Chapter 4

Financial Management

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Efficient fund management is the need of the hour in any organisation. This also serves as a tool for decision making, optimum utilisation of available resources at favourable terms at appropriate time. The main source of revenue of the Company is sale of power to the DISCOMs.

4.1 Determination of tariff

The Company sells power to Haryana DISCOMs on the basis of tariff determined by the Haryana Electricity Regulatory Commission (HERC). Tariff/ Energy charges for sale of power are decided every year by HERC on the basis of Annual Revenue Requirement of the Company. The tariff/energy charges i.e., fixed cost and variable costs are determined by the HERC on yearly basis. Audit findings in this regard are as under:

4.1.1 Under recovery of energy charges through Fuel Price Adjustments

HERC notified Multi Year Tariff Regulations, 2012 which prescribed the terms and conditions for determination of tariff for generation, transmission and retail supply of power in Haryana State. The procedure for recovery of energy/variable charges against sale of power by a Generating Company have been defined in Clause 31 to 33.

As per Clause 33 of MYT Regulations, Fuel Price Adjustment (FPA) is based on various factors viz. normative fuel (coal and oil) consumption, normative SHR, normative auxiliary consumption, base value of GCV for fuel (oil and coal) as per tariff order, weighted average price of coal as per invoices submitted for the month at the power station etc.

The Company presents monthly provisional bill to DISCOMs for sale of power on Ist day of each calendar month on the basis of net energy supplied during previous month. This bill is presented at the Energy Charge Rate (ECR) for the respective financial year as contained in the Tariff order of HERC. Final Bill is presented on 7/8th day of that month after incorporating adjustment on account of fuel prices during the previous month. The Company prepares a monthly Coal Price Store ledger (CPSL) for computation of Weighted Average Price (WAP) of coal consumed during each month, This WAP of coal is used to compute the FPA amount for the corresponding month. For example, WAP for the month of April is used to compute the FPA for the month of April.

During scrutiny of FPA bills and CPSL in respect of all three thermal plants, it was noticed that the WAP of coal consumed during the month as per CPSL were not used while raising the FPA Bills during April 2016 to September 2017.

For example, Company while raising FPA bills (i.e., for energy generated and sold during May month) used previous months WAP (of coal consumed during April month). Thus, using WAP different from corresponding months while raising FPA bills resulted in under recovery of energy charges of ₹ 5.45 crore (***Appendix 4.1***) during April 2016 to September 2017 from DISCOMs. Short recovery of energy charges leads to shortage of working capital which would ultimately increase the finance charges. Total financial implication on account of interest has been worked out to ₹ 3.23 crore (***Appendix 4.1***) on this amount of ₹ 5.45 crore.

The Management replied (May 2022) that the due date to raise the FPA bill was 8^{th} of the month but during the period April 2016 to September 2017, the bills of the same month were not available. The receipt of bill in next month was entered into PSL and WAP was accordingly revised and ECR was charged in sale of power bill on that basis. The reply is not tenable as consumption of coal, price and actual generation were different for every month. Therefore, corresponding WAP should have been applied by the Company as per MYT Regulations.

4.1.2 Excess recovery of fixed cost

The annual fixed cost of Western Yamuna Canal (WYC) Bhudkalan is paid by DISCOMs subject to the achievement of normative Plant Load factor (PLF) approved by HERC. Tariff orders provides that while determining the fixed cost, in case of annual PLF of any unit, including deemed generation, is lower than the normative PLF given in the order of HERC, the recoverable annual fixed charges are determined on pro-rata basis and if the PLF is more than the normative PLF given in the order of HERC, Fixed charges are to be restricted to the fixed charges as determined by the HERC.

The following table indicates detail of fixed cost determined by HERC and recovered by the Company during 2016-17 to 2020-21:

Table 4.1: Normative PLF approved by HERC, actual PLF achieved and recovery of fixed cost

Year	Plant Load Factor (*per cent*)		Fixed cost (₹ in crore)		
	Approved by HERC	Actual	Approved by HERC	Actual recovered	Difference
2016-17	37	37.55	49.816	49.816	Nil
2017-18	37	32.33	43.374	37.983	-5.391
2018-19	37	43.48	54.876	64.711	9.835
2019-20	43.5	54.74	62.552	79.173	16.621
2020-21	46	44.63	37.620	36.502	-1.118

Source: Bills of sale of power and HERC Tariff orders

It is seen that during the year 2016-17, actual PLF was 37.55 *per cent* against the normative PLF of 37 *per cent* and Company thus recovered full annual fixed cost of ₹ 49.816 crore. However, during the year 2017-18 and 2020-21, the Hydel project could not achieve the normative PLF. Resultantly full annual fixed cost could not be recovered by the Company during these periods.

