, privatisation or restructuring of any of the PSUs.

Reforms in Power Sector

The State constituted Uttarakhand Electricity Regulatory Commission (UERC) in September 2002 under Section 17 of the Electricity Regulatory Commission Act 1998 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licenses. During 2009-10, two orders were issued by UERC on Annual Revenue Requirements and nine orders on other matters.

Performance Audit of Uttarakhand Power Corporation Limited

6.2 Uttarakhand Power Corporation Limited – Power Distribution Utilities

Executive summary

The power distribution in Uttarakhand is carried out by Uttarakhand Power Corporation Limited (Company) which was incorporated on 12/02/2001 under the Companies Act, 1956. As on 31 March 2011, the State had a distribution network of 0.88 lakh Circuit Kilo Meters (CKM) of lines (33/11 KV and LT), 262 sub-stations and 64164 Distribution transformers (DTR) catering to 15.26 lakh consumers.

Distribution Network planning

The Company did not plan any addition of sub stations during 2006-07 to 2010-11. However, it added 62 sub-stations during above period. As against the increase of connected load from 2337 M.W in 2006-07 to 3739 M.W in 2010-11 (i.e. 1752.5 MVA), D.T.R. capacity increased from 1617 MVA to 2186 MVA (i.e. 569 MVA) indicating the inadequate addition of distribution capacity to meet the increase in connected load.

Implementation of centrally sponsored scheme

Under the RGGVY Scheme, the Company electrified 591 villages against the target of 665 villages. During the years 2007-08, 2009-10 & 2010-11, the Company could not utilise the allotted fund effectively. The Company released 1.92 lakh B.P.L connections against target of 2.28 lakh as on March 2011. The Company incurred extra expenditure of ₹ 212.81 lakh on B.P.L. connections in six districts. The Company lost interest amounting to ₹ 8.22 crore by not adhering to C.V.C. guidelines on mobilization advance. The Company could not complete the I.T. work in its pilot town (Dehradun) and additional pilot town (Vikas Nagar). As a result, it delayed the implementation of R-APDRP Part –A scheme.

Energy Audit

The Company did not carry out energy audit during 2006-07 to 2010-11, due to non-completion of metering of distribution transformers.

Operational efficiency

Due to excessive sub Transmission & Distribution losses as compared to UERC norms, the Company suffered a loss of revenue of ₹ 600.70 crore. Poor maintenance and the wide gap between transformation capacity and connected load resulted in overloading of distribution system, excess failure of Distribution Transformers (DTRs) and higher quantum of energy losses.

1280 DTRs of various capacities damaged during April 2007 to December 2010 were not being repaired and lying with Ranikhet Circle.

The Company did not procure mandatory dry type DTRs as required under section 64 (2) (e) (iv) of Indian Electricity Rules, 1956.

Financial Position

Accumulated losses increased from ₹ 616.27 crore in 2006-07 to ₹ 1960.11 crore in 2010-11 which is almost equal to the total net worth of ₹ 2038.39 crore as on 31 March 2011.

Billing & Revenue collection efficiency

The Company's debt receivable was at ₹1816.75 crore at the end of March 2011.

An amount of ₹ 41.27 crore was due from defaulting consumers, notices for which were issued and the recovery is still pending.

Initial security amount of ₹ 1.77 crore and additional security amount of ₹ 24.96 crore was pending recovery from 588 (all Government category) consumers and 672 (Commercial and Industrial) consumers up to March 2011 respectively.

The Company failed to levy the electricity duty amounting to ₹ 2.44 crore on 16412 private tube well/ pump set consumers during the period 2006-07 to 2008-09.

Financial Management

The Company could not recover ₹ 188.81 crore from the Government of Uttarakhand on account of assets transferred to PTCUL. The Company has

estimated scrap & obsolete stock to the tune of ₹ 14.52 crore lying since the time of its incorporation and not yet disposed.

Monitoring by Top Management

The Company is not having a proper system for monitoring the adherence to targets and performance parameters of distribution system.

Internal Control Mechanism

The internal control mechanism of the Company was inadequate as the Company failed to arrest distribution losses and ensure timely recovery of its dues.

Introduction

6.2.1 Electricity is an essential requirement for all facets of our life. It has been recognized as a basic human need. It is a critical infrastructure on which the socio-economic development of the country depends. Supply of electricity at reasonable rate to rural India is essential for its overall development. Equally important is the availability of reliable and quality power at competitive rates to Indian industry to make it globally competitive and to enable it to exploit the tremendous potential of employment generation. Services sector has made significant contribution to the growth of our economy. Availability of quality supply of electricity is very crucial to sustained growth of this segment.

Recognizing that electricity is one of the key drivers for rapid economic growth and poverty alleviation, the nation has set itself the target of providing access to electricity for all households in next five years.

The major responsibility for achievement of the key parameters devolves largely on the distribution sector. Distribution Companies are the first point of contact with the people and households. Achievement of various objectives of electricity sector including access to electricity for all households, supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates, protection of consumers interests rest with the distribution sector. To meet the above objectives, the Distribution Company requires financial and commercial viability.

Electricity Reforms and electricity scenario in Uttarakhand

6.2.2. Consequent upon bifurcation of Uttar Pradesh, Uttarakhand State was created on 09.11.2000. The business of transmission and distribution of power in Uttarakhand is being carried out by Uttarakhand Power Corporation Limited (Company) which was incorporated on 12th February 2001 under the Companies Act 1956, under the administrative control of Power Department of the Uttarakhand Government. On 1st June 2004, the Power Transmission Corporation Limited (PTCUL) was formed to maintain & operate 132 KV & above Transmission Lines & substations in the State.

Vital parameters of Electricity Supply in Uttarakhand

6.2.3 Sale of energy increased from 3,885.90 MU in 2006-07 to 7250.68 MU in 2010-11, registering an increase of 86.59 *per cent* during the five-year period

2006-11. As on 31 March 2011, the State had distribution network of 0.88 lakh Circuit Kilo Meters (CKM) of lines (33/11 KV and LT); 262 sub-stations; 46,164 transformers of various categories (DTR). The number of consumers was 15.26 lakh. The turnover of the Company was ₹ 2641.72 crore in 2010-11, which was equal to 5.07 *per cent* of the State Gross Domestic Product. The Company employed 4327 employees as on 31 March 2011.

Performance Audit of electricity sector

6.2.4 Performance Audit on ‘Implementation of Accelerated Power Development Reforms Programme’ in the Company was included in the Report of the Comptroller and Auditor General of India, Government of Uttarakhand for the year ended 31 March 2008. The Report is yet to be discussed by COPU. This Performance Audit is conducted on the functioning of Power Distribution Company in Uttarakhand.

Scope and Methodology of Audit

6.2.5 The present Performance Audit conducted during April to October 2011 covers the performance of the Company during the period from 2006-07 to 2010-11. The Performance Audit mainly deals with Network Planning and execution, Implementation of Central Schemes, Operational efficiency, Billing and Collection efficiency, Financial Management, Consumer Satisfaction, Energy Conservation and Monitoring. The audit examination involved scrutiny of records at the Head Office and 17 out of 65 Divisions. The selection of operational units for audit was done on the basis of risk assessment and revenue realisation.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the personnel of audited entity, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft Performance Audit Report to the Management for comments.

Audit Objectives

6.2.6 The objectives of the Performance Audit were to assess:

- whether aims and objectives of National Electricity Plans were achieved and distribution reforms implemented;
- adequacy and effectiveness of network planning and its execution;
- efficiency and effectiveness in implementation of the central schemes such as, Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY) and Revised Accelerated Power Development & Reform Programme (RAPDRP);
- operational efficiency in meeting the power demand of the consumers in the State;
- billing and collection efficiency of revenue from consumers;
- effectiveness of financial management;

- whether energy conservation measures were undertaken and
- whether an effective monitoring system was in place and the same was being utilised in improving the performance of its working.

Audit Criteria

6.2.7 The audit criteria adopted for assessing the achievement of the audit objectives were:

- Provisions of Electricity Act, 2003;
- Various milestones of achievement prescribed in National Electricity Plan;
- Norms of performance fixed by the Uttarakhand Electricity Regulatory Commission (UERC);
- Terms and conditions contained in the documents of Central Schemes;
- Norms prescribed by various agencies with regard to operational activities;
- Standard procedures for award of contract and principles of economy, efficiency and effectiveness in conducting operations of the Company;
- Norms of technical and non-technical losses and
- Guidelines/ instructions/ directions of State Government/ UERC.

Audit Findings

6.2.8 We explained the audit objectives to the Company during an ‘Entry Conference’ held on 11th April 2011. Subsequently, audit findings were reported to the Company and the State Government in December 2011 and discussed in an ‘Exit Conference’ held on 6 January 2012. The Exit Conference was attended by Managing Director, Director (Finance), Director (Operation), Director (Project) and Executive Director (Commercial). The views expressed by them have been considered while finalizing the Performance Audit Report. The audit findings are discussed in subsequent paragraphs.

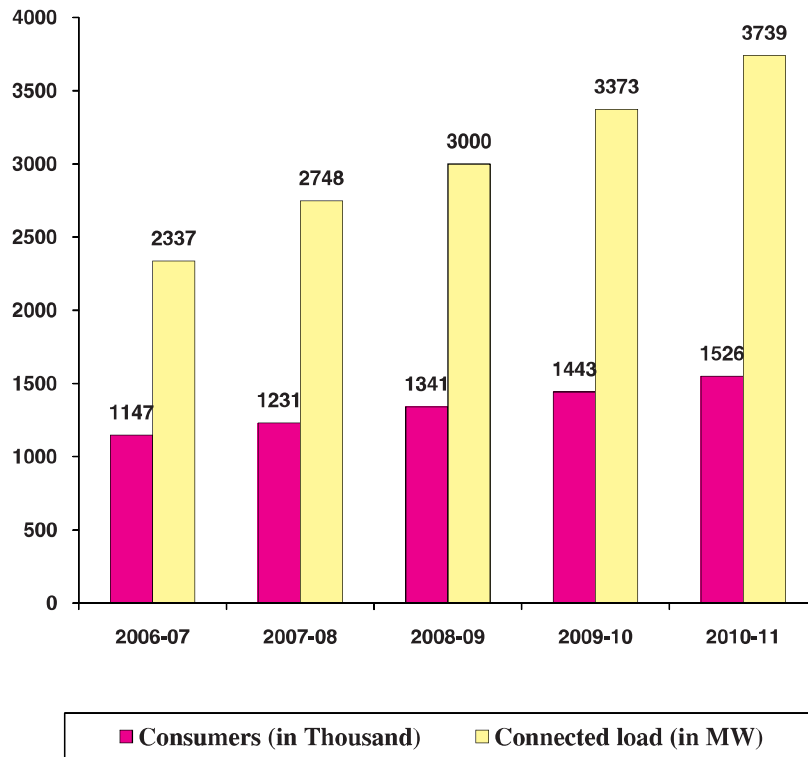
Distribution Network Planning

6.2.9 The National Electricity Policy was evolved with the objectives of providing:

- Access to electricity –Available for all household in next five years from 2005.
- Supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates.

To ensure access to electricity by all, the Company is required to prepare long term/ annual plan for creation of infrastructural facilities for efficient distribution of electricity so as to cover maximum population in the State. Besides, the Company is required to upkeep the existing network and further expands the distribution network keeping in view new connections and growth in demand. We observed that the Company did not prepare plans for augmentation of their distribution Network.

6.2.9.1 The analysis of consumers and the connected load (in MW) are indicated in the Chart.



The particulars of target of distribution network planned and its achievement in the State as a whole is depicted in **Appendix – 6.5**.

