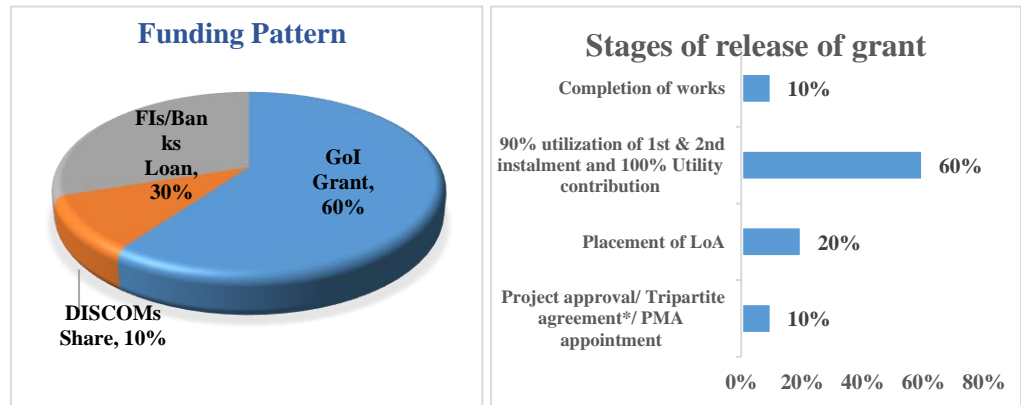


Chapter-V

Funding Mechanism under DDUGJY

5.1 Under DDUGJY, States have been categorized in two groups⁶⁶. For the second category States, the quantum of support of GoI in the form of grant was 60 *per cent* of the sanctioned project cost. The funding mechanism of the scheme and stages of release of grant by GoI are shown in the charts below:

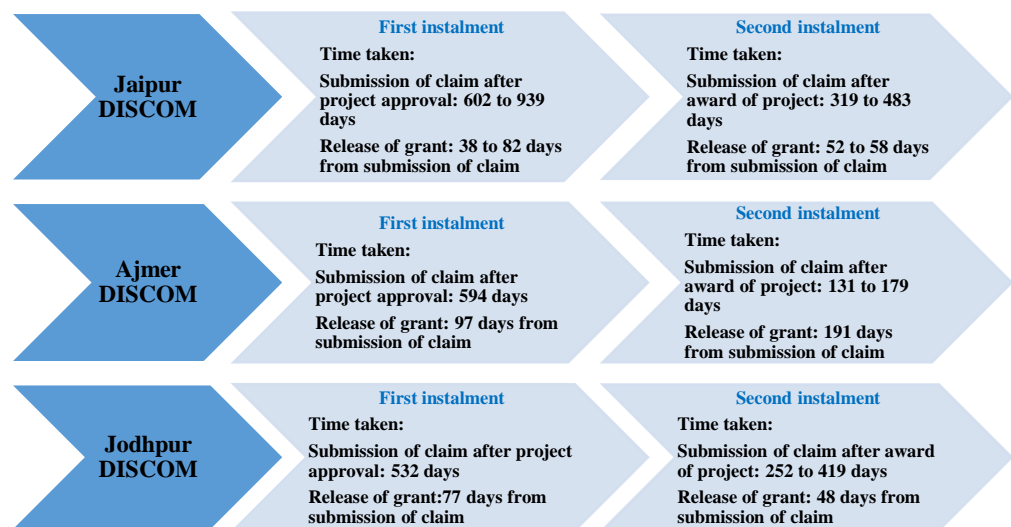
Chart No. 5.1
Funding Mechanism under DDUGJY



*Tripartite agreement among the REC, GoR and DISCOMs.

The projects were to be completed within a period of 24 months from the date of issue of Letter of Award (LoA) by the DISCOMs. The GoI was to provide additional grant (15 *per cent* of the project cost) on achievement of prescribed milestones *viz.* timely completion of the scheme, reduction in AT&C losses as per trajectory finalised by MoP and upfront release of admissible revenue subsidy by the State Government based on metered consumption. Project wise financial progress is detailed in **Annexure-5**.

Status of submission of claims and release of fund



66 (i) Special Category States (All North Eastern States including Sikkim, J&K, Himachal Pradesh, Uttarakhand) and (ii) Other than Special Category States.

Project wise detail of release of grant by the MoP is shown in **Annexure-6**.

