CHAPTER VII: MINISTRY OF POWER

Damodar Valley Corporation

7.1 Marketing of Power

7.1.1 Introduction

Damodar Valley Corporation (DVC) was set up in 1948 and engaged in generation and distribution of power, flood control, irrigation, soil conservation and other social activities within the Damodar Valley area in the state of Jharkhand (erstwhile Bihar) and West Bengal. The main source of revenue of DVC was through sale of power. The total installed capacity of thermal power generating stations of DVC ranged from 5710 Mega Watt (MW) to 7640 MW during the period from 2013-14 to 2017-18. However, DVC was able to sell power ranging from 4511 MW to 6337 MW only during the above period through bilateral tie-ups[1] with power distribution utilities of various states and firm sale[2] in the valley area and thus there was surplus power[3].

7.1.2 Audit Scope, Objectives and Criteria

The thematic audit covered the initiatives of DVC towards marketing of surplus power during the period 2013-14 to 2017-18.

The objectives of audit were to assess whether:

- initiatives of DVC for marketing of power were effective;
- purchase of power by DVC was judicious and economical; and
- DVC had an effective debtor management system.

The audit criteria included Board minutes and agenda, Power Purchase agreements (PPA) and Electricity rules and regulations.

7.1.3 Audit findings

The installed capacity of DVC (year-wise) vis-à-vis the contracted agreements for supply during 2013-14 to 2017-18 were as given in table below:

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[1] ***Bilateral tie-ups happen through long term PPA with a beneficiary for sale of power from a specific generator at tariff determined by Central Electricity Regulatory Commission***

[2] ***Firm sale is sale of power to consumers in DVC command area in the states of Jharkhand and West Bengal at the tariff determined by respective State Electricity Regulatory Commission***

[3] ***Surplus installed capacity for generation of power is referred to as surplus power.***

Table 7.1: Status of Surplus Power

(Figures in MW)

Year	Capacity of new units added	Old units de-commissioned (Capacity)	Total installed capacity as on last day of the year	Bilateral tie-ups[4]	Contract demand (firm sale)	Total sale of power	Surplus power
2013-14	500	0	5710	1670	2841	4511	1199
2014-15	500	0	6210	1670	2982	4652	1558
2015-16	1200[5]	140	7270	2220	3384	5604	1666
2016-17	500	130	7640	2870	3467	6337	1303
2017-18	0	550	7090	2870	3384	6254	836

Thus, there was surplus power ranging from 836 MW to 1666 MW during the period.

The Ministry stated (April 2019) that the surplus power ranged from 322 MW to 972 MW during the above period considering the declared capacity[6] of the power plants of DVC. Audit, however noted that the tie-ups for bilateral sale are done considering the installed capacity of the power plants, and surplus power should, therefore, be assessed on the basis of such installed capacity. The Ministry further stated that DVC was required to keep spinning reserve[7] of 250 MW to meet the exigency requirement and considering the same, the quantum of surplus power during 2013-14 to 2017-18 was not considerable. The contention of the Ministry is not acceptable in view of the fact that spinning reserve was maintained by withholding a part of the declared capacity of the generating stations from scheduling and the same had no relationship with the surplus power with respect to installed capacity of the generating station.

Audit reviewed records of DVC for the period of five years from 2013-14 to 2017-18 and observed the following:

7.1.3.1 Strategy for Marketing of Power

A marketing team was formed (January 2015) to undertake market research on the power scenario, identifying States/ entities with potential demand, visiting potential customers and making presentations/negotiating sale of power, preparing publicity material, etc. Audit observed that no road map with specific targets was laid down for the marketing team. The report of market research or outcome of initiatives was also not placed before the Board. Audit further noted that the marketing team had conducted field visits to only five States with energy shortage, out of eight to 18 such States[8] during the period 2013-14 to 2017-18 and consequent to such field visits DVC could enter into only one PPA of

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[4] ***Based on date of commencement of supply of power***

[5] ***Capacity added on 31.03.2016***

[6] ***Declared Capacity of a power plant indicates its capacity to generate power at a particular point of time taking into account availability of various inputs like fuel, water etc.***

[7] ***Spinning Reserve is defined as part loaded generating capacity with some reserve margin that is synchronized to the system and is ready to provide increased generation at short notice pursuant to dispatch instruction or instantaneously in response to a frequency drop.***

[8] ***J&K, Rajasthan, Uttar Pradesh, Maharashtra, Daman & Diu, Dadra & Nagar Haveli, Goa, Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Bihar, Jharkhand, Odisha, West Bengal, Arunachal Pradesh, Assam and Nagaland***

75 MW for three months. Hence, the initiatives of the marketing team could not succeed considerably to market the surplus power of DVC.

The Management accepted (January 2019) that the report prepared by marketing team was not presented to the Board but was silent on the absence of road map with specific targets or lack of extensive field visits by marketing team. The Ministry endorsed (April 2019) the views of the Management.

7.1.3.2 Sale of Power

There are generally three avenues available to DVC for sale of power *viz*. (a) bilateral PPA for medium/ long term period; (b) firm sale in the valley area; and (c) short term sale of power through power traders[9] and power exchanges[10]. The initiatives of DVC for selling its surplus power through the above avenues during the period from 2013-14 to 2017-18 are discussed in the following paragraphs:

(a) Sale of power by entering into bilateral PPA (medium/ long term period)

DVC from time to time entered into bilateral PPA with the bulk consumers for medium term[11] as well as long term[12] period for a specific power generating station. A power generator was able to recover fixed charges of a power generating station in proportion to the tied-up (through PPA) capacity from the bulk consumers irrespective of power drawn by them subject to availability of the power station for generation. The status of installed capacity of units available for PPAs and their respective PPA tie-ups is depicted below:

Table 7.2: Status of PPAs

Period	Units Installed	Capacity (MW)	PPAs signed for units installed prior to April 2013 (MW)	PPAs signed for units installed from April 2013 to March 2018 (MW)	Total PPAs signed (MW)
Prior to April 2013	8	3000	1570	700	2270
April 2013 to March 2018	5	2700	300	300	**600**
Total	13	**5700**	1870	1000	**2870**

As seen in table above, DVC was able to enter into PPAs for only 600 MW during 2013-14 to 2017-18. Audit observed that DVC did not have a marketing policy duly approved by the Board enumerating the broad guidelines for marketing of power. It also did not maintain database regarding details of tenders floated by prospective power purchasers. In the absence of such database, DVC was unable to assess the market scenario of purchase and sale of power through PPAs.

The Management stated (January 2019) that the policy for marketing of power was being framed. It further stated that over and above the entitlement of the tied up beneficiaries, power was utilized for feeding the valley area consumers, short term trading as well as

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[9] ***PTC India Limited (PTC), NTPC Vidyut Vyaapar Nigam Limited (NVVNL) and Tata Power Trading Corporation Limited.***

[10] ***Indian Energy Exchange Limited and Power Exchange of India Limited***

[11] ***Not exceeding three years***

[12] ***Not exceeding twenty-five years***

sale of power through Power Exchange and therefore non-recovery of such fixed charges could not be construed as loss to DVC. However, the Management was silent on non-maintenance of database of tenders.