Further, during the 2018-19 and 2019-20, the actual PLF were 43.48 and 54.74 *per cent* against the normative target of 37 and 43.5 *per cent* respectively. As per HERC tariff orders of respective years, Company was entitled for full recovery of annual fixed cost during these years. The Company, however, recovered fixed cost amounting to ₹ 64.711 crore and ₹ 79.173 crore against the approved fixed of ₹ 54.876 crore and ₹ 62.552 crore respectively. Thus, the Company recovered excess fixed cost amounting to ₹ 9.835 crore and ₹ 16.621 crore during 2018-19 and 2019-20 respectively. The reasons for excess recovery were analysed in Audit and it was found that the Company raised the monthly fixed cost bills on the basis of monthly generation multiplied by normative energy charge rate (by dividing the annual fixed cost with normative generation)**.** As a result, whenever, the actual generation was more than the normative generation, the Company recovered excess fixed cost in contravention of the tariff orders of HERC.

Audit further noticed that amount of fixed cost should have been recovered on the basis of cumulative PLF and recovery of fixed cost should have been restricted to the amount determined by HERC as per approved PLF. Thus, excess recovery of fixed cost amounting to ₹ 26.46 crore during the period 2018-20 were made by the Company in contravention of HERC Tariff Orders.

The Management replied (May 2022) that HPPC had deducted above amount from sale of power bills of the Company with interest arbitrarily and the Company had filed a petition before APTEL against above recovery. The final outcome of the case is awaited (May 2022).

4.1.3 Excess recovery of interest on working capital

Clause 30 of the MYT Regulations provided for recovery of fixed cost which includes interest on working capital, depreciation, finance charges, Operation and maintenance cost etc. Major components of working capital requirement include cost of coal and receivables equivalent to fixed and variables charges for sale of electricity. Clause 22.1 of Regulations, further provided for recovery of interest on working capital requirement for the following:

- Cost of coal equivalent to two months consumption corresponding to the normative availability for the period 2016-20 which was reduced to one month from 2020-21 onwards.

- Receivables equivalent to one month for energy charges (fixed and variable charges for one month) calculated corresponding to normative availability.

During audit of records regarding recovery of fixed cost, we noticed that actual working capital requirement remained less than the normative requirement determined by HERC. Major Audit findings, in this regard, are as under:

(a) Maintenance of coal stock below the normative level resulting in excess recovery of interest on working capital.

Scrutiny of records for 2016-21 relating to maintenance of coal stock at DCRTPP, RGTPP and PTPS revealed that the actual average level of daily coal stock remained less than the normative level determined by HERC. Details of average coal stock maintained during 2016-17 and 2017-18 was as under:

Table 4.2: Excess interest claimed against working capital requirement for maintaining normative Coal stock as per HERC Tariff order vis-à-vis actual average requirement

(₹ in crore)

Name of plant	Year	Requirement of working capital on normative coal stock as per HERC Tariff order	Actual Average working capital involved in coal stock	Difference	Amount of excess interest claimed[1]
DCRTPP Yamuna Nagar	2016-17	211.36	116.64	94.72	9.99
	2017-18	211.13	80.07	131.06	13.83
		Total			**23.82**
RGTPP Hisar	2016-17	469.78	217.44	252.34	26.62
	2017-18	451.03	106.90	344.13	36.31
		Total			**62.93**
PTPS Panipat	2016-17	274.80	204.44	70.36	7.42
	2017-18	246.34	122.53	123.81	13.06
		Total			**20.48**
		Grand Total			**107.23**

Source: Coal Price Store ledgers of the thermal plants and HERC Tariff orders

It was observed that actual working capital requirement for maintenance of coal stock remained less than the normative level approved by HERC. However, the Company did not mention this amount while filing true-up petition for respective years. As a result, the Company had claimed and recovered excess interest of ₹ 107.23 crore on working capital involved in maintenance of coal stock from Haryana DISCOMs through tariff. This had put extra burden on the State consumers.

