

CHAPTER-II

2. Compliance Audit Observations

Important audit findings emerging from test check of transactions of the State Government Companies are included in this Chapter.

GRIDCO Limited

Extra expenditure

Avoidable payment of interest to banks ₹16.76 crore

2.1 The interest rate mechanism for extending loans and advances by commercial banks is fixed by Reserve Bank of India (RBI). In terms of RBI guidelines (April 2010), all rupee loans sanctioned after July 2010 would be priced with reference to Base Rate³⁵.

GRIDCO Limited (GRIDCO) is engaged in purchase of power from generators for sale to the Power Distribution Companies (DISCOMs). GRIDCO availed term loans covering a period of 48 months to 60 months since 2012-13 from commercial banks from time to time to meet bills of generators. Sixteen term loans amounting to ₹2,433.94 crore were outstanding with eight commercial banks as of April 2016. Agreement with banks envisaged payment of interest at the applicable Base Rate.

The RBI in their direction dated 29 March 2016 revised the interest rate from Base Rate to Marginal Cost of funds based Lending Rate (MCLR)³⁶ to be applicable from 1 April 2016. The individual banks would publish the MCLR monthly, quarterly, half-yearly and annually. The guidelines further envisaged that the existing borrowers would have the option to move to MCLR linked loans. Thus, GRIDCO had the opportunity of re-phasing loans under MCLR.

It was observed that interest rate of banks under MCLR was lower than those under the Base Rate. The Base Rate of interest payable by GRIDCO was 9.90 *per cent* to 10.45 *per cent* whereas the applicable MCLR rate was 8.4 *per cent* to 10.25 *per cent* from April 2016. GRIDCO would not incur any extra cost for switching over to MCLR. As such, the cost of loans became cheaper after introduction of MCLR in April 2016. GRIDCO did not take any action during April 2016 to January 2017 to negotiate with the banks to move to MCLR linked loans in respect of existing loans on the ground that they were not aware of the RBI notification of March 2016. It, however, took delayed action in February 2017 and requested the banks to change the interest rates to MCLR to reduce the interest. The banks accepted the proposal of GRIDCO during April to October 2017 after a gap of 79 to 239 days. As such, there was a delay of 299 to 314 days on the part of GRIDCO to avail lower rate of interest on the outstanding loans worth ₹2,433.94 crore. The delay was

³⁵ Base Rate was minimum interest rate of a bank below which it was not viable to lend.

³⁶ The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. It is an internal benchmark or reference rate for the bank

due to late action by GRIDCO to apply to the banks to move to MCLR linked terms. GRIDCO incurred avoidable payment of interest worth ₹16.76 crore for such delay.

Government replied (August 2018) that there was no scope for GRIDCO to know such development as the issue was internal to all scheduled commercial banks. They further stated that after a lot of enquiry and persuasion with the banks, it was known that the existing term loans could be replaced with MCLR linked loans. The fact, however is that the direction (March 2016) of RBI to move to MCLR based loan was issued in the public interest which was available on the website of RBI and thus not internal to the commercial banks.

Thus, delayed action on the part of GRIDCO to link interest rate to MCLR resulted in avoidable expenditure worth ₹16.76 crore towards interest.

Loss of revenue

Failure to enforce supply of State entitled Power as per MoU and PPA by GRIDCO Limited from Vedanta Limited led to short supply of 3527.99 MU of power

2.2 Government of Odisha (GoO) had signed Memorandum of Understanding (MoU) with Independent Power Producers³⁷ (IPPs) to set up power plants and generate power. IPPs were required to allocate certain portion of power generated from the plant to the State at a price inclusive of fixed cost and variable cost determined by Odisha Electricity Regulatory Commission (OERC). GRIDCO Limited (GRIDCO) which was the designated power purchaser for the State was to buy power from the IPPs.

An IPP signed (September 2006) an MoU with GoO for setting up a thermal power plant. The plant consisted of four units, each having an installed capacity of 600 Mega Watt (MW). Accordingly, IPP signed (September 2006) Power Purchase Agreement (PPA) with GRIDCO which was subsequently modified (August 2009/December 2012). The MoU and PPA *inter alia* provided the following terms and conditions:

- The State share from the plant would be up to 25 *per cent* of 2400 MW i.e., 600 MW. IPP was to make available the entire power generated from its first unit (Unit-2) having 600 MW capacity to GRIDCO at a price decided by OERC. Accordingly, the Unit-2 was declared as the unit dedicated to the State as per the PPA. Further, such supply of power from Unit-2 would never be less than 25 *per cent* of total generation from all the units. In addition to this, five *per cent* of power sent out from the plant consisting of all the four units of 2400 MW was to be made available to GRIDCO at variable cost. The plant was to operate at 85 *per cent* Plant Load Factor (PLF)³⁸.

