

1. Introduction of State Public Sector Undertakings and Autonomous Bodies

General

1.1 State Public Sector Undertakings (SPSUs) consist of State Government Companies, Government Controlled other Companies and Statutory Corporations. SPSUs are established to carry out activities of commercial nature keeping in view the welfare of people and they occupy an important place in the economy of the State. As on 31 March 2021, there were 45 SPSUs in Rajasthan. Out of these 45 SPSUs¹, audit of 31 SPSUs is entrusted to the office of the Accountant General (Audit-II) Rajasthan. Besides, audit of four Autonomous Bodies (ABs) of Rajasthan is also entrusted to the office of the Accountant General (Audit-II) Rajasthan. A list of the SPSUs/ABs under the audit jurisdiction of this office is detailed in *Appendix-5*.

Audit mandate

1.2 The mandate for Audit by the Comptroller and Auditor General of India (CAG) is derived from Articles 149 and 151 of the Constitution of India and section 13 to 20 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). Principles and methodologies for various audits are prescribed in the Regulations on Audit and Accounts, 2007, as amended in 2020, and the Auditing Standards, 2017 issued by the CAG. Accordingly, this office carries out audit of SPSUs and ABs under its audit jurisdiction.

Audit universe and coverage

1.3 During 2020-21, 1074 units pertaining to 31 SPSUs and four units pertaining to ABs were under audit universe of this office. Besides financial attest audit of these SPSUs/ABs, 133 units of SPSUs and two units of ABs were selected for compliance audit.

Compliance Audit Paragraphs

1.4 Part-II of this Report consists of one compliance audit paragraph and two compliance audit paragraphs relating to one AB² and two SPSUs³, respectively. These compliance audit paragraphs were issued to the concerned Principal Secretary of the Government of Rajasthan as well as to the Head of concerned SPSUs/AB. The compliance audit paragraphs were issued with the

¹ 38 Government Companies, four Government Controlled other Companies and three Statutory Corporations.

² Rajasthan Electricity Regulatory Commission (RERC).

³ Rajasthan State Mines and Minerals Limited (RSMML) and Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL).

request to furnish replies within a period of two weeks from issue of the paragraphs. By the end of October 2022, replies on two compliance audit paragraphs have been received from the State Government as well as the concerned SPSU/AB *i.e.* RRVPNL and RERC and the same have been suitably incorporated in this Report. In case of one compliance audit paragraph, in addition to reply of the State Government on the factual statement, reply furnished by the concerned SPSU (RSMML) on the draft paragraph has also been considered in this Report. Further reply of the State Government on the paragraph was, however, awaited (June 2023) as the SPSU did not furnish further progress of the case to the State Government. After incorporation of the replies, the revised paragraphs were again issued (18 December 2023) to the concerned Principal Secretary of the Government of Rajasthan as well as to the Head of concerned SPSUs/AB with request to furnish further reply in a period of two weeks and the replies received (upto February 2024) have been suitably included in the Report. The total financial impact of the compliance audit paragraphs is ₹ 16.93 crore.

Follow up action on Audit Reports and Inspection Reports

1.5 The Report of the CAG is the product of audit scrutiny. It is, therefore, necessary that they elicit an appropriate and timely response from the executive. The Finance Department, GoR issued (July 2002) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/performance audits (PAs) included in the Reports of the CAG within a period of three months after their presentation to the Legislature, in the prescribed format, without waiting for any questionnaire from the Committee on Public Undertakings (COPU). The GoR again reiterated (September 2022) its directions for submission of replies/explanatory notes in time. No explanatory notes were pending till September 2021.

Audit observations noticed during audit and not settled on the spot are communicated through Inspection Reports to the Heads of respective SPSUs/ABs. The Heads of SPSUs/ABs are required to furnish replies to the Inspection Reports within a period of one month.

Inspection Reports issued upto 31 March 2021 pertaining to 31 SPSUs disclosed that 2671 paragraphs relating to 581 Inspection Reports involving monetary value of ₹ 58228.17 crore remained outstanding at the end of September 2021. Further, in case of ABs, 80 paragraphs relating to 12 Inspection Reports involving monetary value of ₹ 170.29 crore remained outstanding at the end of September 2021. SPSU and AB wise status of Inspection Reports and audit observations remained outstanding as on 30 September 2021 is given in ***Appendix-6***.