Further scrutiny revealed during 2018-19 to 2019-20, the actual requirement of working capital also remained below normative level. However, HERC had taken cognizance of above while determining true up for the years 2018-19 and 2019-20 and allowed the interest on actual working capital requirement on the basis of audited accounts of respective years. True-up of 2020-21 was yet to be finalised.

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1 Worked out at interest rate of 10.55 *per cent* per annum allowed by HERC on working capital during 2016-17 and 2017-18.

(b) Excess recovery of interest on working capital on account of sales receivable due to lesser generation of power

Scrutiny of records revealed that the actual Plant Load Factor (PLF) of the DCRTPP, RGTPP and PTPS remained less than normative PLF on which working capital was worked out. Accordingly, the working capital requirement for the receivable for power generation was lesser than that had been envisaged while determining the tariff for the particular year. The details of each month's receivable as approved in the tariff orders and actual average monthly receivable on the basis of actual generation by plant for the years 2016-17 and 2017-18 was as under:

Table 4.3: Details showing excess interest claimed on working capital requirement against sales receivables

(₹ in crore)

Period	Receivable approved on sale of power by HERC (one month)	Actual amount claimed/raised to DISCOMs (Annual)	Average claimed monthly	Excess amount allowed on account of receivable	Rate of interest allowed on working capital (In *per cent*)	Excess interest allowed
A. DCRTPP						
2016-17	140.47	1,379.73	114.98	25.49	10.55	2.69
2017-18	143.31	1,516.85	126.40	16.91	10.55	1.78
Total (A)	**283.78**		**241.38**	**42.40**		**4.47**
B. RGTPP						
2016-17	302.17	1,974.47	164.54	137.63	10.55	14.52
2017-18	292.39	2,338.08	194.84	97.55	10.55	10.29
Total (B)	**594.56**		**359.38**	**235.18**		**24.81**
C. PTPS						
2016-17	180.66	1,154.08	96.17	84.49	10.55	8.91
2017-18	161.95	1,303.56	108.63	53.32	10.55	5.63
Total (C)	**342.61**		**204.8**	**137.81**		**14.54**
G.Total	**1,220.95**		**805.56**	**415.39**		**43.82**

Source: Bills of sale of power and HERC Tariff orders

It was observed that

- the actual requirement of working capital on account of total average monthly receivable was ₹ 805.56 crore against the normative requirement of ₹ 1,220.95 crore during the period 2016-18. Hence the actual average working capital was lesser by ₹ 415.39 crore than the normative working capital requirement due to low level of generation during the period 2016-18. Thus, the Company had claimed and recovered excess interest of ₹ 43.82 crore on working capital on account of receivables from DISCOMs.

- During 2018-19 to 2019-20, the actual requirement of working capital also remained below normative level. However, HERC had taken cognizance of above while truing up the tariff for the years 2018-19 and 2019-20 and allowed the interest on actual working capital requirement on the basis of audited accounts of respective years. True-up of tariff for 2020-21 was yet to be finalised.

The Management replied (May 2022) that during calculation of working capital, receivables are considered on normative basis and not on actual basis and true-up is applicable only when interest rate falls below or exceeds the level specified by the Commission. The reply is not tenable because as per clause 8.3.8, Interest & Finance charges are 'Controllable items' which are subject to true up as per clause 13.3 of MYT Regulations.

4.1.4 Improper financial management due to use of fly ash fund in contravention of guidelines of Ministry of Environment Forest and Climate Change

Ministry of Environment, Forest and Climate Change (MoEF&CC) vide its notification (2009) provided that the amount collected from sale of fly ash should be kept in separate account head and should be utilised for only development of infrastructure or facilities, promotion and facilitation activities for use of fly ash until 100 *per cent* fly ash utilisation level is achieved. Thereafter as long as 100 *per cent* fly ash utilisation levels are maintained, the thermal power station would be free to utilize the amount collected for other development programmes also. The Company has not been able to achieve utilisation levels of fly ash at 100 *per cent* (March 2021), as discussed at **paragraph 5.1.3**.