³⁷ An Independent Power Producer is an entity which generates electric power for sale to utilities and end users

³⁸ In the electricity industry, load factor is a measure of the output of a power plant compared to the maximum output it could produce. Plant Load Factor is determined with respect to installed capacity of power plant.

Unit-2 of the plant was commissioned in November 2010 and the rest three units were commissioned during 2011-12. Mahanadi Coalfields Limited (MCL) supplied coal for the plant under coal linkage policy of GoI. The quantum of coal supply to Unit-2 was determined by Ministry of Coal considering the normative operation at 85 *per cent* PLF. IPP signed (August 2013) Fuel Supply Agreement (FSA) with MCL. In terms of the FSA with MCL, IPP had to utilise the coal for generation of power at Unit-2 and supply the entire power to GRIDCO.

Considering the terms and conditions of the PPA, OERC had determined (March 2014/March 2015/March 2016) 13438.53 MU of power to be made available to GRIDCO by IPP during 2014-15 to 2016-17.

Following was observed:

- i) IPP had lifted coal ranging from 85 *per cent* to 91 *per cent* of GoI allotted quantity (25.70 lakh MT) during 2014-15 to 2016-17 to meet the normative operation of Unit-2. They were to generate and supply 13438.53 MU by operating the unit at the normative level of 85 *per cent* PLF. IPP, however, supplied 9,910.54 MU (73.75 *per cent*) of power operating the plant at 62.68 *per cent* of PLF leading to shortfall of 3,527.99 MU³⁹ (26.25 *per cent*).
- ii) GRIDCO had also never analysed the reasons for non-supply of State entitled power by IPP. They had only from time to time requested IPP to supply the entitled quantity. The details of operation of plant deviating from GoI/OERC norm and details of utilisation of linkage coal by IPP were not obtained by GRIDCO.
- iii) The PPA with IPP did not provide for an enabling clause for imposition of penalty. By virtue of the minutes of meeting (November 2016) GRIDCO was entitled to levy penalty on IPP for short supply of power. GRIDCO, however, imposed penalty only from 2017-18 for the quantum of power not injected as per State entitlement. No reasons were provided for non-imposition of penalty for the period from 2014-15 to 2016-17.

Government stated (September 2018) that OERC while finalising tariff had considered normative operational figures instead of actual trend of supply. The actual generation from Unit-2 was purchased from IPP during 2014-15 to 2016-17. The reply was not acceptable as Unit-2 of IPP was operated at 62.68 *per cent* PLF against norm of 85 *per cent* leading to non-supply of 3,527.99 MU power to the State.

Failure to enforce supply of infirm power as per agreed terms by GRIDCO from JITPL resulted in loss of revenue worth ₹56.73 crore

2.3 Government of Odisha signed (September 2006) an MoU with M/s Jindal India Thermal Power Limited (JITPL) for setting up of 1800 MW power plant (600 MW x 3). GRIDCO had signed a Power Purchase Agreement (PPA) with JITPL on 28 September 2006 which was subsequently

³⁹ GRIDCO Limited suffered loss of revenue of ₹351.95 crore due to shortfall in supply of 3527.99 MU of power by Vedanta Limited.

amended on 05 January 2011 and 23 July 2013. As per Odisha Grid Code, every power company had to declare the Date of Commercial Operation (COD) of their units. A thermal power unit undergoes trial run for some days to achieve continuous power generation after which COD is declared. Power generated during the period of trial run to COD is the infirm power. Unit-1 of JITPL started trial run and commercial operation on 28 March 2014 and 19 April 2015 respectively.

As per terms and conditions of MoU and PPA, the entire infirm power was to be made available to GRIDCO. Power was to be delivered by JITPL from their plant to a Grid substation through a dedicated transmission line. JITPL was also responsible for construction of the line.