6.2.9.2 The Company had 200 numbers of 33/11 KV sub-stations with a capacity of 1617 MVA at the beginning of 2006-07. The Company did not plan any addition of sub-stations during 2006-07 to 2010-11. However, it added 62 numbers of 33/11 KV sub-stations of 569 MVA thereby increasing its capacity to 2186 MVA (2010-11). The above increase was not sufficient to meet the growth in the connected load which increased from 2337 MW in 2006-07 to 3739 MW (equivalent to 4674 MVA at 0.80 Power Factor) in 2010-11, registering an increase of 59.99 per cent. Thus the increase in distribution capacity was not commensurate with the pace of growth in the connected load and the available capacity, thereby resulting in problems of overloading of transformers with frequent failures in the distribution network and tripping of power supply. This also led to higher failure rate of transformers. Some of the observations on planning are discussed below:

Inadequate transformation capacity

6.2.10 Transformer is a static device installed for stepping up or stepping down voltage in transmission and distribution of electricity. The energy received at high voltage (132 KV, 66 KV, 33 KV) from primary sub-stations of the Transmission

Companies is transformed to lower voltage (11 KV) at 33/11 KV sub-stations of the Distribution Companies to make it usable by the consumers. In order to cater to the entire connected load, the transformation capacity should be adequate. The ideal ratio of transformation capacity to connected load is 1:1.

The table-6.2.1 below indicates the details of transformation capacity at 33/11 KV sub-stations and connected load of the consumers in the State during the period from 2006-11.

Table-6.2.1 (in MVA)

Year	Transformation Capacity	Connected load	Gap in Transformation capacity	Ratio of Transformation capacity to connected load
2006-07	1859	2921	1062	1:1.57
2007-08	2001	3435	1434	1:1.72
2008-09	2100	3750	1650	1:1.79
2009-10	2162	4216	2054	1:1.95
2010-11	2186	4674	2488	1:2.14

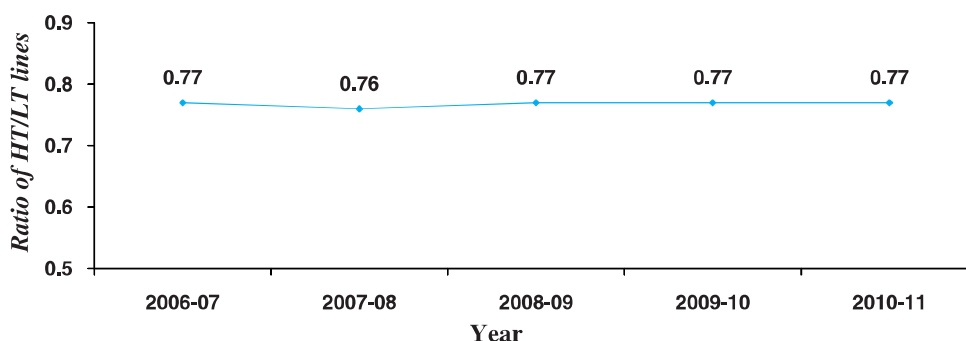
(Source: Information compiled from the data available with the Company)

It is clear from the above that the ratio of transformation capacity to total connected load ranged between 1:1.57 to 1:2.14. High gap of transformation capacity resulted in overloading of the system and consequential tripping, adverse voltage regulation and higher quantum of energy losses.

6.2.11 High Voltage Distribution System is an effective method for reduction of technical losses, prevention of theft, improved voltage profile and better consumer service. The GOI stressed (February 2001) the need to adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses. National Electricity Plan 2005 also laid down that the distribution companies should be prompted to reduce LT/HT ratio keeping in view the techno economic considerations.

Implementation of LT less system

6.2.12 The HT-LT ratio during the performance audit period in respect of the Company is depicted in the graph:



It may be seen from the above that HT/LT ratio of the Company averaged around 0.76 to 0.77 during 2006-11. To improve its transmission and distribution network, the Company should have planned equal length of HT & LT lines.

During 2006-11, the Company has added 8964 CKM and 11278 CKM of HT and LT lines respectively in its network. As seen from the above graph, the ratio of HT & LT ratio remained static and there was no effort on the part of the Company to replace the LT lines with HT lines.

Implementation of Centrally Sponsored Schemes

Rural Electrification

6.2.13 The key development objective of the power sector is supply of electricity to all areas including rural as mentioned in Sec 6 of the Electricity Act. Rural Electrification Corporation (REC) of India is the nodal agency to implement the programme of giving access to electricity to all households in the next five years beginning from 2005. The Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) scheme initiated by REC aims at electrifying all villages and habitations.

As per the new definition of village electrification w.e.f 2004-05, a village would be declared as electrified if,

- Basic infrastructure such as distribution transformers and distribution lines are provided in the inhabited locality as well as the Dalit Basti hamlet where it exists.
- Electricity is provided to public places like schools, panchayat's office, health centers, dispensaries, community centers etc.
- The number of households electrified should be at least 10 *per cent* of the total number of households in the village.

6.2.13.1 As on 31 March 2006, out of 15761 villages in the State (as per 2001 Census), 14834 villages were electrified (94.12 *per cent*). The year-wise target *vis-à-vis* achievement of electrification of various BPL households in villages under RGGVY scheme during 2006-07 to 2010-11 is shown in the table-6.2.2 below:

Table-6.2.2

(In numbers)

Year	Total Electrified in the beginning of the year	Targeted for electrification during the year	Electrified during the year	Total Electrified in the end of the year	Percentage of achievement against target during the year
2006-07	14834	324	324	15158	100.00
2007-08	15158	187	158	15316	84.49
2008-09	15316	93	63	15379	67.74
2009-10	15379	47	33	15412	70.21
2010-11	15412	14	13	15425	92.86

(Source: Information compiled from the data available with the Company)

We observed that:-

- During 2006-07 to 2010-11, the target of electrification was achieved only in 2006-07. The percentage of achievement during 2007-08 to 2010-11 ranged between 67.74 and 92.86 *per cent*.

- The Company had electrified 591 un-electrified villages against the target of 665 villages during 2006-07 to 2010-11 under RGGVY scheme.
- As per 2001 Census, out of a total of 927 un-electrified villages in the State, the Company targeted to electrify 665 villages under RGGVY Scheme (71.74 *per cent*). Against the target, the Company electrified 591 villages which worked out to 88.87 *per cent* of the target.

Financial Performance of RGGVY

6.2.13.2 REC sanctioned ₹ 658 crore (April 2005) for 100 *per cent* electrification of the villages in the State. This was further revised to ₹ 760.14 crore (July 2009). The funds received comprised of 90 *per cent* grant and 10 *per cent* loan. Due to non-achievement of 100 *percent* BPL connection, the Company could not get all the sanctioned amount of ₹ 760.14 crore. It received proportionate amount of ₹ 660.77 crore till March 2011. The remaining amount of ₹ 99.37 crore would be released only on completion of remaining BPL connections. The year wise position of the funds available vis-à-vis utilization up to 31 March 2011 is given in the table-6.2.3 below.

Table-6.2.3

(₹ in crore)

Year	Opening Balance	Funds received during the year	Total funds available	Funds Utilized	Unspent funds at the end of the year
2005-06	--	59.44	59.44	79.98	(-)20.54
2006-07	(-)20.54	198.50	177.96	223.63	(-)45.67
2007-08	(-)45.67	212.83	167.16	155.48	11.68
2008-09	11.68	78.62	90.30	97.79	(-)7.49
2009-10	(-)7.49	102.06	94.57	69.96	24.61
2010-11	24.61	9.32	33.93	28.97	4.96

(Source: Information compiled from the data available with the Company)

Audit analyzed that:

- During the years 2005-06, 2006-07 and 2008-09, the Company had spent more than the funds received from REC.
- During the years 2007-08, 2009-10 and 2010-11 the amount of funds utilized was less than the funds received due to slow progress of work.

Some instances of poor contract management in implementation of the RGGVY scheme are given below

Extra expenditure on BPL Connections

6.2.13.3 REC fixed an amount of ₹ 1500 as expenditure to be incurred for every BPL connection. We observed that the Company spent more than ₹ 1500 per connection and incurred an extra expenditure of ₹ 2.13 crore. The details of rate obtained, the number of connections released and the extra expenditure incurred per district are given in the table-6.2.4 below:

Table-6.2.4

(Amount in ₹)

Sl. No.	Name of District	Number of BPL Connection	Unit Rate (as per contract)	Unit Rate (as per REC)	Difference in unit rate	Extra expenditure (3X6)
1	2	3	4	5	6	7
1	Chamoli	7340	1680	1500	180	13,21,200
2	Dehradun	15077	1520	1500	20	3,01,540
3	Nainital	20009	2200	1500	700	140,06,300
4	Pauri	20300	1690	1500	190	38,57,000
5	Rudraprayag	11919	1610	1500	110	13,11,090
6	US Nagar	24202	1520	1500	20	4,84,040
Total extra expenditure						2,12,81,170

(Source: Information compiled from the data available with the Company and REC norms)

We further observed that the extra expenditure of ₹ 2.13 crore incurred by the Company in releasing connections to BPL consumers was disallowed by REC. Overlooking the REC conditions and awarding the contracts at higher rates resulted in extra burden of ₹ 2.13 crore to the Company.

Slow progress in releasing of BPL connections

6.2.13.4 As per census 2001, 587524 rural BPL households were not electrified out of total number of 623790 rural BPL households in the State. Under the scheme, the Company released connection to 191656 BPL households till March 2011 against its target of 227579 BPL households. Hence 35,923 BPL families of the State were deprived of availing the facility of electricity for last 12 to 42 months.

Management stated (November 2011) that the delay was on the part of the contractors and they were being pursued to complete the work as soon as possible. However, the fact remains that the Company failed to get the work completed within the prescribed time.

Loss of interest

6.2.13.5 As per Guidelines of Central Vigilance Commission (October 1997) Mobilisation Advances (MA) to Contractors should be interest bearing. We noticed that the Company granted (December 2005-January 2006) interest free MA of ₹ 68.90 crore to 13 contractors engaged in carrying out the RGGVY work. The Company did not levy interest and suffered a loss of ₹ 8.22 crore.

We further noticed that in two districts viz. Almora and Pauri, the second installment of MA of ₹ 4.76 crore and ₹ 1.30 crore was released to the contractors in July 2006 and June 2008 respectively without obtaining the utilization certificate of previous installment. In this connection, following irregularities were noticed:

- The clause regarding payment of the interest free mobilization advance was incorporated in the contract without approval of Board of Directors;
- No time bound schedule for recovery of MA was fixed by the Company;
- The Company recovered the MA during the period from April 2006 to October 2010 in installments.

While no interest was charged on MA, the Company had paid the interest at the rate of 8 *per cent* to REC on the loan amount taken for RGGVY scheme.

Management stated (November 2011) that MA was given as per the terms of tender documents and agreement. However, the terms and conditions of the tenders relating to MA were in violation of CVC guidelines.

Short recovery of liquidated damage

6.2.13.6 As per terms and conditions of the contract, the works were scheduled to be completed within 18 months from the date of award of the contract. Clause 14 of the contract, *inter alia*, provides that in case the contractor fails to complete the work in stipulated period, he would be liable to pay liquidated damage (LD) at the rate of 0.1 *per cent* per day, subject to a maximum of 10 *per cent* of the contract amount.

We noticed that the work of RGGVY scheme had to be completed by December 2008 and April 2007 in Champawat and Bageshwar districts respectively. Against the scheduled dates, the works were actually completed by March 2011 in both districts. Hence, the contractors of both districts were liable to be levied LDs to the tune of ₹ 0.28 crore and ₹ 0.39 crore. The Company recovered LDs of ₹ 0.15 crore and ₹ 0.29 crore. Thus, ₹ 0.23 crore was short recovered with remote chances of further recovery, as the works had already been completed and payments made in full. Management accepted the audit observation (November 2011) and stated that the recovery of LD will be made after verification.

Restructured Accelerated Power Development Reforms Programme

6.2.14 The Government of India (GOI) approved the Accelerated Power Development Reforms Programme (APDRP) to leverage the reforms in power sector through the State Governments. The scheme was implemented with the objective of up-gradation of sub-transmission and distribution system including energy accounting and metering. The financial support for the scheme was provided by GOI.

In order to carry on the reforms further, the GOI launched the Restructured APDRP (RAPDRP) in July 2008 as a Central Sector Scheme for XI Plan with Power Finance Corporation (PFC) as nodal agency. The RAPDRP scheme comprises of Part A and B. Part A was dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA⁶/ Distribution Management System. For this, 100 *per cent* loan is provided by GOI and the loan was convertible into grant on completion of the project and verification of same by Third Party independent evaluating agencies. The Part B of the scheme deals with strengthening of regular sub-transmission & distribution system and up gradation projects.