The reply of the Management/ Ministry is not acceptable as surplus power (as depicted in Table 7.2) was considered by audit after taking into account power fed to beneficiaries in the valley area. Further, the short term sale of power was only 55 MW to 81 MW compared to the quantum of available power.

(b) Sale of power to firm consumers[13] in the valley area

DVC supplied power to firm consumers in core sectors like Railways, Steel, Coal, other industrial users, JBVNL[14] and WBSEDCL[15] in the valley area by entering into agreement with them for a specific contract demand. Status of firm consumers' contract demand and their overdrawal is depicted in table below:

Table 7.3: Contract Demand of Firm consumers and status of overdrawal of power

Period	Range of number of consumers	Range of Contract Demand in Million Volt Ampere (MVA)	State	Number of firm consumers over-drawing power	Range of power overdrawal (in%)	Period of overdrawal in months
2013-14 to 2017-18	270 -291	0.25-220	West Bengal	77	0.09 to 207.43	2-43
			Jharkhand	81	0.10 to 1090.78	

Audit noted that there were several instances of tripping of power lines due to above overdrawal of power which caused interruptions in power supply. It further noted that:

- DVC did not prepare strategy to identify the prospective firm consumers in the valley area to tap new business;
- marketing team did not prepare reports indicating prospective industrial consumers along with their power requirements, strategies adopted by competitors for appraising the Board;
- DVC did not publicize its sale of power in the valley area to draw attention of prospective firm consumers; and
- it did not approach the overdrawing consumers to enhance their contract demand to ensure uninterrupted power supply.

Audit noted that an increase in contracted demand of overdrawing consumers could lead to enhanced usage of the surplus power. Also, out of the total enhancement of contract demand of 637 MW during the period 2013-14 to 2017-18, 358 MW was during 2015-16 on account of increase in demand of JBVNL.

[13] ***Firm Consumers are consumers to whom firm sale of power is made***

[14] ***Jharkhand Bijli Vitran Nigam Limited***

[15] ***West Bengal State Electricity Development Corporation Limited***

The Management accepted (January 2019) that overall load in the valley area had not increased significantly and that there was scope for increasing contract demand by removing system constraints and pursuing consumers for submission of security deposits (SD). The Ministry stated (April 2019) that DVC had organized consumer meet to explore the possibility of new consumers in the area.

The fact, however, remains that the number of industrial firm consumers (other than public sector bulk consumers like Railways, Coal, SAIL, JBVNL and WBSEDCL) did not increase during April 2013 to March 2018 and was 167 in April 2013 and 161 in March 2018.

(c) Short term sale of power

(i) Short term exchange sale

DVC obtained (March 2011) membership of Indian Energy Exchange (IEX) and Power Exchange India Limited (PXIL) for sale of surplus power through such exchanges. It started selling power on such exchanges from September 2013 onwards. It was decided (March 2011) to trade power upto 300 MW through such exchanges. The details of power sold by DVC through IEX during the period from 2013-14 to 2017-18 are given below:

Table 7.4: Power sold on Indian Energy Exchange

Year	Power sold through IEX by DVC (Million Unit)	Total power transacted in IEX (Million Unit) (All India Basis)	DVC's share of sale through IEX (*per cent*)	Average realisation by DVC (₹ Per Unit)
2013-14	46.86	26460	0.18	4.12
2014-15	179.55	28170	0.64	3.98
2015-16	170.65	33980	0.50	3.29
2016-17	575.09	39840	1.44	2.83
2017-18	1441.86	44860	3.21	3.39

Audit observed that:

- sale of power by DVC on IEX gradually increased during 2013-14 to 2017-18, however, it ranged from 0.18 *per cent* to 3.21 *per cent* with reference to the total power sold on the exchange;
- average rate of realization on the exchange was higher than the average energy cost of power generated by DVC which allowed recovery of a portion of fixed cost.
- inspite of having surplus power ranging from 836 MW to 1666 MW during the period from 2013-14 to 2017-18 the limit for trading on exchange was kept at 300 MW till December 2016.

Audit considered the situations where power stations were available for generation of power and market clearing prices[16] at IEX were higher than the energy cost of power generation and assessed that DVC could have earned contribution of ₹510.60 crore by

[16] ***The average of price realized through exchange by all the power sellers in a given period***

generating 8,698.36 million units[17] (MU) of power and selling the same at IEX during the period from 2013-14 to 2017-18 for which market was available.

The Management stated (January 2019) that the limit for quantum of bidding of power through exchanges was restricted to 300 MW due to non-availability of consistent and reliable power. The Ministry stated (April 2019) that quantum of unallocated surplus power was increased to 1000 MW for bidding on exchange along with relaxation of principle to ascertain rate of such bidding in March 2018.

The reply of the Management/Ministry is not acceptable as DVC increased the limit of quantum of bidding of power four times from 400 MW (January 2017) to 1000 MW (February 2018) whereas reliable and consistent power was available much earlier and there was scope for increase in bidding quantity of power through exchanges.

(ii) Short term sale through tendering

DVC decided (July 2014) to sell surplus power on short term basis by bidding through power traders at a competitive rate by sacrificing a part of the fixed charge for minimization of loss. However, participation in short term bidding commenced from 2015-16 onwards.

Scrutiny of records revealed that DVC was successful in 29 such short term bids during the period from 2015-16 to 2017-18 with an average annual sale of 710.63 MU which was equivalent to 81 MW[18] of power only on Round the Clock (RTC) basis. DVC participated in 23 bids in 2017-18 and was successful in 12 bids. It, however, did not maintain proper records relating to participation in such bids during 2015-16 to 2016-17. Audit noted that DVC did not prepare reports to analyze the reasons for unsuccessful bidding and did not apprise the Board about the same.

The Management/Ministry were silent on non-maintenance of records relating to participation in short term bids and non-preparation of reports to analyze the reasons for unsuccessful bids.

7.1.3.3 Uneconomical purchase of power

DVC entered into PPAs with NVVNL and NTPC Limited (NTPC) in March 2011 and January 2012 respectively for procurement of 40 MW[19] of solar power for fulfilment of its Renewable Purchase Obligation (RPO)[20]. DVC also agreed to procure 40 MW of thermal power from NVVNL (20 MW) and NTPC (20 MW). Audit however, noted that DVC had surplus power at the time of entering into above agreements.