The following were observed in this regard:

- During March to May 2014, JITPL generated 53.88 MU of infirm power from Unit-1 and despatched it outside the State. Similarly, during June 2014 to April 2015, JITPL supplied only 55.58 MU to GRIDCO out of 355.82 MU infirm power generated. The remaining power was despatched outside the State. As against 100 *per cent* of infirm power to be supplied to GRIDCO, JITPL did not supply 354.12 MU (86.43 *per cent*) of infirm power generated during the above period.
- JITPL had also not constructed the dedicated transmission line (October 2018) for supply of State entitled power. GRIDCO was drawing power from JITPL plant through a transmission line of another agency. This had enabled JITPL to supply less power to GRIDCO. GRIDCO had, however, not included suitable penal clauses in the PPA in case of failure of JITPL to supply power entitled to the State.
- Due to short supply of power by JITPL, GRIDCO had to procure 242.90 MU power from the market at a higher cost of ₹38.32 crore compared to agreed rate with JIPTL.
- GRIDCO was also State designated authority to sell surplus power outside the State. There was scope for GRIDCO to sell the balance 111.22 MU (354.12 – 242.90 MU) of surplus power at a rate ranging from ₹3.51 to ₹5.08 per unit outside the State as there was surplus power available in the State. Considering the procurement cost of GRIDCO at the rate of ₹1.75 per unit from JITPL, GRIDCO lost the opportunity to earn revenue worth ₹29.66 crore.
- Thus, failure of GRIDCO to enforce supply of 354.12 MU of power from JITPL between March 2014 to April 2015 resulted in loss of revenue worth ₹67.98 crore (₹38.32 crore + ₹29.66 crore). The infirm power that was required to be supplied to GRIDCO was sold by JITPL outside the State. In a joint meeting dated 13 July 2016, JITPL agreed that revenue earned by them by selling the power in the market would be refunded to GRIDCO after adjusting cost of power applicable to GRIDCO. Accordingly, JITPL refunded ₹11.25 crore to GRIDCO. As such, in the entire transaction from March 2014 to April 2015, GRIDCO sustained a loss of ₹56.73 crore (₹67.98 crore - ₹11.25 crore).

Government stated (September 2018) that, GRIDCO had no right over the entire 354 MU of infirm power except 12 *per cent* i.e. 43 MU only. Further, GRIDCO had also not anticipated for (i) non-compliance in power supply by the IPP or (ii) recovery of compensation thereof at the time of execution of PPA.

The reply is not based on fact as in terms of clause 1 (ii) of MoU with GoO and clause 2.2.2 of PPA, GRIDCO had the right to obtain the entire infirm power (409.70 MU) from JITPL, which was not ensured. GRIDCO could not safeguard the interest of the State and also failed to penalise JITPL through inserting a suitable penal clause in the PPA for their failure to supply State entitled power.

Odisha Hydro Power Corporation Limited

Loss of revenue

Failure to submit appropriate shutdown period to OERC resulted in short recovery of capacity charges of ₹4.42 crore

2.4 Odisha Hydro Power Corporation Limited (OHPC) is engaged in generation of hydro power in Odisha through six hydro power stations including Hirakud Hydro Electric Project (HHEP). Power generated from HHEP was sold to GRIDCO Ltd through tariff determined by Odisha Electricity Regulatory Commission (OERC). In terms of OERC Regulations 2014, OHPC had to submit an annual Aggregate Revenue Requirement (ARR)⁴⁰ to OERC for determination of tariff. The ARR envisaged that annual fixed cost of a power station would be recovered as capacity charges and energy charges. The annual capacity charges are recovered in proportion to the available installed capacity of the power station.

In terms of OERC order (November 2010), the installed capacity of a plant would be reduced to the extent of number of days required for carrying out capital maintenance work. Further, OERC order (May 2012) also stated that, “the (power) generator should not suffer from non-recovery of capacity charges due to capital maintenance”. As such, OHPC had to submit in advance the proposed period of capital maintenance in their ARR for deduction from the installed capacity.

For the year 2015-16, OHPC had submitted ARR application in November 2014 mentioning capital maintenance period/shutdown period as 198 days for Unit-2 of HHEP. The maintenance work was to be carried out during 2015-16 and 2016-17. The number of days approved was also not revised during tariff approval for the year 2015-16, 2016-17 and 2017-18. The ARR for the year 2015-16 was approved by OERC through tariff order issued on 23 March 2015.

⁴⁰ ARR means revenues that a generating utility is allowed to collect through rates, to recover its expected reasonable expenses and allow it an opportunity to earn a reasonable return on its prudent and useful investments in assets used to provide utility service.