Release of the first and second instalment of grant

5.2 (i) Audit analysis of records related to grant component disclosed that DISCOMs have taken significant time ranging between 532 days and 939 days in furnishing the claims for release of the first instalment of grant from the date of approval of the projects by the MC of MoP. Further, the MoP released the grant with a delay ranging between 38 days and 97 days from the date of submitting claims by the DISCOMs.

Audit observed that the main reason for delay in releasing of the first instalment of grant by MoP was significant time taken (165 days) by the DISCOMs in execution of tripartite agreements from approval of the projects. Further, the DISCOMs took considerable time in appointment of field PMAs (ranged between 297 days and 368 days) from the date of execution of the tripartite agreement. Even after appointing field PMAs, the DISCOMs lodged claim for the first Instalment of grant with REC with a delay ranged between 61 days and 70 days except for Karauli project where the claim was lodged after an abnormal delay of 406 days.

In addition to appointment of field PMAs, REC also directed (July 2016) the DISCOMs to furnish recommendations of the District Electricity Committee (DEC) for the revised DPRs of projects. Audit observed that the Jaipur and Ajmer DISCOMs belatedly furnished recommendations in respect of 19 projects in August 2017 and one project (Karauli) in July 2018. Besides, DEC recommendations in respect of remaining 13 projects⁶⁷ were not furnished by the DISCOMs.

(ii) The LoA of all the 33 projects were issued between November 2016 and May 2017, but Jaipur and Jodhpur DISCOM belatedly submitted their claims for release of the second instalment of grant component in January 2018 and February 2018 respectively. Ajmer DISCOM submitted its claim for the second instalment in September 2017 itself but the MoP released (March 2018) the instalment along with other two DISCOMs.

The Government stated that there were three milestones for eligibility of the first instalment. Further, REC intimated the general terms and conditions in April 2016 and thereafter, tripartite agreement was executed. Similarly, claims for the second instalment were lodged after utilisation of the first instalment and achievement of prescribed milestones.

The reply was not convincing as even after execution of tripartite agreement, the DISCOMs took time ranged between 297 and 368 days in appointment of PMA Besides, DISCOMs delayed in furnishing recommendations of DEC on revised DPRs and lodging claims for both the instalments. Further, in case of lodging claim for the second instalment, there was no condition to utilise the first instalment.

⁶⁷ One project (Swaimadhampur) of Jaipur DISCOM, two projects (Bhilwara and Udaipur) of Ajmer DISCOM and 10 projects of Jodhpur DISCOM.

Release of the third instalment of grant

5.3 REC informed (January 2018) that the third instalment would be released in two equal parts in order to reduce unspent balance with DISCOMs and to ensure efficient fund management. Few new parameters were added for release of each part of the third instalment, besides other parameters, already defined in DDUGJY guidelines for release of the third instalment. These included certificate as regards rectification of quality defects observed by REC, submission of Utilisation Certificate (UC), Audit Report, interest remittance, utilisation of 50 *per cent* of loan component (Part-II) *etc.*

Audit analysis of release of both parts of the third instalment of grant component disclosed that DISCOMs submitted their claims timely and accordingly the MoP released both parts of the third instalment in time after scrutiny/verification of the claims. Audit, however, observed that the prevailing parameters as well as new parameters inserted by the MoP were not found completed on the part of the DISCOMs and accordingly, the MoP, while releasing the grant, deducted an amount of ₹ 181.61 crore⁶⁸ on account of non-rectification of quality defects, non-utilising 90 *per cent* of grant released in the first and second instalments as well as State Goods and Service Tax (SGST) claimed by the DISCOMs.

The Government accepted the facts and stated that compliances on the observations of RQM were under progress. Further, DISCOMs had submitted claims as per their eligibility and balance claims will be lodged as per achievement of milestones and approval of SLSC.

Inclusion of ineligible State taxes in award cost

5.4 As per the tripartite agreements executed amongst REC, GoR and DISCOMs, the subsidy shall be restricted to 60 *per cent* of sanction cost or award cost (excluding State and local taxes), whichever is lower. The State and local taxes are not admissible under DDUGJY and are to be borne by the GoR/DISCOMs. The expenditure as per the Project Completion Certificate or the award cost or the cost approved by the MC, whichever is lower, is to be considered as the final cost of the project for the release of the last instalment of 10 *per cent*, after adjusting any excess release made earlier (to limit the subsidy amount to 60 *per cent* of the completed project cost).