The table below indicates details of amount collected through sale of ash and its utilisation by the Company during 2016-17 to 2020-21:

Table 4.4: Statement showing details of funds collected and expenditure incurred in respect of Dry Fly Ash Fund

(₹ in crore)

Particulars	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Grand Total**
Opening Balance	239.31	295.97	346.36	397.33	440.74	-
Funds collected during the year	60.38	51.85	53.83	44.76	41.30	**252.12**
Total funds	299.69	347.82	400.19	442.09	482.04	-
Less: Expenditure during the year	3.72	1.46	2.86	1.35	5.84	**15.23**
Closing Balance	295.97	346.36	397.33	440.74	476.20	-

Source: Annual Accounts of the Company

It is seen that the Company received ₹ 252.12 crore through sale of fly ash during 2016-17 to 2020-21 and utilised ₹ 15.23 crore during this period. An amount of ₹ 476.20 crore remained unutilised in ash funds collected through sale of fly ash.

Thermal Power Stations (TPS) of the Company had booked revenue from sale of ash and kept the funds in their common account. The Company did not keep the proceeds received through sale of ash in separate account as required under MoEF&CC guidelines. The Company used this fund in the general business. It is assessed that the Company saved interest of ₹ 166.77[2] crore

[2] Calculated on unutilised opening balance of ash fund of respective years at the rate of interes on working capital allowed by HERC in the tariff orders respective years.

during the period 2016-17 to 2020-21 on working capital of respective years. However, during true up of tariff order for the year 2018-19 and 2019-20, the HERC had passed on the benefit/saving on account of interest on working capital to the beneficiary (i.e. Haryana DISCOMs). The Company earned interest amounting to ₹ 8.12 crore on these funds during September 2020 to March 2021.

Thus, due to improper financial Management, the Company neither used this fly ash fund for development of infrastructure or facilities, promotion and facilitation activities for use of fly ash nor kept the fund in separate account. Due to which this fund was used in general business in violation of the MoEF&CC notification of 2009.

The Management replied (May 2022) that Company saved an interest of ₹ 166.77 crore during FY 2016-17 to FY 2020-21 and the benefit was passed on to DISCOMs by HERC during true-up for the FY 2018-19 and 2019-20. Therefore, due to HPGCL's prudent financial management, consumers of the State were not burdened with extra financial implication and no violation was made by the Company regarding MoEF&CC guidelines as perceived. The Company may consider that if it achieves 100 *per cent* fly ash utilisation levels, it would be free to utilize the amount collected for other development programmes also. However, as on March 2021, 306.46 lakh metric tonne of pond ash was lying in dyke requiring disposal. Therefore, the Company failed to meet the MoEF&CC guidelines which would have enabled it to utilize fly ash funds as a part of its working capital.

4.2 Conclusion

The Company recovered excess fixed cost amounting to ₹ 26.46 crore during 2018-19 and 2019-20 due to achievement of higher PLF against the HERC norms which was in contravention of the tariff orders of HERC.

The actual average level of daily coal stock in all thermal plants remained less than the normative level determined by HERC during the period 2016-21. As a result, the Company had claimed and recovered excess interest of ₹ 107.23 crore on working capital during 2016-17 and 2017-18 from Haryana DISCOMs through tariff which had put extra burden on the State consumers.

The actual average working capital involved in sales receivables was lesser by ₹ 415.39 crore than normative working capital requirement due to low level of generation during the period 2016-18. Thus, the Company had claimed and recovered excess interest of ₹ 43.82 crore on working capital on account of receivables from DISCOMs.

The Company received funds amounting to ₹ 252.12 crore through sale of fly ash during 2016-17 to 2020-21 but utilised only ₹ 15.23 crore during this period. An amount of ₹ 476.20 crore remained unutilised in ash funds collected through sale of fly ash. The Company used this fund in the general business in contravention of instructions of MoEF&CC.

4.3 Recommendations

- The Company should recover its charges on account of fixed cost from the DISCOMs as per tariff orders of HERC to avoid any extra burden on State consumers.
- The Company should claim interest on working capital involved in coal stock and receivables from the DISCOMs on actual requirement basis, to avoid any undue financial burden on State consumers.
- The Company should utilise funds from sale of dry fly ash as per guidelines of MoEF&CC.