It was, however, seen that:

- OHPC had earlier told (December 2011) Original Equipment Manufacturer (OEM)⁴¹ to rectify certain problems in Unit-2 of HHEP. As such, an offer was made by OEM (April 2013) to complete the proposed renovation work which was subsequently revised during February 2014. The proposal of OEM was in two parts i.e. for supply of materials and service/repair of the unit. During the supply period, the plant was not required to be shutdown. Whereas, during the period of service/repair, the plant was required to be shutdown.
- The OEM in its revised offer (February 2014) proposed 330 days for the service/repair work, including 180 days for the optional work. The work order was issued (July 2014) to the OEM covering both mandatory and optional works based on revised proposal.
- As such, by the time OHPC submitted the ARR, it had the knowledge of the proposed repair period during which the plant would remain under shutdown. While submitting (November 2014) the ARR for the year 2015-16, however, OHPC proposed the shutdown period as 198 days only. This included 48 days required for OHPC before and after handing over the unit to the OEM for the repair work. While submitting the ARR OHPC also ignored the proposed 180 days required for optional work in Unit-2.
- The repair and renovation work took 344 days as it commenced on 22 July 2016 and completed on 30 June 2017. OEM carried out both the mandatory and optional work as per the instruction of OHPC.
- OERC had approved the annual capital maintenance programme for the unit for 198 days as per the proposal of OHPC. OHPC was required to propose 330 days as per the proposal of OEM for service/repair work instead of 198 days. As a result, the installed capacity of the station was inflated by 146 days. OHPC could not recover ₹4.42 crore towards capacity charges from 04 February 2017 to 30 June 2017.

Government stated (September 2018) that it was not possible to ascertain exact quantum of work and period before dismantling the machine. It also stated that the optional works would be carried out parallelly with the mandatory works. The reply was not acceptable as the optional work was started only in February 2017, seven months after carrying out the mandatory work. As against this, the OEM had proposed 330 days for carrying out the entire work including 180 days for optional works.

Thus, failure to submit appropriate shutdown period to OERC resulted in short recovery of capacity charges of ₹4.42 crore.

⁴¹ M/s Alstom India Limited

Loss of revenue

Belated action to replace Generator Transformer resulted in loss of ₹4.05 crore

2.5 The Hirakud Hydro Electricity Project (HHEP) of Odisha Hydro Power Corporation Limited (OHPC) produces power through its seven units. Each unit is provided with a power generator and a Generator Transformer (GT)⁴². Power generated in the station is sold to GRIDCO Limited at the tariff determined by the Odisha Electricity Regulatory Commission (OERC).

OHPC decided (August 2012) to keep a spare GT of adequate capacity in order to avoid shutdown of plant and consequent loss of generation.

Accordingly, OHPC procured (August 2014) a spare GT to act as a standby. The guarantee period was two years from the date of commissioning. The terms and conditions of procurement gave OHPC an option to replace or rectify any defect and recover the extra cost plus fifteen *per cent* from the supplier, if the defect was not rectified by supplier within 30 days of intimation. The GT was kept as a spare till March 2015. After procurement, it was commissioned in Unit-7 in April 2015.

The newly installed GT developed a fault and Unit-7 remained under shutdown from 21 February 2017. The defect was intimated to the supplier on 02 March 2017 and the service engineer of the supplier verified it on 04 March 2017. He intimated (10 March 2017) that the GT could not be rectified at site. Contrary to the guarantee conditions, the supplier initially did not accept the responsibility to rectify the defect. After a delay of 171 days, however, it agreed (25 September 2017) to repair the transformer free of cost as per guarantee clause.

OHPC, however, had one spare GT in good condition in Unit-5. OHPC had planned (March 2016) to shutdown the Unit-5 from October 2016 for renovation and modernisation. The shutdown period was approved by OERC for 21 months.

Considering the delay in repair of GT in Unit-7, OHPC decided (May 2017) to utilise the spare GT of Unit-5 for Unit-7. OHPC floated tender (May 2017) and issued (July 2017) work order to another firm for dismantling and shifting the GT from Unit-5 to Unit-7. The GT was shifted and replaced on 29 August 2017. Generation from Unit-7 commenced thereafter.

It was observed that:

- OHPC was well aware (March 2017) of delay in repair of GT in Unit-7 as it could not be rectified at site. Further, the supplier had also delayed transporting the transformer to their site (January 2018).
- Unit-5 was planned to be renovated from October 2016. As such availability of spare GT in Unit-5 was known to OHPC.

⁴² GT is an electrical device which connects the power station to the transmission line

- OHPC, however, did not take action in March 2017 to shift the GT of Unit-5 to Unit-7 to start generation. It belatedly floated tender for the work on 30 May 2017, after a delay of 80 days. OHPC took another 91 days to place the work order.
- This resulted in non-operation of Unit-7 for a period of 80 days. Due to this shutdown, OHPC incurred a loss of revenue of ₹4.05 crore⁴³.

Thus due to belated action to replace Generator Transformer of Unit-7, OHPC incurred loss of ₹4.05 crore.