DVC started drawing thermal power as per agreement from NVVNL and NTPC in August 2013 and March 2014 respectively. The average annual cost of procuring such thermal power ranged from ₹3.33 per unit to ₹3.80 per unit during the period 2013-14 to 2017-18,

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[17] ***The same has been assessed considering Low System Demand (LSD) only in units I to IV of Mejia Thermal Power Station (MTPS) and Units I to III of Bokaro Thermal Power Station (BTPS)***

[18] ***81 MW= (710.63 * 10 million)units/24*365*1000***

[19] ***NVVNL 20 MW, NTPC Talcher unit 10 MW and Unchahar unit 10 MW***

[20] ***Renewable Purchase Obligation means the obligated requirement to purchase electricity generated from renewable sources***

which was higher than its cost of generating energy which ranged from ₹2.34 per unit to ₹2.67 per unit. The procurement of thermal power was therefore not commercially justified. DVC subsequently, pursued (August 2016 and May 2017) the matter of de-allocation of above 40 MW thermal power with the Ministry of Power (MoP), which de-allocated the same with effect from December 2017. Audit noted that DVC procured 925.05 MU of thermal power from NVVNL and NTPC during the period 2013-14 to 2017-18 and incurred an additional expenditure of ₹105.34 crore.

Audit noted that procurement of solar power alone could have fulfilled DVC's RPO, and DVC suffered loss of ₹105.34 crore towards procurement of 925.05 MU of thermal power instead of generating the same during the above period.

The Management in its reply (January 2019) did not state reasons for entering into agreement for purchase of thermal power along with solar power while there was surplus power available with DVC. The Ministry, however, stated (April 2019) that surrendering of 40 MW of bundled thermal power by DVC would have had serious impact on its capacity to meet demand of the load of its internal consumers in the valley area.

The reply of the Ministry is not consistent with the fact that DVC had surplus power ranging from 836 MWto 1666 MW during the period 2013-14 to 2017-18 as indicated in Table 7.1. Further, the Ministry's reply regarding inability of DVC to meet the demand of internal consumers on surrendering the bundled thermal power, needs to be seen in the light of its own assessment of surplus power ranging from 322 MW to 972 MW during the period as stated by it in reply to Para 7.1.3.

7.1.3.4 Increase in power purchase cost by ₹7.90 crore due to non-availing of rebate

Apart from purchasing power from NVVNL and NTPC, DVC also purchased power from various sources [21] as per long term PPAs entered into during the period from September 2006 to August 2009. The power sellers allowed rebate for settlement of power bills within a specific time schedule. DVC had availed cash credit from banks to settle such bills during the period 2013-14 to 2017-18. Audit noted that the quantum of rebate in case of timely payment of power bills was more than the additional interest burden on account of requirement of cash credit for timely payment of such bills. DVC, however, did not make payment of such power bills within scheduled time during the period 2013-14 to 2017-18 on a consistent basis to avail the rebate. Audit noted that consequently, DVC lost the opportunity to save ₹7.90 crore on account of difference between rebate on power bills and additional interest burden during the above period.

The Management stated (January 2019) that availing rebate ultimately did not result into savings in expenditure as corresponding income through tariff got reduced as net power purchase cost was allowed in tariff. The reply of the Management is not acceptable as DVC had availed such rebate on some bills intermittently during 2013-14 to 2017-18, and audit had noted that such rebate was not considered in the tariff petition filed by DVC with the Electricity Regulatory Commissions.

[21] ***Maithon Power Limited (MPL), PTC and NHPC***

The Ministry, however, stated (April 2019) that during the truing up process of tariff, the respective regulatory commission considered the power purchase cost of DVC as booked in the annual accounts and as also claimed by DVC in its tariff petition. The fact, however, remains that the gross power purchase cost was booked in the annual accounts without deducting the rebate amount there-from which was claimed by DVC in the tariff petition and the same was allowed by the respective regulatory commissions. Availing the rebate therefore would have resulted in savings to DVC.

7.1.3.5 Debt securing mechanism

(a) Long Term PPAs/ bilateral sale

As per the terms and conditions of long term PPAs entered into by DVC with the power purchasers, payment of bills for supply of power by DVC was required to be made through irrevocable revolving Letter of Credit (LC) established in favour of DVC with a public sector scheduled bank. The value of LC would cover 105 *per cent* of one month's estimated billing for supply of power. It was also stipulated that the value of LC would be reviewed half yearly on the basis of the average of billing of previous 12 months and the LC amount would be enhanced/reduced accordingly.

Audit observed that DVC did not carry out the above exercise of review of value of LC during the period from 2013-14 to 2017-18. It was also observed that LC was not collected from nine out of 14 power purchasers under Long Term PPA. It was seen that five power purchasers from whom LC valuing ₹150.31 crore was collected had outstanding dues of ₹65.77 crore whereas nine power purchasers from whom LC valuing ₹334.71 crore was not collected had outstanding dues valuing ₹1050 crore (June 2018).

The Management stated (January 2019) that beneficiaries were reluctant to submit LC. The Ministry also endorsed (April 2019) the views of the Management. This contention is however, not acceptable as beneficiaries were supposed to furnish LC as per terms of PPAs.

(b) Firm Consumers

As per regulations of Electricity Regulatory Commissions of Jharkhand and West Bengal, the firm consumers in the valley area were required to furnish security in the form of cash deposit and/ or bank guarantee as specified therein. The position of security against outstanding debt of firm consumers is depicted in table below:

Table 7.5: Security Deposit(SD) and debt outstanding from firm consumers

State	No. of consumers				₹in crore			
	Total[22]	Without SD	With SD	Security needs replacement	Dues from parties without SD		Dues from parties with SD	Amount of security collected from parties which submitted SD
					> 3 yrs	Total		
Jharkhand	69	30	39	0	85	123	42	90
West Bengal	92	50	22	20	279	437	89	102
Total	161	80	61	20	364	560	131	192

[22] *Other than multiple point consumers like JBVNL, WBSEDCL, Railways etc*

It could be seen from the above table that 61 consumers from whom DVC had collected security valuing ₹192 crore had dues of ₹131 crore only whereas 80 consumers from whom DVC did not collect any security had dues valuing ₹560 crore indicating that collection of security was beneficial for DVC. However, there was deficiency in implementation of debt securing mechanism as stipulated in the PPAs and electricity regulations.

The Management/ Ministry stated (January/April 2019) that the number of consumers furnishing SD had been improving. The reply may be seen in the light of the fact that SD had not been collected in respect of all the consumers.

7.1.4 Conclusion

DVC did not have any laid down marketing policy approved by its Board enumerating the broad guidelines to be followed for marketing of power through all possible avenues and strategies to be adopted from time to time for the same. Although a marketing team was constituted for marketing of power, no road map with specific target along with time frame for achievement of its objectives was set. DVC added installed capacity of 2700 MW during the period from 2013-14 to 2017-18 with total tied up capacity of 1000 MW as on March 2018, of which only 300 MW was tied up during the above period. There was scope for increased sale of power through the power exchange which was not availed by DVC resulting in loss of opportunity to recover contribution. There was deficiency in the initiative for tapping the business with firm consumers in the valley area. The decision of DVC to procure thermal power with solar power was not economical and justified. There was also deficiency in the debt securing mechanism.