Further, during 2020-21, compliance audit of the selected units was conducted. During the year 83 Inspection Reports containing 574 paragraphs and two

Inspection Reports containing 12 paragraphs were issued for SPSUs and ABs, respectively. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 14 SPSUs.

During 2020-21, 29 meetings of the Audit Committees were held in respect of SPSUs wherein position of outstanding paragraphs was discussed with the respective Executive/Administrative Departments to ensure accountability and responsiveness.

Recovery at the instance of Audit

1.6 During the course of compliance audit in 2020-21, recoveries of ₹ 1158.82 crore were pointed out to the Management of SPSUs/ABs. Further, recovery of ₹ 750.37 crore (₹ 44.33 crore against the recoveries pointed out during 2020-21 and ₹ 706.04 crore towards the recoveries pointed out in previous years) had been affected by SPSUs/ABs during the year 2020-21.

Status of placement of Separate Audit Reports of autonomous bodies in the State Legislature

1.7 The audit of accounts of four autonomous bodies in the State are under the jurisdiction of this office. As per prescribed time schedule, ABs are required to submit accounts of a financial year upto the 30th June of succeeding financial year. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and its placement in the Legislature is given in **Appendix-7**. Delay in submission of annual accounts by these four autonomous bodies ranged from three months to 90 months upto 31 December 2021. Delay in finalisation of accounts carries the risk of financial irregularities going undetected, and therefore, the accounts need to be finalised and submitted to Audit at the earliest.

Discussion of Audit Reports by COPU

1.8 The status of discussion by the COPU on the Performance audit and Compliance audit paragraphs that appeared in Audit Reports (PSUs) as on 30 September 2021 was as under:

Table 1.1: Status of Performance audit and Compliance audit paragraphs appeared in Audit Reports *vis-a-vis* discussed by COPU as on 30 September 2021

Period of Audit Report	Appeared in Audit Report ⁴		Paragraphs discussed	
	Performance Audit	Compliance Audit	Performance Audit	Compliance Audit
2015-16	2	10	1	9
2016-17	1	10	1	4
2017-18	1	7	-	-
2018-19	1	9	-	-

Source: Compiled based on the discussions by COPU on the Audit Reports.

⁴ Includes Performance audit and compliance audit paragraphs belonging to SPSUs under the audit jurisdiction of office of the Accountant General (Audit-II) Rajasthan.

The discussion on Audit Reports (PSUs) up to 2014-15 has been completed.

2 Compliance Audit Observations on Autonomous Bodies

This part includes important audit findings emerged during compliance audit of Autonomous Bodies.

Rajasthan Electricity Regulatory Commission (RERC)

Introduction

2.1 India's Power Sector was beset with problems which impeded its capacity to respond to the rapidly growing demand for energy brought about by economic liberalisation. As a step towards implementing reforms in the Power sector, the GoI realised the need for establishment of the Central Electricity Regulatory Commission (CERC) at central level and State Electricity Regulatory Commissions (SERCs) at State levels. The concept of CERC and SERC as statutory bodies responsible for determination of tariff and grant of license at intra-State level was envisaged in the erstwhile Regulatory Commissions Act, 1998. The concept has been continued in the Electricity Act, 2003 (Act 2003) which was enacted (10 June 2003) by the Government of India (GoI) to consolidate the laws relating to generation, transmission, distribution, trading and use of electricity and for taking measures conducive to development of power industry. The Act 2003 also embedded laws required for promoting competition in power industry, protecting interest of consumers, rationalization of electricity tariff, ensuring transparent policies, constitution/ establishment of independent agencies viz. Central Electricity Authority (CEA), CERC/SERCs and Appellate Tribunal (APTEL), *etc.*

As per provisions of the Act 2003, the main responsibilities of the SERC are to determine the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail sale within the State; to issue licenses for intra-State transmission, distribution and trading; to promote co-generation and generation of electricity from renewable sources of energy, *etc.*

The GoR established (December 1999) the Rajasthan Electricity Regulatory Commission (RERC) as the SERC for the State of Rajasthan and it became operational *w.e.f.* 2 January 2000.