⁶ **Supervisory Control And Data Acquisition** – It generally refers to industrial control systems, computer systems that monitor and control industrial, infrastructure, or facility-based processes.

Financial Performance of RAPDRP

6.2.14.1 The details of the funds released by GOI and its utilisation are depicted in the table-6.2.5 below:

Table-6.2.5 (₹ in crore)

Year	Funds released by GOI	Funds available	Funds utilised	Balance	Percentage of balance to funds available
2008-09	2.44	2.44	-	2.44	100.00
2009-10	35.30	37.74	-	37.74	100.00
2010-11	-	37.74	32.99	4.75	12.59

(Source: Information compiled from the data available with the Company)

Delayed preparation and submission of DPRs by the Company to PFC resulted in non utilization of the funds during 2008-09 and 2009-10. Further, the Company entered into contract with IT Implementation Agency (ITIA) only in April 2010, leading to delayed start of the project by 12 months.

Implementation of Part A of the RAPDRP

6.2.14.2 For implementation of Part A of the RAPDRP, 100 *per cent* loan is provided by PFC. This was convertible into grant on completion and verification of same by Third Party (independent evaluating agencies).

We noticed that:-

- The Company appointed (April 2010) M/s Infinite Computer Solutions India Ltd as ITIA for implementation of Part A in 31 identified towns (where population as per census 2001 was more than 10,000) at a cost of ₹ 125.82 crore. The pilot project of the scheme was to be completed within 12 months from the date of award of contract and the entire project was to be completed within 18 months from the date of issue of award. Dehradun was selected as pilot town and after passage of 15 months Vikas Nagar was selected as additional pilot town. However, neither Dehradun nor Vikas Nagar has been integrated with the network till August 2011, resulting in delay of commissioning of pilot project. Consequently, completion of project in other identified towns has also been delayed as the real time assessment of live data and the network created cannot be validated and processes cannot be verified unless project of pilot town is commissioned.

Management stated (November 2011) that on the advice of PFC, Vikas Nagar was selected as additional pilot town, in respect of which the modules started functioning in testing environment in August 2011. However, the pilot town should also go on- live with all modules within 12 months and in the remaining identified towns, within 18 months from the date of award of contract. We observed that the Company is still in a testing phase for pilot town. Further, Management reply is silent on the progress of work in respect of Dehradun and the work in respect of the remaining identified towns has not yet been started.

- Slow progress of GIS mapping by ITIA is also a major reason for slow progress of part A project as the work was completed in only six towns⁷ out of 31 identified towns within the schedule period.

Management accepted the audit observation and stated (November 2011) that the work of GIS mapping was delayed due to lack of skilled manpower and heavy rains in hilly terrains and the remaining work will be completed by January 2012.

- The RAPDRP scheme envisages 100 *per cent* metering on Distribution Transformers (DTRs) and installation of Modem⁸ by October 2011. It was noticed that the metering of un-metered DTRs and Modem was completed only in three⁹ out of 31 identified towns within schedule date.

Management accepted the audit observation and stated (November 2011) that the contractor took long time to supply the meters due to their dependency on Central Power Research Institute, Bangalore for testing of meters.

Implementation of Part B of the RAPDRP

6.2.14.3 The RAPDRP Part B scheme is concerned with strengthening and modernization of Transmission and Distribution system of the Company with an objective of bringing AT&C losses to the level of 15 *per cent*. Under this scheme, 31 towns of the State were selected for implementation. The Steering Committee has fixed time limit of five years for completion of the project from the date of its approval. For implementation of Part B, 90 *per cent* of the project cost was to be funded by GOI through PFC and balance 10 *per cent* as loan either from PFC or any other financial institutions/ its internal resources. The Company submitted (February 2011) the DPRs for implementation of Part B at a cost of ₹ 719.56 crore to PFC. This was revised to ₹ 630.62 crore by the Company as per directions of PFC.

Audit observed that the Company paid to M/s Trident Techlabs Pvt. Ltd ₹ 0.26 crore up to July 2011 for the preparation of DPR of Part B. The activities of Part B should have been started within three to six months after the commencement of Part A. Therefore, the work of Part B should have been started by October 2010. The preparation of DPRs was delayed till February 2011.

Consumer metering

6.2.14.4 Attainment of 100 *per cent* metering is one of the objectives of the RAPDRP scheme. The work of metering of unmetered consumers, replacement of electro-mechanical meters with tamper proof electronic meters and replacement of defective & stopped meters in eight¹⁰ circles of the Company was to be completed by March 2012. By August 2011, the Company did not even identify the number of defective or mechanical meters to be replaced. As on 31 March

⁷ Vikas nagar, Rishikesh, Manglore, Landhora, Joshimath and Laksar.

⁸ To help to collect the live data from DTRs.

⁹ Vikas nagar, Rishikesh and Laksar.

¹⁰ Srinagar, Roorkee, Haridwar, Dehradun (Rural), Dehradun (Urban), Rudrapur, Haldwani, Ranikhet.

2011, 15.01 lakh consumers were metered as against total number of 15.26 lakh consumers.

The progress made by the Company in installation of meters was as given in the table-6.2.6 below:

Table-6.2.6 (In lakh)

Year	Meters installed at the opening of the year	Targeted for metering during the year	Actual meters installed during the year	New connection released during the year	Meters installed at the close of the year	Percentage of achievement against the target
1	2	3	4	5	6 (2+4+5)	7 (4/3x100)
2006-07	10.66	0.46	0.05	0.40	11.11	10.87
2007-08	11.11	0.41	0.11	0.78	12.00	26.83
2008-09	12.00	0.30	0.02	1.12	13.14	06.67
2009-10	13.14	0.28	0.01	1.02	14.17	03.57
2010-11	14.17	0.26	0.01	0.83	15.01	3.85

(Source: Information compiled from the data available with the Company)

We observed that the Company failed to achieve the targets of 100 *per cent* metering of the consumers during 2006-07 to 2010-11 as 0.25 lakh consumers remained unmetered as of March 2011.

Loss due to non- compliance of UERC orders

6.2.14.5 UERC ordered in September 2003 that the Company should complete 100 *per cent* metering of all types of consumers by December 2003. As the Company could not comply with the direction, UERC in August 2005 imposed a consolidated penalty of ₹ One lakh and additional penalty of ₹ 5000 per day on account of supply of electricity to unmetered consumers. The Company paid ₹ 1.04 crore up to March 2011. The Company was suffering losses on two fronts i.e. loss of revenue (since billing was done on assessment basis) and loss due to penalty imposed by UERC. Management accepted the audit observation and stated (November 2011) that the unmetered consumers will be metered very soon.

Project and Contract Management

Irregularities observed during audit of project and contract management are discussed below.

Unfruitful expenditure on Consumers indexing

6.2.15 The Company decided to index all its consumers by March 2007 at the cost of ₹ 1.72 crore. It was expected to improve the billing and revenue collection. Any new connection would be given to the consumer through consumer indexing so that the data would automatically get up-dated. For this purpose, the Company projected a target of indexing of 6.66 lakh consumers in its six¹¹ out of eight circles and incurred an expenditure of ₹ 3.39 crore on the above work. We noticed

¹¹ Rudrapur, 1.25 lakh consumers, Roorkee, 1.35 lakh consumers, Dehradun (urban), 1.10 lakh consumers, Ranikhet, 1.04 lakh consumers, Haldwani, 0.92 lakh consumers, Dehradun (Rural), 1.00 lakh consumers.

that the consumer data could not be linked to the billing system and new connections were also not released to the consumers through consumer indexing. Consumer Index Numbers (CIN) were not allotted to 100 *per cent* consumers with reference to their electricity bills and ledgers. The Company also failed to capture all users of electricity and connect them up to the respective DT meters and feeders. Due to this, the Company could not identify unbilled consumers through indexing and failed in better billing and revenue collection.

Audit further observed that:

- In Rudrapur circle, the Company could complete only 59 *per cent* of the scheduled work;
- In Haldwani circle, indexing work was not completed in scheduled time and the work was stopped in December 2008;
- In Roorkee, Dehradun (Urban) and Ranikhet circles, the work of indexing was completed with time over run of 31 to 41 months from the scheduled date;
- The Company also targeted the indexing of one-lakh consumers of Dehradun (Rural) circle, but could not start the work;

Management accepted the audit observation and stated (November 2011) that there was lack of skilled manpower and IT enabled persons due to which targets were not achieved. However, the facts remain that the Company had to undertake same exercise of consumer indexing under RAPDRP scheme. Thus, the amount of ₹ 3.39 crore incurred on the above indexing work became unfruitful.

Diversion of funds

6.2.16 A provision of ₹ 5.28 crore from APDRP funds was made by the Company for installation of 115 data logging system in four circles¹² during 2006-07. These projects were not taken up. Only minor works amounting to ₹ 0.11 crore were taken up in Dehradun- urban circle. The funds amounting to ₹ 5.17 crore were diverted/ utilized for other works of APDRP scheme by the Company in 2008-09 for which no approval was available on record.

Delay in construction of Sub-station

6.2.17 The Company entered (June 2006) into an agreement with M/s ABB Ltd for construction of six 33/11 KV sub-stations at the cost of ₹ 14.37 crore at Pant Nagar for providing electricity to an industry established at Sidcul. This was scheduled to be completed during the period from August 2006 to February 2007. Out of these six sub-stations, five sub-stations were completed with the delay ranging from 119 days to 484 days. Thus, due to delay in completion of sub-stations, the Company failed to provide the electricity connections to the Industrial consumers in time and was also deprive of the revenue for the said period.

¹² Haldwani (33 nos; ₹ 0.58 crore), Roorkee (35 nos; ₹ 2.18 crore) Dehradun-Urban (14 nos; ₹ 0.87 crore), and Rudrapur (33 nos; ₹ 1.65 crore)

Management accepted (November 2011) the audit observation and stated liquidated damages for delay in completion of work will be recovered from the contractor.

Inadequate planning in construction of sub-stations

6.2.18 The Company entered (June 2007) into an agreement with M/s Kashmirilal Construction Private Limited for construction of five 33/11 KV sub-stations and its associated lines at Munakot, Barakot, Pati, Bhisiyachhana and Okalkanda at the cost of ₹ 17.96 crore with completion scheduled by April 2009 to November 2011. Scrutiny of the records revealed that only one sub-station at Pati was completed in time and Munakot sub-station and its associated line was completed after delay of 136 days. Bhisiyachhana and Okalkanda sub-stations were not completed till November 2011 due to lack of clearance of forest area and Brakot sub-station could not be constructed due to heavy land slide.

Management accepted (November 2011) the delay in energization of Munakot sub-station and stated that the route of lines was diverted due to landslide in the area. It further stated that the line work will be completed soon in respect of Bhisiyachhana and Okalkanda sub-stations. However, the fact remains that it failed to obtain forest clearance even after lapse of four years from the award of contract, which was required to be done before awarding the contract. This resulted in blockade of funds amounting to ₹ 2.51 crore in respect of two works at Bhisiyachhana and Okalkanda.

Blockade of fund as well as loss of interest

6.2.19 The Company entered (May 2007) into an agreement with M/s Madan Construction for construction of 33/11 sub-station at Kirtinagar and 20 KM associated lines at the cost of ₹ 8.01 crore with the scheduled date of completion by February 2008. The work has not been completed (November 2011) even after 46 months from the scheduled date of completion (February 2008). The work was stopped due to lack of forest clearances. The Company has paid ₹ 7.14 crore to the contractor till March 2011. As the work was still incomplete (December 2011), the expenditure incurred thereon is blocked for last three years, resulting in loss of interest of ₹ 1.71 crore.¹³ Management accepted the audit observation and stated (December 2011) that the delay in the construction of sub-station and associated lines was linked with the forest clearance which was obtained from forest Department in August 2010 and cutting of trees was completed in June 2011. However, the fact remains that all clearances should have been obtained before awarding the contract and the project should have been completed by February 2008.