The details of project sanctioned cost, award cost, actual expenditure incurred, SGST and maximum eligible grant are given in the table below:

Table No. 5.1
Detail of sanctioned project cost, award cost, actual expenditure as on 31 December 2020
(₹ in crore)

DISCOM	Sanctioned cost*	Award cost	Expenditure incurred	SGST component in expenditure incurred	Expenditure excluding SGST	Grant on SGST portion (60%)
Jaipur	1027.08	965.68	969.52	73.95	895.57	44.37
Ajmer	829.35	829.68	895.35	68.29	827.06	40.97
Jodhpur	948.95	875.75	952.85	72.67	880.18	43.61
Total	2805.38	2671.11	2817.72	214.91	2602.81	128.95

*Excluding PMA charges

Source: Monthly Progress Reports and information provided by DISCOMs

68 Jaipur DISCOM-₹ 61.55 crore, Ajmer DISCOM-₹ 54.08 crore and Jodhpur ₹ 65.98 crore.

Audit noticed that DISCOMs invited tenders for each project wherein the bidders were required to quote the prices inclusive of taxes and accordingly, the contracts were awarded inclusive of taxes. Further, the DISCOMs lodged claims for total expenditure incurred for release of grant. The total expenditure claimed was also inclusive of State Goods & Service Tax (SGST) at the rate of nine *per cent*. The MoP, while releasing the Part-I and Part-II of third tranche of grant component, deducted the SGST portion from the claims submitted by DISCOMs.

Audit observed that the DISCOMs ignored the mandatory condition of non-admissibility of State and local taxes at the time of award of contracts as well as raising claims on REC. Further, the DISCOMs matched the award value (including SGST) with sanctioned cost of projects instead of matching the award cost (excluding SGST) with the sanctioned cost of projects. Besides, the award value of projects (except in Ajmer DISCOM) reduced further due to reduction in works related to feeder segregation, system strengthening and metering *etc*. Resultantly, against the total sanctioned project cost of ₹ 2,805.38 crore, the award value inclusive of SGST remained ₹ 2,671.11 crore which further reduced to ₹ 2,450.56 crore after excluding SGST component (₹ 220.55 crore). As the expenditure claimed till December 2020 included SGST worth ₹ 214.91 crore, the DISCOMs not only lost the opportunity to execute works under DDUGJY to the extent of value of SGST but were also deprived of grant worth ₹ 128.95 crore.

Thus, deficient approach of DISCOMs in inviting tender despite being aware about inadmissibility of SGST significantly affected the implementation of Scheme in the State.

The Government assured that while planning for future schemes, the audit observation will be kept in consideration.

Inclusion of ineligible underground cable works

5.5 As per DDUGJY guidelines, underground cable works were not to be included in the scope of work. Audit noticed that Jaipur DISCOM requested REC to include underground cable as additional items within the limit of overall project cost which was not accepted (September 2017). However, Jaipur DISCOM carried out underground cable works worth ₹ 48.22 crore without prior approval of the SLSC as well as the MC. On subsequent request (January 2020) of Jaipur DISCOM, REC asked (September 2020) the DISCOMs to furnish approval of SLSC which was not found furnished despite completion of the project works between December 2019 and March 2020.

Audit observed that Jaipur DISCOM carried out the works categorically restricted under the Scheme without prior approval of the MoP. Further, Jaipur DISCOM did not place the issue before SLSC for its approval and hence, could not furnish the mandatory approval of SLSC to REC. This may lead to disallowance of the claim and loss of the grant worth ₹ 28.93 crore.

The Government while accepting the facts stated that Jaipur DISCOM used the underground cable where erection of overhead line was not possible due to right of way constraints, NHAI crossing etc. It further stated that matter will be submitted to MC with the recommendation of SLSC for admitting the claims.

Lack of proper and timely action for closure of the projects

5.6 After completion of the project, DISCOMs were required to furnish Project Completion Certificate in prescribed format, duly signed by Head of DISCOMs, containing the information regarding date of completion, details of major items of works approved and completed, justification for non-completion or shelving of any project component, expenditure against the project with item wise breakup etc. The project completion certificate needs to be submitted to REC for release of final tranche of grant *i.e.* 10 *per cent* of eligible grant component.

