

EXECUTIVE SUMMARY

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Why did we take up this audit?

Ministry of Power (MoP), GoI launched the Ujwal DISCOM Assurance Yojana (UDAY) in November 2015 with the objective of financial and operational turnaround of DISCOMs.

A tripartite Memorandum of Understanding (MoU) was signed on 30 January 2016 amongst MoP, GoUP and Uttar Pradesh Power Corporation Limited (UPPCL) on behalf of five DISCOMs of the State of Uttar Pradesh for achieving the financial and operational milestones as described in the UDAY Scheme.

The Scheme envisaged takeover of outstanding debts and funding of future losses of DISCOMs. GoUP was required to takeover debt of DISCOMs of ₹ 44,403.89 crore (75 per cent of total outstanding debt of ₹ 59,205.19 crore as on 30 September 2015) till 30 June 2016, takeover future losses of DISCOMs for the years 2016-17 to 2019-20 in a graded manner and issue/guarantee the bonds for meeting the current losses.

Further, the Scheme aimed at reduction of Aggregate Technical and Commercial (AT&C) losses to 14.86 per cent and elimination of gap between Average Cost of Supply (ACS) and Average Revenue Realisation (ARR) of DISCOMs by 2019-20. To achieve the above outcomes, DISCOMs were required to install smart meters, install meters at all the feeders and distribution transformers (DTs), segregate agricultural and non-agricultural feeders, undertake measures for demand side management and energy efficiency *etc.*

The Performance Audit of the Scheme was undertaken with the objective to assess whether the directives pertaining to financial parameters envisaged in the UDAY Scheme and tripartite MoU have been adhered to and the overall objective of financial turnaround of DISCOMs was achieved and whether the targeted operational improvement and intended benefits were achieved by implementing operational efficiencies as envisaged in the UDAY Scheme and tripartite MoU.

What audit found and what do we recommend?

Audit found lapses in implementation of financial and operational activities envisaged in the UDAY Scheme thereby defeating the objective of financial and operational turnaround of DISCOMs. The shortcomings observed by Audit are outlined in the succeeding paragraphs.

Activities related to financial turnaround of DISCOMs

GoUP was to take over 75 per cent of the debt of DISCOMs as on 30 September 2015 excluding R-APDRP loan. DISCOMs did not exclude R-APDRP loan amounting to ₹ 2,816.88 crore while ascertaining the total outstanding debt of ₹ 59,205.19 crore which led GoUP to takeover excess debt of DISCOMs by ₹ 2,112.66 crore.

UPPCL claimed loss funding from GoUP on the basis of operational funding requirement instead of claiming on actual losses which led to receipt of excess funding of ₹ 7,977.97 crore by DISCOMs during 2016-17 to 2020-21.

UPPCL issued excess bonds of ₹ 8,493.70 crore at interest rate ranging between 8.48 per cent and 10.15 per cent beyond its loss trajectory due to which it had to bear interest burden of ₹ 3,505.20 crore up to October 2022.

GoUP deferred additional tariff subsidy amounting to ₹ 14,661.54 crore for release in instalments over a period of 10 years. Further, as directed by GoUP, UPPCL borrowed ₹ 20,940 crore from REC and PFC to ensure availability of funds for maintaining power supply by DISCOMs during COVID-19 lockdown period. As a result, DISCOMs had to bear interest burden of ₹ 2,426.61 crore upto October 2022 on the borrowed funds.

DISCOMs issued bonds for taking over earlier issued FRP bonds at interest rate of 9.70 *per cent* per annum whereas prevailing bank base rate *plus* 0.1 *per cent* was 9.45 *per cent*. This was against the provision of MoU which stipulated that bonds were to be issued with interest rate not more than the bank base rate *plus* 0.1 *per cent*. Resultantly, DISCOMs had to bear the additional interest burden of ₹ 3.97 crore up to October 2022.

Against the provisions of the MoU, GoUP adjusted electricity dues of ₹ 4,268.86 crore and additional tariff subsidy of ₹ 25,081.46 crore from UDAY grant released against the debt taken over by it.