Ongoing projects

Negligence in award of contract

6.2.20 The Company invited tenders for construction of 33/11 KV sub-station and its associated lines at Kudi-Phutgarh and Agastyamuni in Rudraparayag district,

¹³ ₹ 7.14crore x3x8/100=₹ 1.71 crore.

whereas the contract was awarded (January 2011) to M/s A2Z Maintenance & Engineering services Private Limited for construction of 33/11 KV sub-stations at Sumari Bhardar, Chopta and Dhauntary at a cost of ₹ 4.89 crore. The Company changed the location of these sub-stations to Sumari Bhardar and Chopta in same district from Kudi-Phutgarh and Agastyamuni without considering the change in rates depending upon the location of the project. The scheduled date of completion was nine months from the date of handing over of land.

Audit noticed that:

- The distance from rail head to Sumari Bhardar (new site) is lesser by 25 KM as compared to the distance from rail head to Kudi Phutgarh (original site) and also difference in height from the sea level is 715 meter lesser between the locations of these two places. As per norms (July 2010) of PWD, the reduction in the rates are allowed at the rate of one *per cent* for every 10 KM and height index at the rate of one *per cent* for every 100 meter. Therefore, the rates of the contract in respect of construction of Sumari Bhardar sub-station should have been reduced by 9.5 *per cent*¹⁴ of the contract price. However the Company ignored these essential facts and allowed ₹ 0.10 crore¹⁵ excess amount to the contractor.
- Further, the construction works of Chopta and Dhauntary sub-station had not been commenced due to non-availability of site (November 2011). The Company did not identify the land for construction of sub-stations before awarding the contract and as a result the construction of above sub-stations was delayed. Further, the residents of the area are deprived of quality power supply till date (December 2011).

Non achievement of targets in construction of sub-station

6.2.21 The Company entered (August 2010) into an agreement with M/s Negi Construction and M/s Kashmirilal Construction Private Limited for construction of 33/11 KV sub-station at Lakhamandal and 6 KM lines respectively. These were awarded at the cost of ₹ 0.92 crore and 0.60 crore with respective scheduled date of completion by November 2010 and August 2011. Lakhamandal substation and associated line was not completed up to November 2011 as the required material was not provided to the contractor. It indicated poor planning. Management while accepting (December 2011) the observation stated that the required material was not available in the Store division Dehradun. However the fact remains the same, the Company should ensure the availability of the material before awarding the contract.

Blockade of fund

6.2.22 The Company entered (December 2010) into an agreement with M/s Saggi Electricals for construction of 40 KM 33/11 KV lines from Chamba to

¹⁴ The difference should be reduced 2.5 *per cent* due to less distance from rail head plus 7 *per cent* due to less height from sea level = 9.5 *per cent*.

¹⁵ Cost of Sumari Bhardar sub-station: ₹ 1.10crore, therefore: ₹ 1.10 crore x 9.5/100 = ₹ 0.10 crore.

Koteshwar at a cost of ₹ 2.91 crore with the scheduled period of completion of four months after obtaining the forest clearance. The work in respect of above line was not completed till November 2011 as it was stopped due to absence of required forest clearance. Thus, payment of ₹ 1.22 crore made to the contractor towards construction of the line resulted in blockade of fund.

Management accepted the audit observation and stated (December 2011) that the work of construction of line in non-forest area was in progress. However, about 20 per cent work of the line falling in forest area was still pending. The Company did not ensure forest clearance before awarding the contract.

Operational efficiency

6.2.23 The operational performance of the Company was evaluated on the basis of various factors including availability of adequate power for distribution, adequacy and reliability of distribution network, minimising line losses and detection of theft of electricity. These aspects are discussed in the ensuing paragraphs.

Purchase of Power

6.2.23.1 Assessment of future demand and requirement of power is calculated on the basis of past consumption trends, present requirement, load growth trends and T & D losses and its trend. UERC approves the sources of purchase of power and the purchase cost based on the estimates made in the Annual Revenue Requirement (ARR).

The details of demand of power assessed for the State based on the 17th Electric Power Survey (EPS), purchase of power approved by UERC and actual power purchased during the period 2006-07 to 2010-11 is given in the table-6.2.7 below:

Table-6.2.7					
<i>(In Million Units)</i>					
Year	Demand assessed in EPS	Purchases approved by UERC	Actual Power purchased	Power Deficit	Excess/ Shortfall in purchase against approved by UERC
(1)	(2)	(3)	(4)	(5) = (2 – 4)	(6) = (3 – 4)
2006-07	5957.00	7922.17	5705.88	251.12	(-)2216.29
2007-08	7047.00	6679.00	6855.22	191.78	176.22
2008-09	7841.00	6884.00	7854.22	(13.22)	970.22
2009-10	8920.00	7631.99	8464.50	455.50	832.51
2010-11	9838.00	8031.06	9390.28	447.72	1359.22
Total	39603.00	37148.22	38270.10	1332.90	1121.88

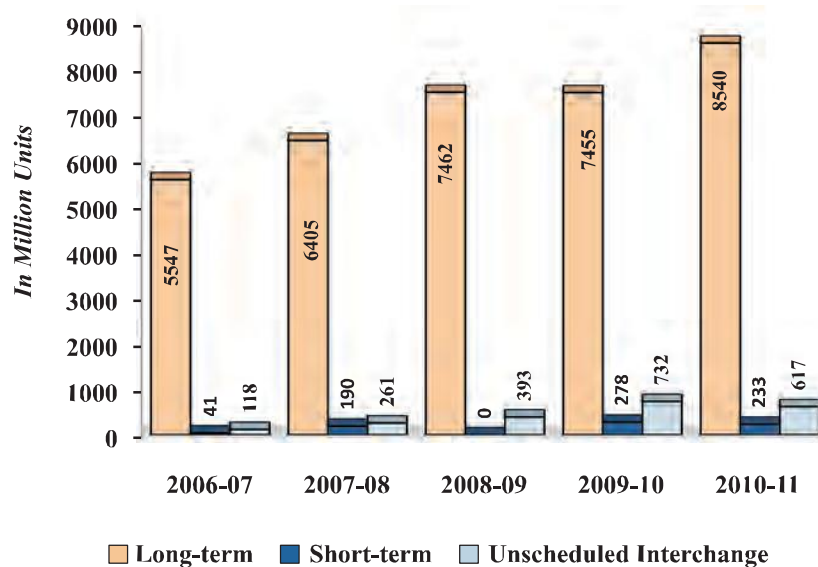
(Source: Information compiled from the data available with the Company)

We observed that:-

- The deficit of power in the State ranged between 191.78 MUs and 455.50 MUs during 2006-07 to 2010-11 except 2008-09.
- The Company had purchased excess power ranging between 176.22 MUs and 1359.22 MUs during 2007-08 to 2010-11 as against the approval of UERC.

- During period from 2006-07 to 2010-11 the Company purchased 38270.10 MUs comprising of 18215.91 MUs from State electricity Generation PSUs for ₹ 2449.73 crore, 14409.90 MUs from Central Sector for ₹ 3204.97 crore, 582.54 MUs from Independent Power Producers (IPPs) of the State for ₹ 189.43 crore and 5061.74 MUs from Others for ₹ 1497.32 crore.
- During the last five-years i.e. 2006-11, the Company dealt with Unscheduled Interchange (UI)/ Overdrawl of 2120.47 MUs for ₹ 973.07 crore to meet the demand of the State.

The Company entered into Long term and Short term power purchase agreements with various agencies viz., State Generation Companies, Central PSUs, IPPs, etc. for purchase of power. Further, it also resorted to Unscheduled Interchange purchases on need basis. The break-up of the total power purchased into long term, short term and U.I. has been shown in the bar chart.



The Company purchased power from seven parties at different rates. The rates varied from ₹ 0.88 per unit to ₹ 5.68 per unit in the year 2006-07. The rates ranged from ₹ 1.48 per unit to ₹ 3.48 per unit in 2010-11. The source-wise purchase of power during 2006-07 to 2010-11 is given in the **Appendix -6.6**.

Though the Company had analyzed the power requirement and its supply from the power generators of the State during 2006-07 to 2010-11, it did not enter into long term power purchase agreements with the power generators outside the State to purchase the power at economical rates. As a result, the Company had to purchase power at higher rates from open market and resorted to Unscheduled Interchange (UI).

Sub-transmission & Distribution Losses

6.2.24 The losses at 33 KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. The losses occur

mainly on two counts i.e. technical and commercial. Technical losses occur due to inherent character of equipment used for transmission and distribution of power and resistance in conductors through which the energy is carried from one place to another. Commercial losses occur due to theft of energy, defective meters and drawl of un-metered supply, etc. The loss of energy on account of these factors must be kept at the bare minimum.

The table-6.2.8 below indicates the energy losses in respect of the State for last five years up to 2010-11.

Table-6.2.8		(In Million Units)				
S. No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Energy purchased	5705.88	6855.22	7854.22	8451.87	9390.28
2.	Energy sold	3885.90	4736.10	5493.73	6249.21	7250.68
3.	Energy losses (1 – 2)	1819.98	2119.12	2360.49	2202.66	2139.60
4.	Percentage of energy losses (<i>per cent</i>) $\{(3 / 1) \times 100\}$	31.90	30.91	30.05	26.06	22.79
5.	Percentage of losses allowed by UERC (<i>per cent</i>)	28.32	24.32	22.32	20.32	19.00
6.	Excess losses (in MUs)	204.27	451.76	607.13	485.14	355.89
7.	Average realisation rate per unit (in ₹)	2.38	2.48	2.91	2.89	3.46
8.	Value of excess losses (₹ in crore) (6 x 7)	48.62	112.04	176.67	140.21	123.14

(Source: Information compiled from the data available with the Company)

It can be seen from the above table that losses ranged between 31.90 and 22.79 *per cent* during the last five years ending 31 March 2011. Reduction in these losses is the most significant step towards making the Company financially self-sustaining. The importance of reducing losses can be gauged from the fact that one *per cent* decrease in losses could add ₹ 32.49 crore¹⁶ to the profit of the Company annually. The main reasons for such high-energy losses were the heavy number of unmetered consumers thereby leading to high quantum of assessed sales against metered sales, failure of distribution transformers, reduction in maintenance activity, non-replacement of electromechanical meters with tamper proof electronic meters, low percentage of HT/LT ratio and theft of electricity.

Performance of Distribution Transformers

6.2.24.1 The UERC did not fix any norm for failure of Distribution Transformers (DTRs) in its tariff orders. The failure norm of DTRs fixed by Uttar Pradesh Electricity Regulatory Commission (UPERC) is five *per cent*. The details of actual DTRs failed and the expenditure incurred on their repairs is depicted in the table-6.2.9 below.

¹⁶ Based on average rate of realization of the Company during 2010-11.

Table-6.2.9

Sl.No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Existing DTRs at the close of the year (in Number)	30442	34125	37532	40866	46164
2.	DTR Failures (in Number)	4019	4369	4807	4755	5956
3.	Percentage of failures	13.20	12.80	12.81	11.64	12.90
4.	Failure norms fixed by UPERC (in percentage)	5.00	5.00	5.00	5.00	5.00
5.	Excess failure percentage over norms	8.20	7.80	7.81	6.64	7.90
6.	Expenditure on repair of failed DTRs (₹ in crore)	21.25	32.23	26.50	43.77	37.75

(Source: Information compiled from the data available with the Company)

As seen from the above table, the Company did not contain its failure rate within the target fixed by UPERC and the failure rate was more than two times during 2006-11. The Company incurred an expenditure of ₹ 161.50 crore on repair of failed DTRs over a period of five years, out of which ₹ 97.09 crore was incurred on DTRs failed in excess of the norms. In the absence of history card of DTRs, the details about maintenance of transformers were not available with the Company. As a result, the Company could not avail the benefit of warranty period for its transformers.

The percentage of failure of DTRs was very high in some of the districts. It ranged from 15.31 to 23.91 *per cent* in Haridwar district¹⁷, 11.75 to 15.75 *per cent* in Chamoli district¹⁸ and 15.02 to 20.49 *per cent* in U.S. Nagar district¹⁹ during 2006-11 due to over-loading, poor maintenance, lightening and internal faults. Failure of DTRs could have been controlled by carrying out timely preventive maintenance, installation of lightning arrester in hilly areas, proper earthing of DTRs and conversion of LT conductors into Aerial Bunched Cables.