7.2 Imprudent decision to implement RTPS II

DVC incurred infructuous expenditure of ₹138.92 crore due to imprudent decision for implementation of the Phase-II of Raghunathpur Thermal Power Station project without ensuring the availability of equity contribution thereof.

DVC decide (March 2006) to set up Phase-I of Raghunathpur Thermal Power Station (RTPS-I) with two units of 600 Mega Watt (MW) each as per capacity addition programme during 11th Five Year Plan. The said units of RTPS-I were commissioned in March 2016. In order to fulfil the objectives of 'Power to all' by 2012, as envisaged through National Electricity Policy by Ministry of Power, Government of India, DVC decided (June 2010) to set up Phase-II of Raghunathpur Thermal Power Station (RTPS-II) consisting of two units of 660 MW each in Purulia district of West Bengal while RTPS-I was under implementation.

The cost of RTPS-II project was initially estimated as ₹8,077.12 crore which was subsequently revised to ₹9,088.99 crore. The financing pattern of RTPS-II was considered as debt and equity proportion of 70:30. Considering deficit in generation of internal sources for equity funding of RTPS- II, due to non-realisation of dues from the major power consumers and lower Plant Load Factor (PLF) of the thermal power plants, DVC decided (September 2011) to constitute a Committee to evaluate and analyse the risk involved regarding the availability of equity funding for implementation of RTPS-II. The Committee indicated (January 2012) that financial assistance from GoI in the form of

capital/ equity contribution and recovery of arrear dues from Jharkhand State Electricity Board (JSEB), a major consumer, were the pre-requisites for implementation of RTPS-II. DVC finally decided (March 2012) to go ahead for implementation of RTPS-II.

DVC arranged (April 2013) term loan of ₹6,362.29 crore from Rural Electrification Corporation Limited (REC) for financing the debt portion of RTPS-II at an interest rate of 11.25 *per cent* per annum with disbursement pre-conditions of signing PPA with DISCOMs for a quantum of at least 70 *per cent* of the capacity and proportionate investment of equity from own sources. DVC drew (August/ September 2013) ₹401 crore from REC as term loan to finance the project work.

The work orders for main plant civil works, supply of construction power and civil consultancy were also issued in August 2013, September 2013 and March 2014 respectively. However, there was little progress of the project work primarily due to insufficient cash flow. DVC ultimately decided (December 2015) to abandon RTPS-II project due to inability to arrange equity fund from its own sources as per the condition of the loan agreement with REC.

The term loan of ₹401 crore was repaid (September 2016) to REC with pre-payment charges of ₹1.15 crore. DVC, in the meantime, paid interest amounting to ₹140.43 crore to REC on the term loan for the period from August 2013 to September 2016.

Audit, therefore, observed as follows:-

- As the equity contribution amounting to ₹2,727 crore for RTPS-II was required to be funded by DVC from its own internal resources, DVC should, therefore, have ensured improvement of realisation of dues from JSEB and approval/confirmation of MoF, GoI for equity contribution prior to taking final decisions for going ahead for RTPS II project.
- DVC was having PPA for 400 MW only (September 2012) for RTPS-I (1200 MW) which indicated lower demand of power in the valley area and consequential lower PLF. Though there was pre-condition in the loan agreement with REC for entering into PPAs with DISCOMs for a quantum of at least 70 *per cent* of the capacity of RTPS-II, no PPA was entered into by DVC for the same. It was further observed that DVC approached West Bengal State Electricity Transmission Company Limited for bilateral tie up of 400 MW for RTPS-II and it was also proposed to utilise the balance capacity in its valley area. However, there was no fruitful result towards entering into PPAs for RTPS-II.
- DVC should not have gone for term loan (₹401 crore) when they were unable to arrange fund from its own sources. This would have saved DVC from payment of interest and pre-payment charges of ₹138.92 crore (interest and pre-payment charges of loan ₹141.58 crore, less interest recovered from contractor of ₹2.66 crore) on term loan.

Thus, the decision of DVC for implementation of RTPS-II without ensuring the availability of equity contribution thereof was not prudent, judicious and realistic. This has resulted in infructuous expenditure of ₹138.92 crore.

The Management contended (October 2018) that the decision for implementation of RTPS-II project was consciously taken after ensuring availability of equity contribution but due to change in power scenario with lower demand, the new units remained idle and could not generate internal resources, as was envisaged earlier. The Management further contended that possibility of revival of the project was being explored by engaging consultant for Due Diligence Study on Cost Benefit Analysis of the project. The Ministry also concurred (January 2019) with the views of the Management.

The above contention is not tenable as PPA of only 400 MW was with DVC (September 2012) for RTPS-I and there was no PPA for RTPS-II indicating lower demand of power in the valley area. Further, recovery of arrear dues from JSEB, the major consumer, was one of the pre-requisites for implementation of RTPS-II but accumulation of dues of JSEB increased from ₹2,302 crore as on March 2011 to ₹2,963 crore as on March 2012.

7.3 Avoidable loss due to non-recovery of fixed charges

DVC did not take early initiative towards evacuation of ash from temporary ash ponds for sustainable operation of the Unit-I of Koderma Thermal Power Station and supply of power to West Bengal State Electricity Distribution Company Limited (WBSEDCL). This led to termination of PPA by WBSEDCL for which DVC suffered loss of ₹71.25 crore towards non-recovery of fixed charges.

DVC set up Koderma Thermal Power Station (KTPS) for generation of 1000 Mega Watt (MW) of power with two units (Unit-I & II) having capacity of 500 MW each. Commercial Operation of Unit-I commenced in July 2013. The permanent ash pond for KTPS could not be constructed due to non-availability of land. Two temporary ash ponds were, therefore, created as a contingent measure for operation of the units. DVC entered into (October 2013) a PPA with WBSEDCL for supply of 200 MW of power from KTPS for 25 years. The supply of power by DVC to WBSEDCL from KTPS was to be made during the period of six months from April to September of 2014 and 2015 and continuously thereafter from April 2016 onwards. It was, however, seen that the sustainable operation of Unit-I was not achieved due to inadequacy of wet ash disposal area in the temporary ash ponds which were filled up with ash slurry disposed during commissioning of Unit-I and its subsequent operations. Ash evacuation initiative from such filled up temporary ash ponds was, therefore, immensely required for uninterrupted operation of Unit-I. It was, however, observed that although the tendering process for ash evacuation work from the temporary ash ponds was initiated in May 2013, work order for the same was issued in June 2014 i.e. after a delay of 13 months. It was seen that Unit-I could not be operated for supply of power to WBSEDCL from April 2014 as stipulated in the PPA due to wet ash evacuation problem. DVC also did not intimate the firm date of supply of power although repeatedly sought for by WBSEDCL. In the meantime, DVC intimated (13 June 2014) that the Commercial Operation Date (COD) of Unit-II would be on 14 June 2014. However, such declaration of COD was not in line with the regulation of CERC which stipulated that COD of generating unit should commence through successful trial run after seven days notice by the generating company to the beneficiaries. This condition was also incorporated in the PPA. WBSEDCL issued (July 2014) the default notice to DVC intimating that the PPA had become ineffective and inoperative due to non-supply of power by DVC for continuous period of three months from April 2014 as per

the terms and conditions of PPA coupled with non-declaration of COD of Unit-II as per the CERC regulations. DVC raised invoices on WBSEDCL for recovery of 20 *per cent* of fixed charges of KTPS Units amounting to ₹71.25 crore for the period from June 2014 to September 2014 (₹18.20 crore) and April 2015 to September 2015 (₹53.05 crore). WBSEDCL, however, denied paying the fixed charges on the ground that PPA had become ineffective due to fault on the part of DVC.

