



# Overview



## OVERVIEW

This Report contains 10 paragraphs and one Performance audit on ‘Sawra Kuddu Hydro Electric Project’ (executed by Himachal Pradesh Power Corporation Limited) involving a financial effect of ₹ 434.81 crore relating to non / short recovery due to non compliance of rules / regulations and terms & conditions of the contract agreements, non / short levy of fixed demand charges, inadequate / deficient monitoring of the progress of the projects, etc. Some of the major findings are mentioned below:

### 1 About the State Public Sector Undertakings

The State of Himachal Pradesh had 19 working PSUs (17 companies and two Statutory corporations) and two non-working companies which employed 34,992 employees. As on 31 March 2014, the investment (capital and long-term loans) in 21 PSUs was ₹ 8,909.84 crore. The total investment in State PSUs, 99.12 *per cent* was in working PSUs and the remaining 0.88 *per cent* in non-working PSUs. The total investment consisted of 33.56 *per cent* as capital and 66.44 *per cent* as long-term loans. The equity has increased from ₹ 1,948.65 crore in 2009-10 to ₹ 2,990.47 crore in 2013-14. Power sector accounted for over 85.87 *per cent* of the total investment in 2013-14. The Government contributed ₹ 728.81 crore towards equity, loans and grants / subsidies during 2013-14.

*(Paragraphs 1.1, 1.2, 1.7 to 1.10)*

### Reforms in Power Sector

In contravention to the guidelines issued by GoI for Financial Restructuring Plan (FRP), the State Government has taken reference date for restructuring of loans as 31-07-2013 against 31-03-2012. Against ₹ 1,398.35 crore (accumulated losses as on 31.03.2012), the HPSEBL got approved from State Government, an amount of ₹ 1,462.50 crore under FRP. Important mandatory conditions of the FRP regarding payment of subsidy upfront by State Government as *per* section 65 of Electricity Act, 2003, installing of prepaid meters in the premises of frequent defaulters and preparation of accounts in alignment with the provisions of Companies Act, 1956 (accounts for the year 2012-13 and 2013-14 were yet to be finalised) have not been complied with (November 2014).

*(Paragraph 1.14)*

### Performance of Public Sector Undertakings (PSUs)

Out of 19 working PSUs for which the accounts were received upto September 2014, nine PSUs earned profit of ₹ 23.62 crore and six PSUs incurred loss of ₹ 646.37 crore. Three working Government companies have not prepared their profit and loss accounts while in case of one working PSU, excess of

expenditure over income was reimbursable by the State Government. Further, as per dividend policy of the State Government, all PSUs are required to pay a minimum return of five *per cent* on the paid up share capital contributed by the State Government. Out of nine PSUs which earned an aggregate profit of ₹ 23.62 crore, only Himachal Pradesh State Industrial Development Corporation Limited declared a dividend of ₹ 1.54 crore, which was 10 *per cent* of its paid up share capital.

*(Paragraphs 1.16 and 1.18)*

### **Arrears in finalisation of accounts**

Fifteen working PSUs had arrears of 23 accounts as of September 2014. In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not. Thus, Government's investment in such PSUs remains outside the scrutiny of the State Legislature.

*(Paragraphs 1.19 to 1.23)*

## **II. Performance audit of 'Sawra Kuddu Hydro Electric Project' executed by Himachal Pradesh Power Corporation Limited**

The project initially estimated to cost ₹ 558.53 crore is now anticipated to be completed at a cost of ₹ 1,165.10 crore by July 2017 involving cost overrun of ₹ 606.57 crore with consequential increase in *per MW* cost from ₹ 5.03 crore to ₹ 10.50 crore and *per unit* cost of ₹ 2.34 to ₹ 6.95. As the anticipated generation cost would be much higher as compared to the average sale rate of ₹ 3.43 *per unit* and in view of this; project may become commercially unviable on commissioning.

*(Paragraphs 2.1 and 2.7)*

GoI transferred funds equivalent of ₹ 491.16 crore received from the ADB to the State Government for this project in the shape of grant and loan in the ratio of 90:10 which was converted in to loan by the State Government carrying interest at the rate of 10 *per cent per annum*. The conversion of grant in to loan placed an extra interest burden of ₹ 126.04 crore on project cost.

*(Paragraph 2.6.2)*

The change in design of the diversion barrage had an impact of ₹ 100.73 crore on the overall cost of the project.

*{Paragraph 2.7.2 (i)}*

The Company did not recover Liquidated Damages amounting ₹ 11.59 crore in terms of agreement from the contractor for delay in completion of works before rescinding the contract.

*{Paragraph 2.8.2 (iv) (a)}*

Delay in rescinding the work of HRT by the Company resulted delay in commissioning of the Hydro Electric Project besides non-availing of the benefit of defect liability period of Diversion Barrage, Intake structure & Descending Arrangements and Power House packages.

*{Paragraph 2.8.2 (v)}*

Non-restriction of price variation of 20 *per cent* on each consignment of supply in the bidding document resulted in avoidable expenditure of ₹ 8.79 crore.

*(Paragraph 2.9.1)*

### III. Audit of Transactions

Transaction audit observations included in the Report highlight deficiencies in the management of State Government Companies, which had serious financial implications. Gist of the important audit observations is given below:

**Himachal Pradesh State Civil Supplies Corporation Limited** distributed less quantity of food items to the retail shops / depots against the allocations made by the State Government. Samples of food items valued at ₹ 14.48 crore (April 2011 to March 2014) failed the tests and the reports were received with a delay ranging from three to four months. The delay in submission of claims by the Company coupled with delay in release of payments by the State Government resulted in interest loss of ₹ 8.80 crore to the Company during April 2010 to March 2014.

*(Paragraph 3.1)*

Failure of **Himachal Pradesh State Electricity Board Limited** to comply with the provisions of the Electricity Supply Code, 2009 resulted in non-recovery of fixed demand charges of ₹ 1.90 crore.

*(Paragraph 3.3)*

Failure of **Himachal Pradesh Tourism Development Corporation Limited** in releasing the payment of revised pay scale arrear to its employees within the prescribed time as allowed by the Hon'ble High Court of Himachal Pradesh resulted in avoidable payment of interest of ₹ 37.51 lakh.

*(Paragraph 3.8)*

**Himachal Pradesh Road and other Infrastructure Development Corporation Limited** did not initiate action to withhold the payment of land compensation in respect of land demarcated outside the construction limit of road resulted in avoidable payment of ₹ 29.33 lakh to the land owners.

*(Paragraph 3.10)*