6.2.24.2 DTR failure due to over-loading has decreased from 15.62 *per cent* in 2006-07 to 10.36 *per cent* in 2010-11 as detailed in table-6.2.10 below:-

Table-6.2.10

Year	Total Number of DTRs failed during the year ²⁰	Number of failures due to over-loading	Percentage of failures due to over-loading
2006-07	3993	624	15.63
2007-08	4347	609	14.01
2008-09	4777	623	13.04
2009-10	4690	604	12.88
2010-11	5890	610	10.36

(Source: Information compiled from the data available with the Company)

The above depicts that failure of DTRs due to over-loading decreased from 624 in 2006-07 to 610 in 2010-11. This could be further reduced by proper checking of

¹⁷ EDD Roorkee (Rural & Urban), and Haridwar (Rural & Urban).

¹⁸ EDD Gopeshwar.

¹⁹ EDD Rudrapur, Bazpur, and Kashipur.

²⁰ Excluding failures due to manufacturing defects.

consumers load, timely preventive maintenance and installation of DTRs of appropriate capacities. 23906 DTRs were damaged during 2006-07 to 2010-11, out of which 20627 DTRs were damaged due to internal fault, 3070 DTRs due to overloading and 209 DTRs due to manufacturing defects.

Delay in repair of Distribution Transformers

6.2.24.3 The Company undertakes repair of damaged transformers both in-house and through outside agencies. Though no time limit was prescribed for in-house repairs of the damaged DTRs, a period of two months was prescribed for return of repaired transformers by outside agencies. As per the general terms and conditions of purchase order, the suppliers were required to guarantee the performance of DTRs for 12 to 30 months from the date of supply/ installation. 186 DTRs of various capacities pertaining to Garhwal Zone failed during 2009-10 to 2010-11 and sent for repairs during January to March 2011. They were lying with the outside agencies for more than seven months. In Ranikhet Circle, 1280 DTRs damaged during April 2007 to December 2010 were lying with the five²¹ distribution divisions for repair till March 2011. Management accepted the audit observation and stated (November 2011) that 284 damaged DTRs of various capacities had been sent to work shop up to the month of September 2011 and for remaining 996 damaged DTRs, instructions have been issued to the concerned Executive Engineer (EE) for early repair.

Lack of initiative for timely repairing of the damaged transformers indicated poor management control of the Company.

Non -procurement of dry type DTRs

6.2.24.4 The Dry type DTRs are maintenance free, easy to install, low running cost and environment friendly whereas oil DTRs are flammable, need regular maintenance and cause pollution to environment. Air works as coolant in Dry type DTRs and oil works as coolant in Oil type DTRs. As per rule 64(2)(e)(iv) of the Indian Electricity Rules, 1956, only dry type of transformers should be used for installations inside the residential and commercial buildings.

One oil transformer (250 KVA) blasted on 11-12-2006 at adjoining primary school, Kashipur causing injury to 21 children, out of which four children died during treatment. The reasons for blast were not available on records. The Company incurred an expenditure of ₹ 28.47 lakh²² in this regard.

Despite the above incident, the Company did not prepare any time bound action plan to replace the existing oil filled indoor DTRs with dry type transformers in residential and Commercial buildings.

²¹ Almora, Pithoragarh, Champawat, Bageshwar & Ranikhet.

²² ₹ 7.19 lakh on rent of Helicopter to carry injured children from Kashipur to NDelhi; ₹13.00 lakh on compensation; ₹ 8.28 lakh on treatment at Delhi.

Capacitor Banks

6.2.25 Capacitor banks (CBs) improve power factor by regulating the current flow and voltage regulation. In the event of voltage falling below normal, the situation can be set right by providing sufficient capacity of CBs to the system as it improves the voltage profile and reduces dissipation of energy to a great extent thereby saving loss of energy. The position as regards CBs is shown in the **Appendix – 6.7**.

The CBs save energy to the extent of 0.04959 MU per MVAR (Mega Volt Ampere Reactive Power) of its capacity.

The Company procured (March 2005) 13489 DTR CBs comprising of 170 MVAR²³ at ₹ 7.02 crore and installed them on 13489 transformers (25 KVA to 1000 KVA) in seven circles. During 2005-06 to 2010-11, the Company added CBs of 170 MVAR and saved 34.57 MU amounting to ₹ 12.86 crore. Hence, CBs have recovered its cost within four years and started giving savings from fifth year. Therefore, the Company may consider installing CBs on rest of the DTRs to save more energy.

Commercial losses

6.2.26 The majority of commercial losses relate to consumer metering and billing besides pilferage of energy. While the metering and billing aspects have been covered under implementation of R-APDRP scheme and billing efficiency respectively, the other observations relating to commercial losses are discussed below:

Conversion of LT Conductors into Aerial Bunch Cables

6.2.26.1 Aerial Bunch (AB) cables prevent illegal tapping of low voltage distribution lines and help in reducing overloading of DTRs and maintain voltage of the supply.

We noticed that the Company has laid AB cables only under RGGVY scheme. Against target of 12265 KM, a total of 11225 KM of AB cables was laid during 2006-11. The Company failed to identify the high theft prone area of the State for conversion of LT line into AB cable so as to reduce theft of power.

Negligible checking of unauthorized tapping

6.2.26.2 Substantial commercial losses are caused due to theft of energy by tampering of meters by the consumers and unauthorized tapping/ hooking by the unauthorized consumers. As per section 135 of Electricity Act 2003, theft of energy is an offence punishable under the Act. The details of number of checking conducted, theft cases identified, amount assessed and amount realised there against are given in **Appendix – 6.8**.

We observed that the Company did not fix any target for number of checking. An analysis of the appendix revealed that the number of checking of the consumers decreased from 3215 in 2006-07 to 1061 in 2010-11 and the amount realized

²³ MVAR =KVAR x number of capacitor banks /1000.

decreased from ₹ 1.11 crore to ₹ 0.20 crore for the same period. Further as against assessed amount of ₹ 9.33 crore the actual realization was ₹ 2.60 crore only during 2006-07 to 2010-11.

Performance of Raid Team

6.2.27 Section 163 of Electricity Act 2003 provides that the licensee may enter into the premises of a consumer for inspection and testing the apparatus to ensure that there was no theft of electricity. The Company has a sanctioned strength of 12 officers for the Vigilance Wing against which only three are in position. EE of the concerned Division prepares Work Plan to conduct raids for identifying consumers/ areas where large scale theft was suspected. The Raid Team needs the assistance of the Engineers of the concerned divisions for checking of theft of electricity. However, there was lack of coordination between the vigilance wing and the concerned divisions. It was observed that in many cases, the officers/ officials of the concerned area where the raids were planned to be conducted were not available, as they were attending to technical faults/complaints in some other areas. As no substitute was provided to Raid Team for assistance, raids could not be conducted in a planned manner. Following is the position of raids conducted during 2006-07 to 2010-11 given in the table-6.2.11.

Table-6.2.11

Sl. No	Year	Total number of consumers as on 31 March (in lakh)	No. of consumers checked	Assessed amount (₹ in lakh)	Realised amount (₹ in lakh)	Unrealised amount (₹ in lakh)	Percentage of checking to total nos. of consumer
1	2006-07	11.47	3215	318.67	110.92	207.75	0.28
2	2007-08	12.31	3066	418.84	126.24	292.60	0.25
3	2008-09	13.41	914	37.93	2.87	35.06	0.07
4	2009-10	14.43	882	34.78	0.20	34.58	0.06
5	2010-11	15.50	1061	123.00	19.78	103.22	0.07

(Source: Information compiled from the data available with the Company)

We noticed that the percentage of consumers checked was negligible in comparison to the total number of consumers. The Company was not having any norm and plan for surprise checking. Vigilance team could check only 9138 consumers in last five years ending 2010-11. Shortage of manpower and absence of targets affected the quantum of checking of unauthorised connections. The Company needs to strengthen its Vigilance Wing and prepare a proper checking plan to reduce theft of energy.

Financial Position and Working Results

6.2.28 Financial Turnaround and commercial viability of electricity sector was one of the major aims and objectives of the National Electricity Policy of 2005. The financial position of the Company for the five years ending 2010-11 is given in the table-6.2.12 below:

Table-6.2.12

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
A. Liabilities					
Paid up Capital	5.00	5.00	5.00	577.00	577.00
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	873.25	1141.46	1267.08	1411.43	1461.39
Borrowings (Loan Funds)					
Secured	371.30	329.52	321.65	349.44	332.15
Unsecured	782.16	809.02	825.07	850.20	870.15
Current Liabilities & Provisions	1793.38	2138.22	2522.74	2602.47	3135.38
Total	3825.09	4423.22	4941.54	5790.54	6376.07
B. Assets					
Gross Block	1538.20	1850.89	2009.29	2330.18	2760.30
Less: Depreciation	732.97	791.36	860.87	936.05	1025.71
Net Fixed Assets	805.23	1059.53	1148.42	1394.13	1734.59
Capital works-in-progress	724.33	719.84	814.39	744.23	579.10
Investments	260.46	211.85	102.77	162.90	128.27
Current Assets, Loans and Advances	1418.80	1558.06	1635.56	1745.23	1974.00
Accumulated losses	616.27	873.94	1240.40	1744.05	1960.11
Total	3825.09	4423.22	4941.54	5790.54	6376.07
Debt : Equity Ratio ²⁴	1:0.76	1:1	1:1.11	1:1.66	1:1.70
Net Worth	261.98	272.52	31.68	244.38	78.28

(Source: Information compiled from the balance sheet & the data available with the Company)

It may be seen from the table that the loans (secured & unsecured) increased from ₹ 1153.46 crore to ₹ 1202.30 crore during 2006-07 to 2010-11. Equity was increased during 2009-10 as the State Government allowed the conversion of liability towards Power Purchase Bond amounting to ₹ 572 crore into equity. Debt equity ratio of the Company has improved from 1:0.76 to 1:1.70 during this period. The net worth decreased from ₹ 261.98 crore in 2006-07 to ₹ 78.28 crore in 2010-11 which shows fluctuating position of the Company. In this regard, we also observed that:

- The Accumulated losses of the Company increased by ₹ 1343.84 crore (218.06 per cent) from ₹ 616.27 crore in 2006-07 to ₹ 1960.11 crore in 2010-11.
- Current liabilities & Provisions increased from ₹ 1793.38 crore during 2006-07 to ₹ 3135.38 crore in 2010-11.
- Gross Block of Fixed Assets increased from ₹ 1538.20 crore in 2006-07 to ₹ 2760.30 crore in 2010-11 due to capitalization of new 33/11 KV sub-stations.
- The sundry debtors of the Company increased by ₹ 611.38 crore i.e. from ₹ 1205.37 crore in 2006-07 to ₹ 1816.75 crore in 2010-11 due to poor collection efficiency.

²⁴ Equity includes paid up capital plus reserve and surplus.