Audit observed that DVC was well aware of the constraints of wet ash disposal, and evacuation of the ash slurry from the temporary ash ponds was the only available solution for the sustainable operation of the Unit-I. Further, DVC was required to supply uninterrupted power to WBSEDCL from April 2014 as per PPA. Despite this, DVC did not take early and effective action for evacuation of ash from the temporary ash ponds and Unit-I could not be operated for supply of power to WBSEDCL continuously during the period of three months from April 2014, resulting in default of the terms of PPA on the part of DVC. Moreover, the declaration of COD of Unit-II by DVC was not in line with the CERC guidelines and the terms of PPA. All these resulted in termination of PPA by WBSEDCL which ultimately led to avoidable loss of ₹71.25 crore to DVC due to non-recovery of fixed charges of Unit-I & II of KTPS. In this connection, it is worth mentioning that DVC has to absorb this recurring loss of non-recovery of fixed charges (average of ₹14 crore per month) till new consumers, for purchasing of such power (200 MW) are firmed up.

DVC referred (September 2018) the matter to CERC challenging termination of the PPA by WBSEDCL and recovery of the fixed charges by WBSEDCL. The matter was pending (March 2019) before CERC. Audit, further, observed although DVC's legal expert opined that there was sufficient ground for termination of PPA by WBSEDCL due to fault in execution of the same by DVC.

The Management stated (September 2018) that inspite of all out efforts the land acquisition problem for construction of permanent ash pond could not be overcome by DVC and the PPA was terminated by WBSEDCL due to non-supply of power. The contention of the Management is not acceptable as non-availability of land for construction of a permanent ash pond was a known fact and two temporary ash ponds were, therefore, created as a contingent measure for operation of the units. As the temporary ash ponds were filled up with ash slurry, urgent action for evacuation of ash therefrom should have been taken for sustainable operation of Unit-I and supply of power to WBSEDCL from April 2014 onwards as per the provision of PPA. However, the work order for ash evacuation activity was issued in June 2014 and DVC was not able to supply power at a stretch of three moths from April 2014 which led to termination of the PPA by WBSEDCL. The Management, however, did not offer any comments regarding declaration of COD of Unit-II being not in line with the CERC guidelines and the terms of PPA which was one of the reasons cited by WBSEDCL for termination of the PPA.

The Management further contended that DVC did not incur any loss on account of fixed charges as the same was recovered from the firm consumers, short term sale and sale through exchange. The contention of the Management is not tenable as during April 2014 to September 2014 and April 2015 to September 2015 (10 months)[23], DVC could generate

[23] ***Two months not considered as DVC did not raise the bills***

negligible excess power to the extent of 216 MW[24](the declared capacity[25] of KTPS ranged between 0 MW and 430 MW) after accounting for pre-existing PPA's with Haryana (100 MW) and Karnataka (250 MW). Moreover through short term sale and sale through exchange, DVC could only recover its variable cost and a meagre contribution towards the fixed costs. The reply of the Management is self-contradictory as had it been able to recover its fixed costs from its short term sale/ sale through exchange, the question of raising claim over WBSEDCL for recovery of same would not have arisen.

The matter was referred to the Ministry in December 2018; their response was awaited (May 2019).

7.4. Imprudent decision to re-locate Research & Development Centre led to idling of high end equipment

Imprudent decision of DVC to re-locate the Research and Development Centre led to idling of high end equipment worth ₹6.84 crore procured for the centre as it remained uninstalled.

DVC decided (July 2007) to set up a Research & Development (R&D) Centre of Excellence cum Management Training Centre at Kolkata, in association with Indian Institute of Technology, Kharagpur (IITK), at an estimated cost of ₹120 crore. The basic objective of such R&D centre was to carry out in-depth study and analysis of day to day as well as generic problems of power stations and Transmission & Distribution (T&D) system for achieving zero forced outage and higher Plant Load Factor (PLF). DVC was allotted (May 2007) three acres of land at New Town, Kolkata by West Bengal Housing Infrastructure Development Corporation Limited for permanent setting up of the R&D Centre. DVC, in this regard, entered into a Memorandum of Understanding (MoU)/ Agreement with IITK in January 2008/ June 2008 regarding formation and functioning of R&D centre at Kolkata with a Co-ordination Centre at IITK for a period of five years. The R&D centre was to be managed by manpower support from IITK as well as DVC. The fund required for developing the R&D centre and functioning of the same was to be provided by DVC. In the meantime, DVC arranged (January 2008) a rented accommodation at Salt Lake City, Kolkata on licence basis for temporary setting up of the R&D centre, with a monthly payment of ₹4.14 lakh[26]. The licence was for three years, extendable upto a further period of three years, on mutual consent. The R&D centre at Kolkata, however, could not function beyond 31 December 2011 as the licensor refused to extend the licence further. Finding no other alternative accommodation, DVC decided (November 2011) to shift the R&D centre to its Mejia Thermal Power Station (MTPS). All the equipment and instruments of the R&D centre valuing ₹8.78 crore were shifted (April 2012) to MTPS by DVC on its own. Although IITK expressed (October 2011) its concern that such shifting of the equipment etc. by dismantling and decommissioning without the concurrence and involvement of Original Equipment Manufacturer (OEM) would result in loss of warranty, DVC did not pay heed to the same. DVC also did not

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[24] ***Excess power generation (216 MW)= 1966 MW(April 2015-430 MW, May 2015-412 MW, July 2015-383 MW August 2015-371 MW and September 2015-370 MW) less 1750 MW(350*5)***

[25] ***The capability to deliver ex-bus electricity in MW declared by such generating station in relation to any time-block of the day as defined in the Grid Code or Whole of the day, duly taking into account the availability of fuel or water, and subject to further qualification in the relevant regulation.***

[26] ***₹3.89 lakh as licence fee and ₹0.25 lakh as maintenance charges***

renew the agreement with IITK which expired in June 2013. The other equipment were utilised for carrying out routine laboratory tests at various units and there was no R&D activity at all. DVC finally decided (July 2016) for closure of the R&D centre primarily due to its adverse financial condition.