Subsidy claims of DISCOMs amounting to ₹ 4,306.60 crore were pending for release from GoUP as of October 2022. This resulted in deficit in revenue of DISCOMs and put additional burden on them.

DISCOMs failed to realise the required additional security deposit of ₹ 2,873.54 crore from Large and Heavy Consumers depriving them of funds to that extent.

Activities related to operational turnaround of DISCOMs

AT&C losses of the DISCOMs during pre-UDAY period (2015-16) stood at 39.86 *per cent* which were to be reduced to 14.86 *per cent* by the year 2019-20 as per UDAY MoU. However, the actual AT&C losses of the DISCOMs stood at 30.02 *per cent* in 2019-20 and instead of reduction, it further increased to 31.19 *per cent* in 2021-22.

DISCOMs could also not achieve the targets of Billing Efficiency (except KESCO) and Collection Efficiency (except PVVNL) by stipulated period of 2019-20 and further, by the end of 2021-22 (except KESCO in case of Billing Efficiency).

ACS-ARR gap of the DISCOMs during pre-UDAY period (2015-16) was ₹ -0.33 per unit which was required to be eliminated by the year 2019-20 as per UDAY MoU. The DISCOMs could not achieve the target as the gap remained at ₹ -0.34 per unit in 2019-20 which further increased to ₹ -0.56 per unit in 2021-22.

The number of unmetered consumers stood at 70.60 lakh (41.13 *per cent*) in all UP DISCOMs during pre-UDAY (2015-16). Uttar Pradesh Electricity Regulatory Commission (UPERC) issued directions in November 2016 for 100 *per cent* metering of unmetered consumers by March 2018. The DISCOMs failed to comply with the UPERC directions as there were 54.03 lakh unmetered consumers (27.50 *per cent*) out of total 196.45 lakh consumers in all DISCOMs by the end of March 2018. Further, as of October 2022, 12.34 lakh consumers (3.87 *per cent*) out of total 319.16 lakh consumers were still unmetered.

The DISCOMs, though showed improvement in reducing the percentage of defective meters, it remained above the prescribed norm of three *per cent* (except KESCO in the years 2018-19 onwards) during 2015-16 to 2022-23

(up to October 2022). The percentage of defective meters ranged from 3.41 *per cent* (in KESCO during 2017-18) to 30.90 *per cent* (in DVVNL during 2017-18) during 2015-16 to 2022-23.

DISCOMs failed to take necessary steps to recover the dues from the defaulting consumers or disconnect their connections as per provisions of Electricity Supply Code, 2005 resulting in accumulation of arrears of electricity charges amounting to ₹ 4,474.28 crore against 17.10 lakh live consumers for more than three months as per billing data of October 2022 of selected 64 Divisions.

DISCOMs did not take appropriate action in theft and unauthorised use of electricity cases due to which ₹ 458.37 crore in 66,514 theft cases remained unrealised as of October 2022.

DISCOMs did not recover electricity charges from departmental consumers as per provisions of tariff order. Due to not complying with tariff order, UPPCL could not realise the differential revenue of ₹ 1,761.55 crore during 2016-17 to 2021-22.

DISCOMs had to pay late payment surcharge of ₹ 5,965.13 crore to generators during 2018-19 to 2020-21 due to not paying their bills within due time, which was disallowed by UPERC from power purchase cost while truing up of the tariff for these years. As the same could not be recovered from the consumers through tariff, it adversely affected the Average cost of Supply of Power.

DISCOMs did not take prior approval for purchase of additional power from other State DISCOMs due to which power purchase cost of ₹ 30.69 crore had not been allowed by UPERC. This adversely impacted the Average Cost of Supply of Power.

DISCOMs submitted the tariff petitions with delay ranging from 7 days to 362 days during 2016-17 to 2022-23. Consequentially delay in finalisation of tariff orders resulted in delayed recovery of increased tariff from consumers to the tune of ₹ 7,143.97 crore by DISCOMs during the period 2016-17 to 2022-23.

DISCOMs could not achieve the target fixed for installation of 100 *per cent* Distribution Transformer (DT) meters by 30 September 2017. Further, none of DISCOMs could achieve the target of DT metering even by October 2022 as achievement was only 3,52,889 (13.74 *per cent*) against total 25,67,667 installed DTs.