Working results

6.2.29 The table-6.2.13 summarizes the working result of the Company for the five years period from 2006-07 to 2010-11 are indicated below:

Table-6.2.13

Sl.No.	Description	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Income (₹ In crore)					
(i)	Revenue from Sale of Power	924.66	1172.94	1598.39	1805.25	2509.20
(ii)	Other income ²⁵	30.28	46.91	115.65	226.39	182.02
	Total Income	954.94	1219.85	1714.04	2031.64	2691.22
2.	Distribution (In MUs)					
(i)	Total power purchased	5705.88	6855.22	7854.22	8451.87	9390.28
(ii)	Less: Transmission losses	175.55	123.17	222.78	171.78	140.86
(iii)	Net Power available for Sale	5530.33	6732.05	7631.44	8280.09	9249.42
(iv)	Less: Sub-transmission & distribution losses	1644.43	1995.95	2137.71	2030.88	1998.74
	Net power sold	3885.90	4736.10	5493.73	6249.21	7250.68
3.	Expenditure on Distribution of Electricity					
(a)	Fixed cost (₹ In crore)					
(i)	Employees cost	94.39	104.75	105.99	168.87	201.94
(ii)	Administrative and General expenses	14.72	13.50	15.90	17.29	20.26
(iii)	Depreciation	101.49	71.22	85.65	93.42	107.75
(iv)	Interest and finance charges	53.48	46.32	70.88	76.60	84.97
(v)	Other Expenses ²⁶	50.16	58.84	76.40	99.82	125.46
	Total fixed cost	314.24	294.63	354.82	456.00	540.38
(b)	Variable cost (₹ in crore)					
(i)	Purchase of Power	742.92	1037.21	1463.10	1897.32	2077.67
(ii)	Transmission/ Wheeling Charges	82.18	100.93	212.14	166.16	227.66
(iii)	Repairs & Maintenance	25.09	30.32	38.76	49.20	64.57
	Total variable cost	850.19	1168.46	1714.00	2112.68	2369.90
(c)	Total cost 3(a) + (b)	1164.43	1463.09	2068.82	2568.68	2910.28
4.	Realisation (₹ per unit)	2.38	2.48	2.91	2.89	3.46
5.	Fixed cost (₹ per unit)	0.81	0.62	0.65	0.73	0.75
6.	Variable cost (₹ per unit)	2.19	2.47	3.12	3.38	3.27
7.	Total cost per unit (in ₹) (5+6)	3.00	3.09	3.77	4.11	4.02
8.	Contribution(4-6)(₹ per unit)	0.19	0.01	-0.21	-0.49	0.19
9	Profit (+)/Loss(-) per unit (in ₹) (4-7)	-0.62	-0.61	-0.86	-1.22	-0.56

(Source: Information compiled from the data available with the Company)

The loss per unit has increased by 24 to 60 paise per unit in 2008-09 and 2009-10 as compared to 2006-07 .The loss per unit has decreased by 01 to 06 paise per unit in 2007-08 and 2010-11as compared to 2006-07.

The following facts were also observed during the audit:

- The total cost per unit has increased from ₹ 3.00 in 2006-07 to ₹ 4.02 in 2010-11.

²⁵ Other income includes interest on FDRs, delayed payment surcharge, misc. receipts and rebate/ incentives etc.

²⁶ Other expenses includes provision for bad-debts and fringe benefits tax.

- The cost of purchase of power increased from ₹ 742.92 crore in 2006-07, to ₹ 2077.67 crore in 2010-11, as the Company had to purchase power during peak hours at higher rate in excess of tariff rate fixed by UERC.
- Interest and finance charges of the Company increased from ₹ 53.48 crore to ₹ 84.97 crore during 2006-07 to 2010-11 due to interest paid against the PFC loan.

It was also evident from the above table that the power purchase, transmission/ wheeling charges and employees cost constituted the major elements of cost in 2010-11 which represented 71.39, 7.82 and 6.94 *per cent* of the total cost in that year. On the other hand, sale of power constituted the major element of revenue in 2010-11, representing 93.24 *per cent* of the total revenue.

6.2.30 The financial viability of the Company is generally influenced by the various factors such as:

- Timely revision of Tariff;
- Subsidy support from Government;
- Cross subsidization ;
- Financial Management of the Company and
- Billing Efficiency.

Each of these factors is discussed in following paragraphs.

Timely revision of Tariff

6.2.30.1. The Company was required to file Aggregate Revenue Requirement (ARR) for each year 120 days before the commencement of the respective financial year. The UERC accepts the application filed by the Company with such modifications/ conditions as may be deemed just and appropriate after considering all suggestions and objections from public and other stakeholders. The table-6.2.14 below shows the due date of filing ARR, actual date of filing, date of approval of tariff petition and the effective date of the revised tariff.

Table-6.2.14

Year	Due date of filing	Actual date of filing	Delay in days	Date of approval	Effective date
2006-07	30-11-2005	20-12-2005	20	12-07-2006	01-04-2006
2007-08	30-11-2006	17-08-2007	260	18-03-2008	01-03-2008
2008-09	30-11-2007	suo-moto proceedings were initiated by UERC	-	18-03-2008	-
2009-10	30-11-2008	01-01-2009	32	23-10-2009	01-10-2009
2010-11	30-11-2009	30-11-2009	-	10-04-2010	01-04-2010

(Source: Information compiled from the data available with the Company)

The Company failed to file the petition within due date in three out of five years. Further, there was inordinate delay in filing of tariff petition by the Company in 2007-08 and its snow ball effect carried to next year when the commission started suo-moto proceedings for tariff fixation as the Company failed to file their ARR

for the year 2008-09. Hence, the Company was deprived of benefits of higher tariff during 2008-09.

Detailed analysis revealed that the extent of tariff was lower than breakeven levels of revenue at the present level of operations and efficiency. However, recovery of the costs may be increased by improving operational efficiency, viz., control of AT&C losses, conversion of LT lines to HT lines and metering of unmetered connections.

It was also observed from the tariff orders that UERC did not allow various amount of expenditure on account of depreciation (₹ 48.82 crore), power purchase including transmission charges (₹ 380.04 crore), return on equity (₹ 35.06 crore), interest on working capital (₹ 32.43 crore) and O&M expenditure (₹ 30.00 crore), totaling to ₹ 526.35 crore during 2006-11 as the company could not justify the expenditure.

Subsidy support from Government

6.2.30.2 Government did not provide any subsidy support to the Company during 2006-11. As per State Government order (December, 2010), the Company has waived off ₹ 16.83 crore on account of late payment surcharge in respect of defaulting Private Tube wells (PTW) and Domestic category consumers in Haridwar district²⁷ who had deposited their pending dues till March, 2011. The Company claimed this amount from the State Government, but no payment has been received till November 2011.

Cross subsidisation

6.2.30.3. Section 61 of Electricity Act 2003 stipulates that the tariff should progressively reflect the Average Cost of Supply (ACOS) of electricity and also reduce cross subsidy in a phased manner as specified by the Commission. National Tariff Policy envisaged that the tariff of all categories of consumer should range within plus or minus 20 *per cent* of the ACOS by the year 2010-2011. The position as regards cross-subsidies in various categories of the consumers of the Company during 2006-07 to 2010-11 is given in the **Appendix -6.9.**

It may be observed from the Appendix that tariff in case of Commercial and Industrial consumers were within plus/ minus 20 *per cent* of ACOS. On the other hand, tariff in case of domestic and agricultural consumers, were far below from minus 20 *per cent* of ACOS. Hence, the objective of keeping the tariff of all categories within plus/minus 20 *per cent* of the ACOS by the year 2009-10, as envisaged in the National Tariff Policy, has not been achieved. Thus, there is a need to correct this imbalance by progressively and gradually achieving the National Policy target.

²⁷ Haridwar (Urban): 2288 domestic, 3 PTW consumers: ₹ 2.32 crore & ₹ 0.89 lakh, Haridwar (Rural): 5895 domestic, 158 PTW consumers: ₹ 4.52 crore & ₹ 0.22 crore, Roorkee (Urban): 3200 domestic, 20 PTW consumers: ₹ 2.54 crore & ₹ 0.03 crore and Roorkee (Rural): 5392 Domestic, 414 PTW consumers: ₹ 4.97 crore & ₹ 2.23 crore.

Financial Management of the Company

6.2.30.4 It is evident from the increasing accumulated losses of the Company that the Company has started relying on borrowed funds for its financial management rather than generation of own surplus from core activities. Some of the instances of poor financial management are narrated below:

Transfer Settlement Scheme

6.2.30.4.1 A transfer settlement scheme was finalized in June 2004. After bifurcation of the Company, PTCUL was formed on 1st June 2004 as a Power Transmission Company of the State. As a result of this settlement, ₹ 188.81 crore was recoverable from the Government of Uttarakhand on account of assets transferred to the new company. The above amount is pending for more than six years and is yet to be recovered (November 2011) from State Government.

Supply of Material

6.2.30.4.2 After formation of PTCUL in June 2004, the Company supplied material amounting to ₹ 68.57 crore to PTCUL for construction of its new 132 KV transmission lines during 2004-05 to 2006-07. This amount has not been recovered (November 2011) from PTCUL.

Non-disposal of scrap

6.2.30.4.3. The Company has estimated the value of its scrap and obsolete stock to the tune of ₹ 14.52 crore, at the time of its incorporation. The Company neither evaluated the present value of the above scrap, nor did they take any step for its disposal so far (November, 2011).

Billing Efficiency

6.2.30.5 The efficiency in billing of energy lies in 100 *per cent* billing and timely realisation of the same from its consumers. The table-6.2.15 below indicates total energy available for sale and energy billed during 2006-07 to 2010-11.

Sl. No	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Energy available for sale	5530.33	6732.05	7631.44	8280.09	9249.42
2.	Free Supply	-	-	-	-	-
3.	Energy billed	3885.90	4736.10	5493.73	6249.21	7250.68
4.	Assessed sales as percentage of metered sales	Not maintained by the Company				

(Source: Information compiled from the data available with the Company)

The energy billed during 2006-07 to 2010-11 ranged between 70.27 and 78.39 *per cent* of the total energy available for sale. As per the norms of UERC, seven *per cent* cases of No Access/No Reading (NA/NR) and four *per cent* cases of defective meters of total consumers are allowed. It was observed that the performance of the Company has improved in NA/NR cases as it has decreased from 21 *per cent* in 2007-08 to 12.92 *per cent* in 2010-11. In case of defective meters, the performance of the Company has worsened a little from 10 *per cent* to 10.63 *per cent* during 2007-08 to 2010-11.

Non- realization of Initial/ Additional Security

6.2.30.5.1 As per rate schedule (April 2007) issued by UERC, the initial security was revised to ₹ 1000 per KW for all consumers (except domestic and PTW consumers²⁸). 30 days notice was to be given to all such consumers for depositing the security failing which the electricity supply of the consumers could be disconnected. Based on the average monthly consumption of the preceding financial year, an additional security deposit to cover the estimated power consumption for two months was required to be determined and to be reviewed every year.

A test check of records of nine²⁹ distribution divisions revealed that initial security to the extent of ₹ 1.77 crore was pending against 588 (all Government category) consumers. Further, the additional security amounting to ₹ 24.96 crore was pending (August 2011) for realisation from 672 (Commercial and Industrial) consumers up to March 2011.

Management stated (November 2011) that notices for realisation of initial/ additional security were being issued and instructions for early realisation were also issued to concerned divisions. However, fact remains that the suitable action for realisation of initial/ additional security should have been taken in time.

Non-realization of late payment surcharge

6.2.30.5.2 As per section 56 of Electricity Act 2003 and general conditions of tariff orders issued by UERC from time to time, the late payment surcharge of 1.25 *per cent* will be applicable, if electricity bills are not paid in full within 15 days grace period after due date. The Company has right to disconnect the power supply in case the surcharge is not paid by the consumers under above referred Act. Late payment surcharge amounting to ₹ 241.89 crore was pending for realisation (August 2011) against the consumers namely Nagar Nigam/Palika, Jal Nigam and Jal Sansthan for the period up to March 2011.

Management accepted the audit observation and stated (November 2011) that the correspondence regarding recovery of late payment surcharge with State Government is under progress.

Non-levy of electricity duty

6.2.30.5.3 As per office order (December, 2003) of the Company, electricity duty at the rate of 09 paise per unit to 25 paise per unit will be levied from different categories of consumers except State Government. Further, in case of unmetered consumer, electricity duty will be levied at the rate of 20 *per cent* on their fixed charges. The Company failed to levy the electricity duty amounting to ₹ 2.44 crore on 16412 un-metered private tube well/pump set consumers during the period 2006-07 to 2008-09. However, the Company started levying the electricity duty from 2009-10 onwards.

²⁸ Rate of Initial security for domestic and PTW was ₹ 400 per KW and ₹ 100 per KW respectively.

²⁹ Bazpur, Rudrapur, Sitarganj, Dehradun (Central & South), Haldwani (Urban & Rural), Vikas Nagar, Kashipur.

Loss due to non-charging of Shunt Capacitor Surcharge

6.2.30.5.4 The Company's Rate Schedules (March 2008) provide that Low Power Factor surcharge at the rate of five *per cent* on the current energy charges shall be levied on the consumers without Electronic Trivector Meters (ETMs) or who have not installed shunt capacitors³⁰. Audit noticed that Sitarganj and Nainital division released 28 and 66 connections respectively to the Uttarakhand Jal Sansthan, for which neither ETMs were installed nor billing on KVAh was made. Therefore, five *per cent* Shunt Capacitor Surcharge was to be charged on current charges. Non-charging of surcharge has resulted in loss of ₹ 0.63 crore.