Audit observed as follows:-

- The Management did not ensure that the temporary arrangement of R&D centre at rented accommodation could be continued till the permanent set up was available, after acquisition of the land at New Town. This exercise was specifically required as the rented accommodation was available initially for 3 years and thereafter on consent of the licensor. The temporary arrangement ultimately came to a halt at end of fourth year due to refusal of the licensor to extend the licence further.
- The action of the Management towards shifting of all the equipment of R&D centre to MTPS, and other units subsequently without the concurrence and assistance of OEM was not judicious as it ultimately resulted in loss of warranty of such equipment.
- While taking the decision for closure of R&D centre, DVC did not spell out any action plan for carrying out the study and analysis of the problems of power stations as well as T&D system for which the R&D centre was proposed to be set up. This indicates that the envisaged objective of achieving zero forced outage and higher PLF remained unattended.

Thus, shifting of the R&D centre from Kolkata to MTPS by DVC was not prudent and well planned. This has resulted in idling of expensive equipment worth ₹6.84 crore which were lying uninstalled and were not in working condition.

The Management, while justifying (September 2018) the closure of R&D centre on the ground of adverse financial condition, did not offer any comment towards imprudent and unplanned shifting of the same as observed by audit. The Ministry endorsed (November 2018) the views of the Management.

NTPC Limited and NTPC-SAIL Power Company Private Limited

7.5 Excess payment of half-pay leave encashment

Adoption of incorrect method for computation of half-pay leave amount payable on superannuation/ separation resulted in excess payment of ₹74.89 crore to the employees of NTPC Limited and NTPC-SAIL Power Company Private Limited which would increase further with the passage of time.

DPE guidelines (24 April 1987) state that individual PSU may frame leave rules for its employees with the approval of the Board of Directors keeping in view the broad parameters of the policy guidelines laid down in this regard by GoI. DPE also clarified (17 July 2012) that earned leave (EL) and half-pay leave (HPL) could be considered for encashment on retirement subject to over all limit of 300 days. The cash equivalent payable for HPL would be equal to leave salary as admissible for HPL plus dearness allowance (DA). DPE reiterated the same position in February 2014.

During scrutiny of records at National Thermal Power Corporation Limited (NTPC) and NTPC-SAIL Power Company (P) Limited (NSPCL), Audit noted the following:-

i. As per the Leave rules of NTPC, HPL means leave on half pay earned in respect of service with the Company and can be granted to an employee for any reasons including on medical grounds. The half pay for this purpose shall be treated as half of the basic pay. All other allowances would be paid in full. Further, for the purpose of computing encashment of HPL, only half of the basic pay shall be taken into account.

During April 2011 to March 2018, 6607 employees who superannuated from NTPC were paid HPL encashment amounting to ₹298.62 crore comprising of basic component (₹150.71 crore) and DA component (₹147.91 crore).

ii. As per leave rules formulated by NSPCL, on separation of their employees, entire leave subject to a ceiling of 300 days of EL and HPL will be encashable (HPL will be encashed if EL will fall short of 300 days and shall not be commuted). For the purpose of encashment, basic pay and DA are taken into account.

During April 2011 to July 2018, 80 employees separated from NSPCL and were paid HPL encashment amounting to ₹3.05 crore comprising of HPL encashment basic component (₹1.20 crore) and DA component (₹1.85 crore).

Audit observed that the Management of NTPC and NSPCL, allowed DA at the admissible rate on full basic pay instead of half basic pay, while calculating HPL. This resulted in payment of twice the amount of DA due. Thus, due to adoption of incorrect method for computation of HPL, NTPC paid excess amount of ₹73.96 crore during the period between April 2011 and March 2018. Similarly, NSPCL paid excess amount of ₹0.93 crore during the period between April 2011 and July 2018.

The Management of NTPC replied (December 2018) that DPE OM did not provide for payment of half pay and half DA in lieu of Half Pay Leave encashment and that NTPC Leave Rules regarding the Half Pay Leave were in line with DPE, DoPT and CCS guidelines. NSPCL Management also stated (November 2018) that DPE OM dated July 17, 2012 stipulated that cash equivalent payable for half-pay leave would be equal to leave salary as admissible for half-pay plus DA and not half DA.

The replies are not acceptable as DA is expressed as a *per cent* of the basic pay and when half of basic pay was considered for HPL encashment, the DA should also have been on half basic pay only. Moreover, DoPT, while extending orders for encashment of EL and HPL to industrial employees, re-iterated (December 28, 2012) that cash equivalent applicable for HPL would be equal to leave salary admissible for HPL plus DA admissible on the leave salary. The practice followed by both the companies was therefore not in line with the extant rules.

Thus, adoption of incorrect method for computation of HPL encashment on superannuation/separation resulted in excess payment of ₹74.89 crore to employees of NTPC and NSPCL which would further increase with the passage of time.

The matter was referred to the Ministry in December 2018; their response was awaited (May 2019).

NTPC-SAIL Power Company Private Limited

7.6 Irregular payment to executives in contravention of DPE guidelines

NTPC-SAIL Power Company Limited paid ₹23.30 crore to its executive employees on allowances/ perks in contravention of DPE guidelines during the period 2008-09 to 2017-18 which would further increase with passage of time.

GoI notified the policy for revision of pay and allowances of Board level and below Board level executives as well as non-unionised supervisors in CPSEs with effect from 1 January 2007 vide DPE O.M.[27] dated 26 November 2008. The said OM inter-alia provided that Board of Directors of the CPSEs would decide on allowances and perks admissible to different categories of executives subject to a maximum ceiling of 50 *per cent* of the basic pay. CPSEs may follow the 'Cafeteria Approach', allowing executives to choose from a set of perks and allowances. Only four allowances *viz.* North East allowance, Allowances for underground mines, Special Allowance for serving in difficult and far flung areas as approved by the Ministry and non practicing allowance for Medical Practitioners were kept outside the purview of the ceiling of 50 *per cent* of basic pay.

DPE clarified (June 2012) that no further allowance/benefit/perk was admissible outside the 50 *per cent* ceiling fixed under Cafeteria Approach except the four allowances mentioned in their OM of November 2008. DPE reiterated (June 2013) that allowances over and above the 50 *per cent* ceiling would be construed as serious violation and not stand scrutiny of audit and other oversight agencies. DPE requested all CPSEs to follow the guidelines in letter and spirit.

NSPCL, decided (October 2009) to pay 47 *per cent* of the revised pay as perks and allowances under Cafeteria Approach (after monetizing recurring expenditure on maintaining and running infrastructure facilities) with effect from 26 November 2008.

Audit noted that NSPCL paid ₹23.30 crore to its executive employees (during 2008-09 to 2017-18) towards compensation for working during night hours (₹4.10 crore), special allowance for difficult and far flung areas (₹14.35 crore), and reimbursement towards uniform (₹4.85 crore) in contravention of DPE guidelines as cited below:

(i) Compensation for working during night hours: NSPCL introduced (September 2010) a scheme for compensation by way of a fixed amount for working during night hours with effect from 26 November 2008. Such compensation for working during night hours was neither in cafeteria list nor included in admissible allowances outside the cafeteria list, such payment was in contravention of DPE guidelines.