Audit noticed that all the 10 projects of Jodhpur DISCOM and nine out of total 12 projects of Jaipur DISCOM were completed between January 2019 and July 2020 and March 2020 and October 2020 respectively. However, the project completion certificates of these completed projects were not furnished (upto December 2020) to REC despite a lapse of a considerable period⁶⁹. Further, all the 11 projects of Ajmer DISCOM were ongoing till December 2020. Audit observed that the main reason for delay in furnishing the project completion certificate was wide variation in approved and executed BOQ for which process of approval of the competent authority was not found completed in nine projects in Jaipur DISCOM and action was not initiated even for a single project in Jodhpur DISCOM. Resultantly, the final tranche of grant was also delayed to this extent.

Thus, lack of proper and timely action for closure of the projects led to delay in release of grant by the MoP.

The Government accepted the facts and stated that the approval of SLSC for variation in scope of works and final BOQs was required before closure of projects. It further stated that RQM compliances are also pending in Ajmer and Jodhpur DISCOMs. Hence, closure of projects in these two DISCOMs would take some time whereas Jaipur DISCOM was expected to complete the closure formalities by September 2021. The status of furnishing closure proposals to REC and approval thereon was awaited (January 2022).

Short receipt of grant

5.7 DDUGJY guidelines provides that 90 *per cent* of the grant component was to be released in three phases viz; approval of the project, award of LoA and utilisation of 90 *per cent* of grant released in previous two phases as well as 100 *per cent* release of DISCOM's contribution. The details of grant due and released by the MoP are given in **Annexure 5**.

It could be seen from the annexure that all the three DISCOMs did not receive the grant in proportion to expenditure incurred on the projects and thus had to deploy their own funds over and above the grant due and after availing the loan of ₹ 774.39 crore as per the scheme guidelines. Audit noticed that as against their own share of 10 *per cent* of projects award cost *i.e.* ₹ 267.11 crore, DISCOMs had so far deployed ₹ 769.42 crore (28.80 *per cent*) *i.e.* ₹ 502.31

⁶⁹ Delay ranged between 102 days to 721 days and between 77 days to 296 days in case of Jodhpur DISCOM and Jaipur DISCOM respectively.

crore⁷⁰ in excess of required share, of which, ₹ 86.87 crore pertains to non/short receipt of grant.

Audit observed that the main reason for non-release of grant by MoP was DISCOMs failure to complete the required formalities at the time of submitting the claims to REC. Audit also observed that REC asked (January 2019) DISCOMs to furnish mandatory conditionality⁷¹ so that the claims for release of grant may be processed. Further, the financial closure process was not taken up for the completed projects despite lapse of a considerable time⁷².

Thus, non-completion of mandatory formalities/non-submission of requisite documents and certificates while submitting the claims for release of grant coupled with significant delay in financial closure of projects led to non/short receipt of grant.

The Government stated that DDUGJY had been extended upto March 2021 and project works were completed in time. It further stated that closures were expected to be completed as per timeline provided by GOI.

The fact remained that despite completion of the project works, DISCOMs could not ensure timely completion of financial closure of projects.

Additional grant

5.8 Under DDUGJY, an additional grant *i.e.* 50 per cent of loan component was to be provided subject to achievement of prescribed milestones *viz*; (i) timely completion of the scheme, (ii) Reduction in AT&C losses as per trajectory finalized by MoP in consultation with State Governments (DISCOM-wise) and (iii) Upfront release of admissible revenue subsidy by the State Government based on metered consumption.

Audit observed that all the three DISCOMs failed to achieve the prescribed milestones which is evident from the fact that all the 33 projects were completed with significant delay (**discussed in para 2.9**). Further, AT&C losses were also not reduced as per finalised trajectory (**discussed in para 2.20**). Audit also observed that the State Government had also not released tariff subsidy related to agriculture consumers, BPL and small domestic consumers upfront.

Had the DISCOMs achieved the prescribed milestones, they would have become eligible for availing additional grant of ₹ 387.19 crore⁷³.

70 Jaipur DISCOM-₹ 147.65 crore, Ajmer DISCOM-₹ 180.53 crore and Jodhpur DISCOM-₹ 174.13 crore

71 Recommendation of PMA supported by a report on expenditure, progress and constraints for timely completion of projects, list of completed/ energised/handed over villages, list of substations along with erected infrastructure *i.e.* DTR Nos., capacity, HT/LT line, certificate regarding compliance of discrepancies observed by Quality Monitors, details of interest earned on subsidy and its remittance, checklist of individual project, proposal for revision in BOQ/recasted DPRs, details of feeder segregation *etc.*

72 Ranged between 77 days to 296 days and 102 days to 721 days in case of Jaipur DISCOM and Jodhpur DISCOM respectively.

73 Jaipur DISCOM-₹ 132.57 crore, Ajmer DISCOM-₹ 119.04 crore and Jodhpur DISCOM-₹ 135.58 crore

The Government stated that all efforts will be made to get additional grant by achieving the prescribed milestones. It further accepted that gap remained in loss reduction as implementation of project works got delayed.