Government in its reply (September 2018) stated that, OHPC could not take immediate action of dismantling and removal of the faulty GT as it could have violated the warranty clause. The reply was not acceptable as OHPC had already placed work order with another party for dismantling and shifting of GT in July 2017 without the consent of the supplier. Also, OHPC had an option to replace or rectify any defect in the procurement if the supplier had not rectified it within 30 days. It was OHPC that did not exercise the said option and incurred loss of ₹4.05 crore on account of shutdown of 80 days.

Odisha Power Generation Corporation Limited

Extra expenditure

Improper submission of rephasing application for drawing of water for the expansion of power project led to avoidable payment of ₹1.83 crore towards water charges

2.6 Odisha Power Generation Corporation Limited (OPGC) commissioned and operated two thermal power generation units (Unit-1 and 2) from 1995-96. Further, it also proposed (June 2008) to construct and operate another two units (Unit-3 and 4) from 2014-15. The construction of Unit 3 and 4 was delayed due to change in the configuration of the project and delay in finalisation of terms and conditions for sale of power. The construction work started in March 2014. The units are still under construction.

Water is one of the key input requirements for thermal power generation. Water is also required for construction work. OPGC had been drawing water allocated by Water Resources Department of Government of Odisha (GoO) from the Hirakud reservoir. As required under Odisha Irrigation Amendment Rule 2010, OPGC had executed an agreement with Water Resources Department, GoO in November 2013 for drawing of water. The agreement was valid till June 2016. As per agreement, OPGC was allocated monthly fixed quantum of 12.26 cusecs of water for Unit 1 and 2. In addition to this, GoO also allocated water for construction purpose of Unit-3 and 4 in a phased manner. As such the monthly allocation for unit-3 and 4 was 1.96 cusecs, 19.62 cusecs and 40.72 cusecs during January 2013 to June 2016, July 2016 to March 2017 and April 2017 onwards respectively anticipating timely

⁴³ Loss of generation due to slippage of water: 20389000 unit calculated at the rate 72.36 paise per unit amounts to ₹1.47 crore + Plant remained shut down for 80 days, capacity charge due to be billed ₹11.93 crore against which capacity charge recovered was ₹9.35 crore with differential amount ₹2.58 crore. Hence loss is ₹1.47 crore + ₹2.58 crore = ₹4.05 crore.

completion of project. As per GoO norm, OPGC had to pay fees for use of water drawn or allocated whichever was higher.

In the meantime, GoO in their notification dated 04 June 2016 decided to rephase the industrial water allocation. The above decision was taken by GoO considering the fact that industries were not able to complete construction activities due to various reasons beyond their control. As such GoO invited application from industries for revalidation/rephasing of the allocation. Accordingly, OPGC applied (June 2016) to GoO for rephasing of water allocation as construction work was delayed. GoO, however, decided (November 2016) that rephasing of water quantity for OPGC beyond April 2017 would not be allowed under the existing policy and that OPGC had to submit a modified proposal. OPGC accordingly submitted (November 2016) the modified proposal. In the modified application OPGC asked for rephasing of 6.86 cusecs water during the period July 2016 to March 2017. GoO approved the proposal in March 2017.

It was observed that:

OPGC assessed the requirement of 6.86 cusecs water during July 2016 to March 2017 primarily due to the proposed hydro test of boilers of Unit-3 and 4. The hydro test was originally scheduled (May 2016) to be conducted in April 2017. It was, however, observed that there was a considerable delay in the execution of various construction activities. As such hydro test was rescheduled (October 2016) to be conducted in June 2017. OPGC was aware of the delay in conducting hydro test of Unit-3 and 4 while submitting application for rephasing in November 2016. As such there was scope for OPGC to rephase allocation of water to 1.96 cusecs in place of 6.86 cusecs during the period July 2016 to March 2017. The existing allocation of 1.96 cusecs of water from January 2013 to June 2016 was sufficient to meet the demand during July 2016 to March 2017. The actual consumption of water during July 2016 to March 2017 ranged between 0.14 cusec and 0.31 cusec only. Also during the period January 2013 to June 2016 the water utilisation ranged from mere 0.13 cusecs to 0.69 cusecs. Thus obtaining the rephasing order for higher quantity of allocation, OPGC incurred avoidable expenditure of ₹1.83 crore during July 2016 to March 2017.

Government stated (August 2018) that revised phasing for 2016 was allowed based on recommendation of Industrial Promotion and Investment Corporation of Odisha Limited (IPICOL) which is the State Level Nodal Agency for facilitation of industrialisation. They verbally told that no further revision would be possible.

The reply was not in consonance with the fact rephasing of water for OPGC during July 2016 to March 2017 was available as per GoO decision (June 2016 and November 2016). GoO communicated the decision to OPGC accordingly.