The Management stated (October 2018) that round the clock operation of power plants warranted deployment of employees in three shifts including night shift and hence reimbursement of hospitality expenditure was made to these employees. Management's reply is not acceptable as all perks and allowances other than the four

[27] *Department of Public Enterprise Office Memorandum No. 2(70)108-DPE(WC)-GL-XVI/08 dated 26/11/2008*

allowances outside the cafeteria list were to be covered under the 50 *per cent* ceiling fixed by DPE.

(ii) Special allowance (difficult and far flung areas): As per DPE OM of November 2008, only four allowances including Special Allowance for serving in difficult and far flung areas as approved by Ministry were kept outside the purview of ceiling of 50 *per cent* of basic pay. Further, Department of Expenditure (DOE) prescribed (OM dated 29 August 2008[28]) areas eligible for grant of Special Compensatory (Remote locality) Allowance. DPE further stated (22 June 2010) that in case an area was considered difficult and far flung by Administrative Ministry/Department of a CPSEs and was not covered under the DoE OM, the concerned Ministry/Department, may in consultation with its Financial Advisor decide on rate for Special Allowance as indicated in para 4 of the OM based on comparability of localities specified in the DoE OM.

Audit noted that NSPCL allowed (October 2009) payment of Field Compensatory Allowance[29] at the rate of 10 *per cent* of basic pay to its employees posted at Bhilai, Rourkela and Durgapur site offices with effect from 26 November 2008.

Audit further observed that NSPCL did not consider provisions of DPE guidelines while allowing payment of Special Allowance to its employees. NSPCL site offices are located at Durgapur, Rourkela and Bhilai which are well connected and developed cities with infrastructure facilities created by Steel Authority of India Limited. These cities are not comparable with remote districts prescribed in DoE OM. Moreover, allowance was allowed on the ground that employees were exposed to extreme heat, explosive liquids, gases etc. However, these conditions did not warrant payment of allowance meant for difficult and far flung areas. Besides, approval of the Administrative Ministry was also not obtained. Thus, payment of Special Allowance by the company was irregular.

The Management stated (October 2018) that payment of allowance would be regulated in line with approval by Ministry of Power, which was yet to be received.

(iii) Reimbursement towards uniform was allowed (March 2015) by the Management to its employees to encourage organisational culture devoid of discrimination and to reflect organisational discipline with effect from 2013-14. The scheme envisaged reimbursement of cost of uniform annually within a fixed yearly ceiling. Audit observed that above benefit was not admissible because such allowance/perk was neither included in cafeteria list nor included in the four allowances admissible outside the cafeteria list.

The Management stated (October 2018) that uniform offered a sense of togetherness and fostered mutual growth. The Management's reply is not acceptable as all perks and allowances other than the four allowances outside the cafeteria list were to be covered under the 50 *per cent* ceiling fixed by DPE.

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[28] ***Department of Expenditure, Ministry of Finance OM No. 3(1)/2008-E.II(B) dated 29 August 2008***
[29] ***Renamed (January 2014) as Special Allowance @ 6 per cent of basic pay with effect from 1 Nov 2013***

Thus, NSPCL paid ₹23.30 crore to its executive employees on allowances/perks in contravention of DPE guidelines during 2008-09 to 2017-18. The excess payment would further increase with passage of time.

The matter was referred to the Ministry in December 2018; their response was awaited (May 2019).

Power Grid Corporation of India Limited

7.7 Short recovery of house rent from executives availing leased accommodation

Non-compliance of DPE's instructions for recovery of lease rent from the executives availing leased accommodation, resulted in short recovery of ₹18.94 crore during April 2012 to December 2016.

In DPE directions of March 2012, it was *inter alia* stated that rent recovery in respect of leased accommodation arranged by CPSEs is to be at the rate of 10 *per cent* of the basic pay or actual rent whichever is lower.

Audit noticed that Power Grid Corporation of India Limited (PGCIL) recovered house rent at the slab rates fixed by it instead of 10 *per cent* of basic pay for leased accommodation provided to executives till December 2016. PGCIL started recovering house rent at the rate of 10 *per cent* of basic pay w.e.f. January 2017 from the executives availing leased accommodation in compliance of 3rd Pay Revision Report. Thus, non-compliance of above DPE instructions resulted in short recovery of ₹18.94 crore during April 2012 to December 2016.

The Ministry of Power (MoP) replied (January 2019) that the rates for recovery of house rent are revised at the time of wage revision. Once finalised, the license fee/HRR remains unchanged till the next wage revision, as reductions in perks/benefits impacts morale of employee. Also, there are employees who have separated from PGCIL between 2012 to 2016, therefore, it would be difficult to recover house rent at the rate of 10 *per cent* of basic pay from such employees.

The reply of MoP is not acceptable, as despite *inter alia* clear DPE's directions of March 2012, PGICL continued recovery of house rent at the lower slab rates fixed by it than at 10 *per cent* of basic pay of the employee and waited till next wage revision to implement the applicable rate of recovery. PFC Ltd. and Bharat Heavy Electricals Limited, etc. successfully implemented these guidelines without waiting for any wage revision. Thus, non-compliance of DPE instructions resulted in short recovery of ₹18.94 crore during April 2012 to December 2016.

PFC Limited and REC Limited

7.8 Irregular payment of allowances and perks beyond admissible ceiling

Non- adherence to guidelines of DPE regarding grant allowances and perks to executives to maximum ceiling of 50 *per cent* / 35 *per cent* resulted into irregular payment perks valuing ₹19.91 crore and ₹13.39 crore to the employees of PFC Limited including its subsidiaries and REC Limited respectively.

The Department of Public Enterprises issued (November 2008) guidelines on revision of scales of pay in CPSEs effective from January 2007. The guidelines permitted the CPSEs to follow 'Cafeteria Approach', which allowed the executives to choose from a set of perquisites (perks) and allowances (except North East Allowance, Allowance for Underground Mines, Special Allowance for serving in difficult and far flung areas, Non-Practicing Allowance for Medical Officers and House Rent Allowance/ Leased Accommodation) subject to a maximum ceiling of 50 *per cent* of basic pay. The said maximum ceiling was revised to 35 *per cent* of basic pay vide DPE guidelines (August 2017) on pay revision w.e.f. January 2017.

7.8.1 The Board of Directors of PFC Limited (PFC) approved (January 2007) interest free multipurpose Advance Scheme with a ceiling of six months' pay[30], recoverable in two to four years. The scheme was revised (July 2015) to permit interest-free advance with a ceiling of 12 months of pay, recoverable in two to five years. Similar schemes of advances for house building, computer, marriage, conveyance and education at concession rate of interest were also approved. These schemes were also applicable to the employees of its subsidiaries[31].