The reply is not satisfactory as DISCOMs failed to achieve the milestones prescribed for eligibility of additional grant within the stipulated time.

Cost overrun

5.9 As per DDUGJY guidelines, the project cost approved by the MC or award cost of the project including price variation, if any, whichever is less, was the eligible cost for determining the grant (including additional grant) under the scheme. Further, any cost overrun after approval of the project by the MC, due to any reason whatsoever, was not eligible for any grant and the cost overrun was to be borne by the DISCOMs or respective State Government.

Audit noticed that the DISCOMs' management was not vigilant to avoid the cost overrun and as a result the projects could not be completed within the awarded cost. Further, the DISCOMs also had not completed the financial closure of the projects and hence audit could not ascertain the exact cost overrun in completed projects. However, considering the expenditure incurred till 31 December 2020, there was cost overrun of ₹ 187.51 crore in 19 projects after allowing the price variation claim on awarded cost as shown in the table below:

Table No. 5.2
Details of projects completed with cost overrun

(₹ in crore)

S. No.	Project	Award Cost	Actual Expenditure	Cost overrun
A	Jaipur DISCOM			
1	Alwar	141.77	146.72	4.95
2	Baran	38.54	45.19	6.65
3	Dausa	71.72	82.74	11.02
4	Jhalawar	54.02	65.64	11.62
5	Kota	31.05	39.57	8.52
6	Tonk	61.64	63.42	1.78
	Total A	398.74	443.28	44.54
B	Ajmer DISCOM			
1	Banswara	140.05	163.71	23.66
2	Bhilwara	50.02	57.15	7.13
3	Chittorgarh	36.27	39.20	2.93
4	Dungarpur	74.05	91.42	17.37
5	Nagaur	65.21	67.52	2.31
6	Sikar	69.76	72.40	2.64
7	Udaipur	190.36	210.35	19.99
	Total B	625.72	701.75	76.03
C	Jodhpur DISCOM			
1	Barmer	457.51	489.37	31.86
2	Bikaner	65.32	72.55	7.23
3	Ganganagar	17.31	26.98	9.67
4	Hanumangarh	57.37	61.32	3.95
5	Jalore	56.29	67.96	11.67
6	Pali	26.93	29.49	2.56
	Total C	680.73	747.67	66.94
	Grand total (A+B+C)	1705.19	1892.70	187.51

Audit observed that the main reasons attributed to cost overrun were absence of field survey before preparation of DPRs as well as conducting survey in piece

meal by the contractors to whom the projects were awarded due to which instances of frequent revision in BOQ were noticed. Further, despite wide reduction in envisaged and approved works under DDUGJY, DISCOMs were not able to complete the projects within the awarded cost.

The Government stated that there would not be cost overrun as a whole in Jaipur DISCOM. It further stated that in Jodhpur and Ajmer DISCOM, for the projects wherein expenditure exceeded the award cost, the revised BOQ would be submitted to SLSC for approval with valid reasons of cost overrun.

The reply did not address the issue of cost overrun in comparison to award cost and the fact remained that the DISCOMs could not contain the actual expenditure within the limits of award cost of respective projects. Moreover, the cost was sanctioned project wise and not DISCOM wise, therefore, as stipulated in the scheme guidelines, any cost overrun after approval of the project by the MC shall not be eligible for any grant. Hence, the expenditure incurred over and above the award cost may have to be borne by the DISCOMs/State Government.

Non-remittance of interest earned on unspent grant

5.10 DDUGJY guidelines provides for DISCOMs to adopt Corporate Internet Banking and all project related payments to the contractors and others were to be done directly from the dedicated bank account. The nature of the account was to be current account with CLTD (Corporate Liquid Term deposit) facility⁷⁴. Further, any interest earned on DDUGJY capital subsidy/grant was required to be remitted to MoP’s bank account on regular basis and at least once in a quarter. Besides, DISCOMs were required to take necessary steps to seek exemption from Income Tax Department regarding deduction of Tax at Source by the bank on interest accrued on un-utilized fund under DDUGJY. However, in case of deduction of TDS by bank, DISCOMs were required to claim refund of the deducted amount from Income Tax Department directly while filing annual tax return and remit it to MoP’s account.