Management stated (November 2011) that in respect of Sitarganj division, consumers will be billed on KVAh basis to avoid further loss. In respect of Nainital division, factual position of installation of shunt capacitor would be checked and required surcharge will be charged in case shunt capacitors are not installed.

Revenue collection efficiency

6.2.31 As revenue from sale of energy is the main source of income of the Company, prompt collection of revenue assumes great significance. The table-6.2.16 below indicates the balance outstanding at the beginning of the year, revenue assessed during the year, revenue collected and the balance outstanding at the end of the year.

Table-6.2.16

(₹In crore)

Sl.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Balance outstanding at the beginning of the year	1096.09	1205.37	1345.18	1477.26	1574.85
2	Revenue assessed/Billed during the year	924.66	1172.94	1598.39	1805.25	2509.20
3	Total amount due for realisation (1+2)	2020.75	2378.31	2943.57	3282.51	4084.05
4	Amount realised during the year	815.38	1033.13	1466.31	1707.66	2267.29
5	Balance outstanding at the end of the year	1205.37	1345.18	1477.26	1574.85	1816.76
6	Percentage of amount realised to total dues (4/3)	40.35	43.44	49.81	52.02	55.52
7	Arrears in terms of No. of months assessment	15.64	13.76	11.09	10.47	8.69

(Source: Information compiled from the data available with the Company)

We observed from the above details that:

- The balance dues outstanding at the end of the year increased from ₹ 1205.35 crore in 2006-07 to ₹ 1816.75 crore in 2010-11.
- Group-wise analysis of debts outstanding as on 31 March 2011 revealed that an amount of ₹ 41.27 crore was due from disconnected services of 3588 consumers. The Company had issued notices during the period

³⁰ A capacitor or a group of capacitors which are placed across an electric power line or electric appliance to provide a voltage increase or to improve the power factor of the circuit.

2006-07 to 2009-10 under Section 5 of UP Electricity Dues and Recovery Act, 1958 (Act) to the concerned District Magistrate (DM) offices for recovery from defaulting consumers but the recovery is still pending as on date.

Non-disconnection of supply of consumers with heavy arrears

6.2.31.1 Commercial and Revenue manual of Uttar Pradesh Power Corporation Limited (UPPCL), adopted by the Company *inter alia* provides that in case a consumer does not pay the electricity dues within 15 days from the receipt of bill, his supply should be disconnected and action for recovery under Section 3 & 5 should be initiated and completed within six months. We observed that, in nine³¹ divisions of the Company, 162 consumers having connected load of 25 KW and above with arrears of more than ₹ one lakh, did not make payment of electricity dues for 2 to 12 months. However, their supply was not disconnected, resulting in accumulation of arrears to the extent of ₹ 63.09 crore (March 2011).

Management stated (November 2011) that the notices for depositing the dues under section 3 have been issued to consumers and instructions to concerned divisions had been issued for early recovery. However, the fact remains that the suitable action for recovery should have been initiated within prescribed time.

Non-recovery of electricity dues and late payment surcharge from Industrial consumers

6.2.31.2 As per tariff order (June 1998) of Uttar Pradesh Electricity Regulatory commission, an industrial consumer located in a specified area of hill district in undivided Uttar Pradesh was eligible to get the benefit of 33.3 percent of its electricity bills as Hill Development Rebate (HDR). This rebate was withdrawn from 14/01/2000 through U.P. Electricity Reforms Act 1999.

Audit noticed that 11 Industrial consumers of Kotdwar division, who were affected because of withdrawal of HDR, continued to deposit their electricity bills after deducting the HDR. On the above matter, Supreme Court awarded the judgment (10/12/2007) in favour of the Company. Accordingly, the Company asked the affected consumers to deposit the arrear on account of HDR and late payment surcharge (LPS) thereon in four equal installments. The consumers deposited the amount of HDR without payment of LPS which accumulated to the tune of ₹ 11.67 crore³² as on 10/12/2007.

It was further observed that the Company continued supplying power to these 11 industrial consumers against whom LPS was pending. Out of these,

³¹ Bazpur, Rudrapur, Sitarganj, Dehradun (Central & South), Haldwani (Urban & Rural), Vikas Nagar, Kashipur.

³² M/s Kotdwar Steel Ltd. : ₹ 1.49 crore, M/s Sant Steel: ₹ 1.27 crore, M/s Bhagya Shree Steel: ₹ 1.17 crore, M/s HRJ Steel: ₹ 74.04 lakh, M/s Pusker Steel: ₹ 1.04 crore, M/s Kukreti Steel: ₹ 1.21 crore, M/s Amrit Varsha Udyog: ₹ 96.23 lakh, M/s Poddar Allige: ₹ 1.38 crore, M/s Rana Casting: ₹ 88.34 lakh, M/s Aruna Steel: ₹ 88.11 lakh and M/s Sidhbal Steel : ₹ 65.57 lakh.

three³³ consumers wound up their industries and an additional arrear of ₹ 8.35 crore pertaining to electricity bills were generated and pending (November 2011).

Management stated (November 2011) that the affected consumers had made representation (February 2008) to the State Government regarding waiver of HDR. However, no documentary evidence in this regard was provided to audit. Even after a lapse of four years from the judgment of Supreme Court, the Company failed to recover its LPS and discontinue the power supply of the defaulted consumers. Due to lack of appropriate action in time, three defaulting consumers have already wound up their industries. Thus, due to lackadaisical approach of the Company the chances of recovery of ₹ 20.02 crore are grim.

Failure to finalise Permanent Disconnection cases

6.2.31.3 The Electricity Supply Code (April 2007) of UERC states that the Company may issue a disconnection notice to the consumer who defaults in payment of dues, after giving him 15 clear days to pay the dues. Thereafter, if the consumer does not clear all the dues, such connection should be disconnected permanently.

Audit noticed that in nine³⁴ divisions of the Company, 5280 consumers having arrears more than ₹ 0.5 lakh each did not deposit their dues from 12 to 48 months. The supply in respect of these consumers was temporarily disconnected and billing was stopped. However, the Company did not disconnect the power supply permanently which resulted in non-realisation of arrears amounting to ₹ 32.59 crore (March 2011).

Consumer Satisfaction

6.2.32 One of the key elements of the Power Sector Reforms was to protect the interest of the consumers and to ensure better quality of service to them. The consumers often face problems relating to supply of power such as non-availability of the distribution system for the release of new connections or extension of connected load, frequent tripping on lines and/ or transformers and improper metering and billing.

The Company was required to introduce consumer friendly actions like introduction of computerised billing, online bill payment, establishment of customer care centres, etc. to enhance satisfaction of consumers and reduce the advent of grievances among them. The billing issues have already been discussed in proceeding paragraphs. The redressal of grievances is discussed below:

³³ M/s Rana casting: Wind up and PD of their connection finalized on 29.12.2005 with electricity dues amounting to ₹ 4.97 crore, M/s Aruna Steel: Wind up and PD of their connection finalized on 31.05.2006 with electricity dues amounting to ₹ 2.85 crore and M/s Sidhballi Steel: Wind up and PD of their connection finalized on 26.10.2009 with electricity dues amounting to ₹ 53.44 lakh.

³⁴ Bazpur, Rudrapur, Sitarganj, Dehradun (Central & South), Haldwani (Urban & Rural), Vikas Nagar, Kashipur

Redressal of Grievances

6.2.32.1 The UERC specified the mode and time -frame for redressal of grievances in pursuance of the Electricity Act 2003. The Commission had also prescribed the Standards of Performance for the Company in which the time limit for rendering services to the Consumers and compensation payable for not adhering to the same are specified. The nature of services contained in the Standards, *inter-alia*, include line breakdowns, Distribution Transformer failures, period of load shedding/ scheduled outages, voltage variations, meter complaints, installation of new meters/ connections or shifting thereof, etc.

The time limit prescribed for resolution of complaint of various types was four/eight hours for fuse blown out calls, six/twelve hours for line break down for Urban/Rural areas respectively and 24/48 hours for replacement of failed DTRs in plain and hilly areas respectively.

The Company was having two Electricity Consumer Grievances Redressal Forums consisting of three members each at Dehradun and Haldwani. The Forum announces regular schedule for hearing of complaints/ grievances of the consumers. The overall position of receipt of complaints and their clearances by the forum is given in the table-6.2.17 below:

Table-6.2.17

(In number)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Total complaints received ³⁵	57	122	260	165	173
2.	Complaints redressed within time	23	29	144	77	47
3.	Complaints redressed beyond time	18	24	31	30	29
4.	Pending complaints	16	69	85	58	97
5.	Percentage of complaints redressed beyond time to total complaints	31.58	19.67	11.92	18.18	16.76

(Source: Information compiled from the data available with the Company and consumer grievance redressal forum)

As seen from the above, the forums have redressed 320 complaints within prescribed time out of 549 complaints received during 2006-11. 132 complaints were redressed beyond time limit and 97 complaints remained un-redressed at the end of the year 2010-11.

Energy Conservation

6.2.33 Recognizing the fact that efficient use of energy and its conservation is the least-cost option to mitigate the gap between demand and supply, the GOI enacted the Energy Conservation Act, 2001. The conservation of energy being a multi-faceted activity, the Act provides both promotional and regulatory roles on the part of various organizations. The promotional role includes awareness campaigns, education and training, demonstration projects, R&D and feasibility studies. The regulatory role includes framing of rules for mandatory audits for large energy consumers, devising norms of energy consumption for various

³⁵ Total complaints received include pending complaints at the close of previous year.

sectors, implementation of standards and provision of fiscal and financial incentives.

With effect from April 2006, the Company extends to those consumers who installed and used solar water heating system a rebate of ₹ 75 per month for each 100 litre capacity of the solar geyser system or actual bill for that month, whichever is less, The Company granted a total rebate of ₹ 33.57 lakh during 2008-09 to 2010-11. The details of rebate in respect of 2006-07 and 2007-08 were not available with the Company. However, the Company has not advertised publically for popularizing the use of solar power except displaying this on its website.

Energy Audit

6.2.34 A concept of comprehensive energy audit was put in place with the objective of identifying the areas of energy losses and take steps to reduce the same through system improvements besides accurately accounting for the units purchased/ sold and losses at each level. The main objectives of energy audit are:

- better and more accurate monitoring of the consumption of electricity by consumers;
- elimination of wastages;
- reduction of downtime of equipment; and
- massive savings in operational costs and increase in revenue.

We noticed that the Company did not carry out energy audit during the period 2006-07 to 2010-11. Non completion of metering of DTRs is the main reason for not taking up the energy audit. Metering of DTRs helps in proper accounting of energy sent out from the feeders to various consumers and also in identifying high energy loss areas. UERC vide its tariff orders (2010-11 & 2011-12) issued directions to the Company to expedite the work of metering of DTRs. However, the work of metering was very slow as only 881 meters (only 35.50 *per cent*) had been installed (August 2011) on DTRs against the target of 2482 distribution transformers.

Monitoring

6.2.35 The Power Distribution Company plays an important role in the State economy. For the organisation to succeed in operating economically, efficiently and effectively, there has to be a Management Information System (MIS).

We observed that:

- The Company is not having proper system to evaluate power demand and supply position in the State to take timely decisions regarding long term power purchase agreements to avoid energy/ peak shortages.
- The Company is not having a proper system for monitoring the adherence to targets and performance parameters of distribution system.
- The Company is not having any system in place to identify the age wise analysis of its inventory.

- The Company is not having any procedure in place for documenting the necessary information regarding age, history and maintenance schedule of DTRs.

Internal Control Mechanism

6.2.36 Internal control is a process designed for providing reasonable assurance of efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. A built in internal control system and strict adherence to the statutes, codes and manuals minimizes the risk of errors and irregularities. An evaluation of the system in vogue in the Company revealed the following weaknesses:

- Non-formulation of control system to prevent distribution losses and failure to carry out 100 *per cent* metering of all consumers resulted into high line losses and payment of penalty.
- The Company could not evolve any system for ensuring timely recovery of its dues resulting in accumulation of huge arrears.
- Record of age wise/ consumer wise analysis of dues was not maintained to identify the actual position of debtors.
- The Company could not convert the cases of temporary disconnection into permanent disconnection within the prescribed time resulting into poor realization of revenue.