PFC had allowed (November 2009) its executives to choose from a set of 15 perks and allowances to be included in the approved basket of the perks/ allowances under cafeteria approach, which were later increased (April 2014) to 17 perks/ allowances. The concession rate of interest on advances is treated as perks under the Income Tax Act, 1961 and PFC including its subsidiaries also considers it as part of the taxable salary of its executives for deducting tax at source. Besides this, moveable assets perk was also allowed by PFC. However, these perks were not included in the approved basket of perks/ allowances and perks/ allowances were used.

PFC disbursed interest free/concessional interest advance to its executives and an concessional interest of ₹18.97[32] crore on such advances and moveable assets perks valuing ₹0.94[33] crore from April 2009 to March 2018 were not considered as perks within the ceiling of 50/35 *per cent*, under cafeteria approach though the same were required to be included in the ceiling limit as per DPE guidelines. PFC incurred excess expenditure of ₹19.91 crore (₹18.97 crore+₹0.94 crore) **(Annexure VI)** on perks / allowances to their employees, due to non-adherence of DPE guidelines.

7.8.2 The Board of Directors of REC Limited (RFC) approved (July 2008) interest free multipurpose Advance Scheme with a ceiling of six months' pay[34], recoverable in two to four years. The scheme was revised (October 2014) to permit interest-free advance with a ceiling of 12 months of pay, recoverable in three to five years. Similar schemes of advances for house building, computer, marriage, household goods, conveyance and education at concession rate of interest were also approved.

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[30] ***Pay included basic pay, dearness allowance, dearness pay, stagnation increment and personal pay***

[31] ***PFC consulting Limited, PFC green Energy Limited and PFC Capital Advisory Services Limited***

[32] ***Figures for the year 2017-18 of PFC Green Energy Limited and PFC Capital Advisory Services Limited were not provided***

[33] ***Figures for the year 2017-18 of PFC Green Energy Limited and PFC Capital Advisory Services Limited were not provided***

[34] ***Pay included basic pay, and dearness allowance***

REC had allowed (July 2010) its executives to choose from a set of 16 perks and allowances to be included in the approved basket of perks/ allowances under cafeteria approach with ceiling of 50 *per cent* of basic pay. The concession rate of interest on advances is treated as perks under the Income Tax Act, 1961 and REC also considered it as part of the taxable salary of its executives for deducting tax at source without including in the approved basket of perks/ allowances.

REC disbursed interest free/ concessional interest advance to its executives and a concessional interest of ₹13.39 crore (**Annexure VII**) on such advances from April 2009 to March 2018 which were not considered as the perks within the ceiling of 50 *per cent* /35 *per cent*, under cafeteria approach though the same were required to be included in the ceiling limit as per DPE guidelines. As such, REC incurred excess expenditure of ₹13.39 crore on perks / allowances to their employees from April 2009 to March 2018 due to non-adherence of DPE guidelines,

PFC/REC replied (18/ 26 April 2019) that DPE in its guidelines for cafeteria approach has not classified the interest on the advances as perks and allowances.

The reply of PFC and REC are not acceptable, as DPE in its guidelines for Cafeteria Approach, has specified certain perks and allowances (*viz*: North East Allowance, Allowance for Underground Mines, Special Allowance for serving in difficult and far flung areas Non-Practicing Allowance for Medical Officers and House Rent Allowance/ Leased Accommodation) to keep outside the ceiling of 50 *per cent* /35 *per cent*.

The matter was referred to the Ministry in March/ May 2019; their response was awaited (May 2019).

THDC India Limited

7.9 Irregular payment of perquisites beyond the ceiling limit fixed by DPE

In violation of DPE guidelines, THDC India Limited incurred expenditure of ₹15.99 crore on payment of perquisites and allowances to their employees.

The Department of Public Enterprises (DPE) issued (November 2008) guidelines on revision of scales of pay in CPSEs effective from January 2007. The guidelines permitted the CPSEs to follow ‘Cafeteria Approach’, which allowed its executives to choose from a set of perquisites (perks) and allowances subject to a maximum ceiling of 50 *per cent* of basic pay. Four allowances i.e. North East Allowance, (ii) Allowance for Underground Mines, (iii) Special Allowance for serving in difficult and far flung areas and (iv) Non-Practicing Allowance for Medical Officers and (v) House Rent Allowance/ Leased Accommodation were outside purview of ceiling of 50 *per cent* of the basic pay. In places, where CPSEs have created infrastructure facilities such as hospitals colleges, schools, clubs etc., these facilities should be monetised at replacement cost for the purpose of computing perks and allowances. DPE reiterated (April 2011/ June 2012/ June 2014) that no perks/ allowances, other than above four allowances, were outside the preview of ceiling of 50 *per cent* of basic pay and perquisite tax for providing leased housing accommodation should be kept within the ceiling of perks/ allowances.

At the time of pay revision w.e.f. January, 2017, DPE revised (3 August 2017) the ceiling of perks/ allowances to 35 *per cent* of basic pay and allowed 50 *per cent* of perquisite tax within preview of perks and allowances. The recurring cost incurred on running and maintaining of infrastructure facilities like hospital, colleges, and schools etc. was also kept outside purview of the ceiling of perks/ allowances.

THDC India Limited (THDC) allowed 47 *per cent* of basic pay out of available basket of 50 *per cent* towards perks / allowances to their employees. Balance three *per cent* of basic pay was ₹15.73 crore for the period 1 April 2009 to 31 December 2016. Monetised value of facilities of hospital, college and schools etc. and perquisite tax for providing leased housing accommodation were outside the basket of perks/ allowances allowed by THDC. Audit, however, noticed that THDC had incurred an expenditure of ₹30.25 crore on infrastructure facilities such as hospitals etc. (₹19.81 crore) and perquisite tax (₹10.44 crore) during the same period. Besides this, THDC had incurred an expenditure of ₹2.94 crore on perquisite tax on leased accommodation from 1 January 2017 to 14 May 2018 without restricted it to 50 *per cent* as perks/ allowances. THDC started to restrict 50 *per cent* of it as perks/ allowances w.e.f. 15th May 2018 in compliance of DPE guidelines dated 3rd August 2017. Thus, THDC incurred an irregular expenditure of ₹15.99 crore (₹30.25 crore - ₹15.73 crore + 50 *per cent* of ₹2.94 crore) from April 2009 to 14 May 2018 i.e. beyond ceiling limit of perks/allowances.

The Ministry/Management replied (March 2019) that monetised value of facilities (₹3.05 crore) and tax on housing perquisite were well within ceiling of perks/allowance.

The reply is not acceptable as amount of ₹3.05 crore indicated by THDC for monetisation of facilities only represents the amount of depreciation charged by the company on infrastructure of the facilities. It does not include the amount of other running and maintenance expenses like medical stores purchased, staff salaries for the facilities etc., amounting to ₹16.76 crore incurred by THDC on these facilities. As such, in violation of DPE guidelines, THDC incurred excess expenditure of ₹15.99 crore on perks / allowances to their employees from 1 April 2009 to 14 May 2018.