The details of interest earned on grant, TDS by bank, refund claimed, assessment status and remittance in MoP’s bank account are shown in the table below:

Table No. 5.3
Statement of interest earned on grant portion, TDS, position of refund and remittance

(Amount in ₹)

DISCOM	Financial Year	Interest earned on subsidy	Total TDS by bank	Amount Remitted to MoP	Amount of refund claimed	Assessment/ Refund status (Yes/No)
Jaipur	2017-18	70,70,931	7,07,470	-	7,07,470	No
	2018-19	1,15,05,817	11,50,759	63,63,461 (December 2018)	11,50,759	No
				63,53,253 (February 2019)		
	2019-20	18,31,559	1,83,607	17,56,819 (June 2019)	1,83,607	No
				4,00,343		

74 CLTD is combination of Current account and Fixed deposit. As and when the balance in current account exceeds a certain amount, excess amount is transferred to Fixed Deposit account (Sweep) in order to fetch interest on the idle funds.

				(January 2020)		
				4,21,531 (June 2020)		
	Total	2,04,08,307	20,41,836	1,52,95,407	20,41,836	
Ajmer	2017-18	0	0	38,46,258	0	-
	2018-19	94,56,015	11,64,372	(October 2018/ including TDS)	11,64,372	Yes
	2019-20	53,41,718	5,34,172		5,34,172	No
	Total	1,47,97,733	16,98,544	38,46,258	16,98,544	
Jodhpur	2017-18	29,28,815	2,92,881	-	2,92,881	Yes
	2018-19	55,36,832	0	-	0	-
	2019-20	20,61,850	4,34,904	84,65,647	4,34,904	No
				(September 2019/ including TDS)		
				20,61,850 (June 2020/ including TDS)		
Total	1,05,27,497	7,27,785	1,05,27,497	7,27,785		

Source: Bank statements, IT Returns and Tax assessment records of DISCOMs

Scrutiny of records related to operations carried out through dedicated bank accounts of each DISCOM disclosed the following shortcomings:

- None of the DISCOM remitted the interest earned to MoP on quarterly basis.
- While Jaipur DISCOM remitted only ₹ 1.53 crore (excluding TDS) against the interest earned amounting to ₹ 2.04 crore, Jodhpur DISCOM remitted the entire interest amounting to ₹ 1.05 crore irrespective of TDS deducted by the concerned bank. Ajmer DISCOM remitted only ₹ 0.38 crore (including TDS) against ₹ 1.48 crore earned during 2018-20.
- Ajmer DISCOM did not avail CLTD facility upto March 2018 and accordingly, interest was not credited by the bank despite availability of surplus fund (upto ₹ 96.95 crore) during October 2017 to March 2018.
- DISCOMs did not take steps to obtain exemption from the Income Tax Department for non-deducting tax at source and hence the concerned banks deducted TDS on interest earned on unspent balances.

The Government stated that Jaipur DISCOM had obtained exemption from deduction of TDS from the Income Tax Department and Ajmer DISCOM remitted the balance amount of interest earned during 2018-20 in December 2020.

The reply was not convincing as in case of Jaipur and Jodhpur DISCOMs, relevant documents in support of obtaining exemption from Income Tax Department and deposit of interest to the MoP respectively were not furnished along with the reply.

Further, the fact remained that Ajmer DISCOM did not avail CLTD facility on the current account since inception. Since Jodhpur and Ajmer DISCOMs remitted gross interest without obtaining the tax exemption, both the DISCOMs had to bear the amount deducted as TDS till they obtain tax exemption and get a refund.

Conclusion

- DISCOMs lodged claims for release of grant instalments with significant delay. Further, the claims were not supported with required documents/formalities such as execution of tripartite agreements, appointment of PMA, DEC recommendations, compliance of other parameters *i.e.* certificate of rectification of quality defects observed by REC, Utilisation Certificate (UC), Audit Report, interest remittance, *etc.*
- System of calculating/claiming of grant was deficient as claims were lodged inclusive of SGST despite its inadmissibility.
- Despite completion of projects work, closure formalities were not initiated by Jaipur and Jodhpur DISCOMs.
- DISCOMs have to bear the cost overrun due to incurring expenditure in excess of the award cost of projects.

Recommendations

DISCOMs may institute a mechanism to ensure completion of all formalities in a real time manner to avail the scheme benefits and receipt of funds timely.