Conclusions

Performance Audit of the Company revealed that:

- the increase in distribution capacity was not commensurate with the pace of growth in the connected load resulting in overloading of transformers with frequent failures in the distribution network and tripping of power supply
- out of total 927 un-electrified villages in the State, the Company electrified 591 villages up to March 2011, indicating a poor rate of village electrification
- the company disregarded the guidelines of Central Vigilance Commission and paid interest free mobilization advances to contractors.
- the Company failed to obtain forest clearance before awarding the contracts for construction of sub-stations and associated lines.
- the Company failed to meet the demand of power in the State and resorted to unplanned purchase of power at exorbitant higher rates.
- its accumulated losses increased year after year and the entire capital including reserves was eroded by 2010-11.
- the Company failed to take adequate and effective steps for recovery of outstanding dues.
- the Company is not having proper system for monitoring the adherence to targets and performance parameters of distribution system.

Recommendations

The Company may consider to:

- increase the distribution capacity in accordance with the pace of growth of connected load
- expedite the pace of village electrification
- ensure compliance to the guidelines of central vigilance commission
- ensure forest clearance before awarding the contracts for construction of sub-stations and associated lines
- take effective steps for recovery of outstanding dues.
- develop an online MIS for quick and timely action.

Audit of Transactions

KUMAON MANDAL VIKAS NIGAM LIMITED

6.3 Non-construction of Eco-Huts for tourists and diversion of funds of ₹ 56.78 lakh to other facilities

Funds amounting to ₹ 56.78 lakh obtained from GOI for construction of Eco-Huts was diverted to other facilities which resulted in the deprival of tourism facility to the people.

The Government of India (GOI) approved (September 2007) the proposal of the Uttarakhand Tourism Development Board (Board) for development of Corbett National Park as a Tourism Circuit in the State at a cost of ₹ 6.02 crore. A grant of ₹ 3.52 crore was provided by the GOI (between 2007-08 to 2009-10) for construction of 25 Eco-Huts and associated facilities each at Dhaila, Dhikuli and Mohaan in the outer area of Corbett Circle, Ramnagar (Nainital). The works were to be executed through Kumaon Mandal Vikas Nigam Limited (Nigam). The then Managing Director and General Manager of Nigam had assured that the land at all three places were available for construction and they were free from all encumbrances.

Scrutiny of records (March 2011) of the Nigam revealed that Eco-Huts were constructed at Dhaila and Mohaan. The construction at Dhikuli was not undertaken due to non-availability of land. The related funds to the tune of ₹ 56.78 lakh were diverted to construction of Hi-tech Toilets (₹ 20.22 lakh) and Signages (₹ 36.56 lakh³⁶) without obtaining any approval from the GOI for incurring such expenditure.

On this being pointed out, the Nigam accepted the observation and stated (July 2011) that the land at Dhikuli could not be purchased because owners of land demanded extremely high rates and being a Government company it was not possible for them to purchase land at rates higher than the circle rates. It further

³⁶ Only ₹ 3.80 lakh was approved under the project for installation of signages at Dhikuli against which expenditure of ₹ 40.36 lakh was incurred.

stated that the funds were utilized by Nigam on the basis of decision taken in a meeting (October 2008) between Board and Nigam. At present, Nigam has taken 0.53 hectare of land at Dhikuli on lease basis for 12 years which is being utilized for tourist camps by setting up tents.

The reply of the Management was considered and observed that the sanction of GOI was obtained without checking up the facts relating to availability of land at Dhikuli. Moreover, the funds of ₹ 56.78 lakh were diverted without permission of the GOI. Further, Nigam has incurred extra expenditure of ₹ 8.47 lakh in temporary setting up of tents at Dhikuli.

Thus, the above agencies (Board and Nigam) of the State Government not only obtained the GOI grants without ensuring the availability of land but also deprived the tourist of the intended facilities at Dhikuli.

The matter was reported to the Government (May 2011); and their reply was awaited (December 2011).

6.4 Unfruitful expenditure on Tourist Rest House (TRH)

Expenditure of ₹ 1.02 crore incurred on construction of TRH without ensuring water facility remained unfruitful as there was no occupancy in TRH since inception.

Government sanctioned and granted ₹ 1.11 crore (March 2002 and May 2008) to Kumaon Mandal Vikas Nigam (Nigam) for construction of a 40 bedded Tourist Rest House (TRH) at Jalana in the district of Almora. The construction of TRH was completed in January 2008 with an expenditure of ₹ 1.02 crore and requisite staff was posted in May 2008 for operation and maintenance of the TRH.

Scrutiny of records (March 2011) of the Nigam revealed that there was no occupancy in TRH from May 2008 to till date (December 2011) due to non-availability of water for the TRH. Though there was an overall shortage of water in Kumaon Region of Uttarakhand, construction of TRH at Jalana was considered to be the best in respect of environment and its view. However, the fact of non-availability of water at TRH was well known to the Nigam and Vice Chairman directed (June 2004) Managing Director to ensure availability of water before construction of the TRH in Jalana. However, no concrete steps were initiated and TRH was constructed without ensuring availability of water.

On this being pointed out, Management stated (April 2011) that water was available at the time of construction of the TRH through bore wells which dried up subsequently. Now in order to provide the water facility in the TRH, a connection is being taken from the Uttarakhand Jal Sansthan for which requisite fee of ₹ 0.88 lakh has been deposited (September 2009). The reply of the Management was considered and observed that the Nigam failed to ensure regular water availability in TRH and the connection from Jal Sansthan is still awaited for last two years. Thus, the expenditure of ₹ 1.02 crore on construction of TRH without ensuring availability of water remained unfruitful in addition to the

expenditure incurred on salaries of staff at TRH which is a recurring loss to the Nigam.

The matter was referred to the Government (May 2011) and the reply was awaited (December 2011).

UP HILL ELECTRONICS CORPORATION LTD (HILTRON)

6.5 Loss of ₹ 21.24 lakh due to unauthorised retention of EPF

The corporation suffered a loss of ₹ 21.24 lakh due to unauthorised retention of Employees Provident Fund

As per section 1 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (Act), every establishment employing twenty or more persons or establishments specified by Central Government by notification in the Official Gazette are under the coverage of the Act. As per section 17 of the Act, the appropriate Government (Central or State as the case may be) may, by notification in its Official Gazette, exempt any establishment to which this Act applies. Such establishment will establish a Board of Trustees for administration of the Employees Provident Funds (EPF).

Scrutiny of the records (February 2011) of Uttar Pradesh Hill Electronics Corporation Limited (Corporation) revealed that the Corporation was under the coverage of the Act with code no. UA/33097. However, the Corporation did not deposit EPF contributions in EPF accounts of the employees but managed the funds through a Trust³⁷ formed in November 1991 after bifurcation of its accounts from previous Holding Corporation³⁸ in 1990. On the basis of enquiry conducted in June 2008, Regional Provident Fund Commissioner (RPFC) passed an order in October 2009 requiring Corporation to transfer ₹ 2.07 crore relating to EPF alongwith interest accrued thereon to the EPF accounts of the employees. While paying the said amount (between December 2009 to June 2010), the Corporation had to pay an amount of ₹ 21.24 lakh from its own resources as the amount of interest earned by the corporation on investment of the funds was lesser than the amount of interest payable to the subscribers. This resulted in extra cost and loss to Corporation.

On being pointed out, the Corporation stated (April 2011) that the Trust was formed through bifurcation of the Trust from its Holding Corporation. After bifurcation, the Corporation has applied for exemption under the Act. However, formation of the Trust without obtaining exemption was illegal and in violation of Act.

Thus, the Corporation suffered a loss of ₹ 21.24 lakh due to unauthorized retention of EPF contributions.

The matter was referred to the Corporation/Government (May 2011); their replies were awaited (December 2011).

³⁷ M/s HILTRON Employees Contributory Provident Fund Trust.

³⁸ Uttar Pradesh Electronics Corporation Limited.

UTTARAKHAND JAL VIDYUT NIGAM LIMITED

6.6 Unfruitful expenditure on consultancy

Nigam incurred unfruitful expenditure of ₹ 1.88 crore by extending undue favour to consultancy firm as the intended objective of early commissioning of the project remained unachieved.

Government of Uttarakhand (GOU) decided (March 2002) to get the civil works of reconstruction and development of 304 MW Maneri Bhali Stage-II (MB-II) Hydro Power Project³⁹ through Department of Irrigation (DOI). As per Memorandum of Understanding (MOU) entered (June 2002) into between Uttarakhand Jal Vidyut Nigam Limited (Nigam) and DOI, funding for the project was to be provided by Power Finance Corporation to Nigam who will act as nodal agency and be responsible and liable under the loan agreements for utilization of loan. The work was to be completed within 42 months of MOU. The work started in July 2002 and its targeted date of commissioning was December 2005. Against this targeted date of commissioning of December 2005, the project was commissioned only in the month of October 2007 due to various technical reasons.

Considering that each single day of delay in commissioning of the project was causing revenue loss of about ₹ one crore and adding interest burden by ₹30 lakh to the Nigam, Special Adviser Energy (SAE) to the State Government *suo-moto* decided (December 2006) to engage a consultant to guide the project engineers at various stages of the project. Accordingly tenders⁴⁰ were invited (27/01/2007) with the last date of submission of bid by 14/03/2007. Within the stipulated period the Nigam received only one bid of M/s Kayviats International Project Consultants Private Limited (KIPCL).

During the meeting chaired by Additional Chief Secretary of the State held on 27/04/2007, representative of DOI pointed out that earliest possible commissioning of the project would be by February 2008. However, during another meeting held on 01.05.2007, SAE offered that if services of KIPCL are placed at his disposal, the project could be commissioned in October 2007.

Though KIPCL was not meeting the basic minimum criteria of experience and rates quoted by them were higher, Letter of Intent (LOI) was issued to KIPCL on 17/05/2007 for an amount of ₹0.76 crore with permissible variation of 10 *per cent*. As certain payment conditions were not acceptable to KIPCL, LOI was revised in July 2007 and contract was entered into between Nigam and KIPCL for ₹ 0.76 crore (excluding taxes). The contract value was enhanced to ₹ 1.14 crore with 10 *per cent* variation in November 2007 and to ₹1.52 crore with 10 *per cent* variation in March 2008. Finally, the project was commissioned in March 2008 against the targeted date of October 2007 and KIPCL was paid ₹1.88 crore (including 10 *per cent* variation of ₹0.15 crore and taxes of ₹0.21 crore).

³⁹ Project was stopped in 1991-92 by the Government due to paucity of funds.

⁴⁰ Separate tender invitations were sent to renowned consultant companies like NHPC, SJVNL, RITES and WAPCOS on 31.01.2007.

However, even after incurring an expenditure of ₹1.88 crore, the intended objective of early commissioning of the project to avoid projected revenue loss remained unachieved rendering the whole expenditure as unfruitful.

On this being pointed out by audit, the Nigam stated (August/December 2011) that in view of urgency of work, offer of KIPCL having some qualification on lower side was considered as only this offer was received within the due date. Further, February 2008, as projected by DOI might not have been achievable if the consultancy services would have not been engaged. However, Management remained silent on the issues of projected revenue loss and non achievement of objectives in time. Reply is not convincing as even after appointment of KIPCL, the intended objective of early commissioning of the project to avoid projected revenue loss remained unachieved. The Nigam did not consider the economical and technically sound proposal of SJVNL as suggested by the various stakeholders of the project by giving the reasons that the proposal was received late by three days and gave undue favour to KIPCL resulting in unfruitful expenditure of ₹1.88 crore. Thus, the Nigam incurred unfruitful expenditure of ₹1.88 crore due to undue favour extended to M/s. KIPCL.

The matter was reported to the Government (July 2011); reply was awaited (December 2011).

**Dehradun
The**

**(ASHWINI ATTRI)
Principal Accountant General (Audit), Uttarakhand**

Countersigned

**New Delhi
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Comptroller and Auditor General of India**