The DISCOMs could install only 11.54 lakh smart meters till March 2022, against the target of 40 lakh smart meters as per roll out plan approved by UPERC.

Outcome of implementation of UDAY- pre and post performance of DISCOMs

Pre and post-UDAY financial performance of DISCOMs

The financial health of DISCOMs did not improve after the implementation of the Scheme as may be seen from the position of outstanding debt and losses pre and post UDAY. The pre-UDAY outstanding debt of DISCOMs was ₹ 59,205.19 crore as on 30 September 2015. Even after taking over of 75 *per cent* of debt amounting to ₹ 44,403.89 crore by GoUP up to June 2016, debt of DISCOMs again reached up to ₹ 52,456.15 crore at the time of closure of the Scheme on 31 March 2020 which further increased to ₹ 71,102.77 crore

as on 31 March 2022. Similarly, the losses of DISCOMs significantly increased from ₹ 2,654.42 crore as on 31 March 2016 to ₹ 3,792.24 crore as on 31 March 2020 which further increased to ₹ 6,492.45 crore as on 31 March 2022. Further, accumulated losses of DISCOMs increased from ₹ 67,901.09 crore as on 31 March 2016 to ₹ 85,152.99 crore as on 31 March 2020. The accumulated losses of DISCOMs stood at ₹ 77,936.94 crore as on 31 March 2022.

The reasons for increase in debt and losses of DISCOMs were mainly attributable to failure of DISCOMs in achieving operational targets set under UDAY Scheme, adjustment of Government dues from UDAY grant and deferment of revenue subsidy over a period of 10 years by GoUP.

Pre and post-UDAY operational performance of DISCOMs

The operational performance of the DISCOMs also did not improve much after the implementation of the Scheme as may be seen from the position of AT&C losses and ACS-ARR gap. Against the envisaged reduction in AT&C losses from pre-UDAY (2015-16) level of 39.86 *per cent* to 14.86 *per cent*, the AT&C losses of DISCOMs remained at high level of 30.02 *per cent* during 2019-20 which further increased to 31.19 *per cent* in 2021-22. The main reasons for not achieving targeted level of AT&C losses were lower billing and collection efficiency and not carrying out related activities for reduction in AT&C losses *viz.* failure in installation of meter on unmetered connections, excessive number of defective meters, higher distribution losses and failure in realisation of revenue arrears.

Similarly, ACS-ARR gap of DISCOMs during pre-UDAY (2015-16) was ₹ - 0.33 per unit, which increased to ₹ - 0.34 per unit at the end of UDAY period (2019-20) against the target of surplus of ₹ 0.06 per unit. The DISCOMs could not eliminate the ACS-ARR gap even by the year 2021-22 as it further increased to ₹ - 0.56 per unit. This was mainly attributable to factors affecting the Average Cost of Supply *viz.* failure in reducing power purchase cost and expenditure incurred in excess of norms disallowed by UPERC and factors affecting Average Realisable Revenue such as existence of unmetered and defective meter connections, recovery of fixed rate instead of tariff rate from departmental consumers, failure in timely filing of tariff petitions and non- revision of tariff.

Thus, the objective of financial and operational turnaround could not be achieved by the DISCOMs even after implementation of the Scheme.

Recommendations

Audit recommends that:

- **GoUP may timely release subsidy to DISCOMs to reduce their dependence on borrowed funds.**
- **DISCOMs should ensure timely realisation of the additional security deposit from consumers to reduce their dependence on borrowed funds for working capital requirements.**
- **DISCOMs should ensure achievement of targeted reduction in AT&C losses and overall improvement in billing and collection efficiency. Further, DISCOMs should ensure metering of unmetered connections including departmental consumers in a time bound manner, reduction**

in percentage of defective meters up to permissible limit and make efforts for timely recovery of arrears from the consumers.

- **DISCOMs should evolve a time bound framework to eliminate ACS-ARR gap to improve their financial position.**
- **DISCOMs should ensure timely submission of tariff petitions to UPERC to avoid delayed recovery of increased tariff from consumers.**