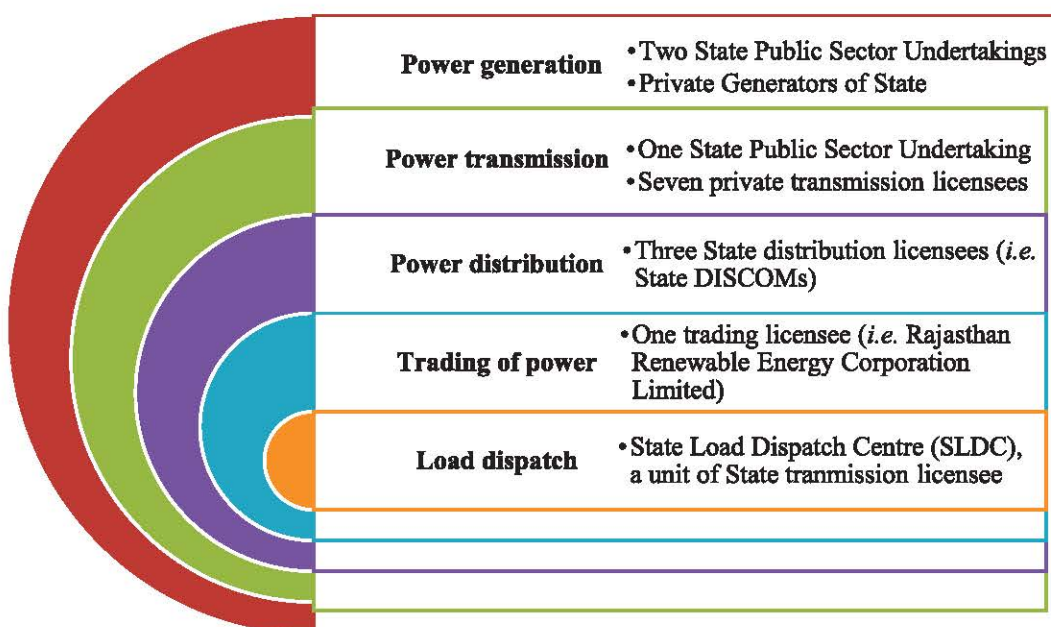
The GoI notified (January 2016) the Tariff Policy 2016 to promote transparency, consistency and predictability in regulatory approaches across jurisdictions and minimize perceptions of regulatory risks.

Purpose and composition of the Rajasthan Electricity Regulatory Commission

Purpose of constituting the RERC

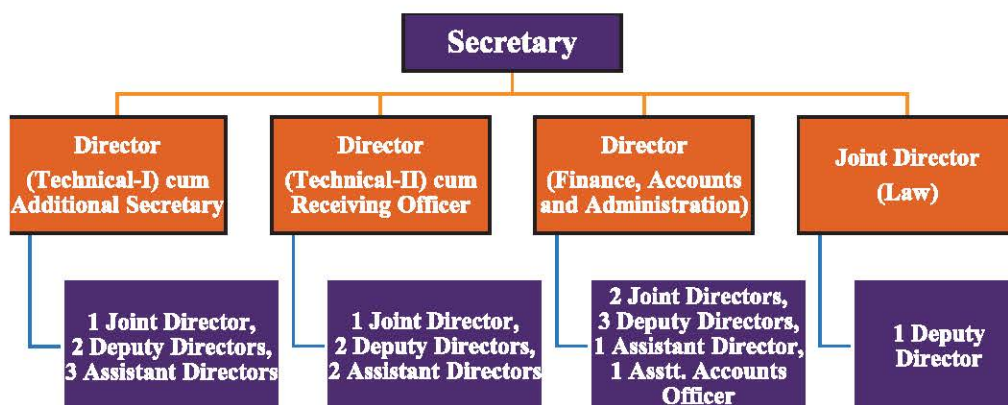
2.2 The RERC was constituted to regulate the Power Sector, viz. generation, transmission and distribution of power in Rajasthan. As on 31 March 2021, the regulatory control of the RERC was spread over the entities detailed in *Appendix-8*. The regulatory control of the RERC covered various entities and actions, described as hereunder:

Regulatory control of the RERC



Composition of the RERC

2.3 The RERC consisted of a Chairman and two Members. Besides, the RERC had appointed a Secretary, who being the principal officer, carries out the day-to-day functions. For assistance of the Secretary, the RERC has created four wings, *i.e.* two wings to deal with the technical matters, one wing to deal with the matters relating to finance, accounts and administration, and one wing to deal with the legal matters. The wing-wise hierarchy is as under:



Manpower in the RERC

2.4 Audit noticed that as on 31 March 2021, the RERC had 46 personnel (including Secretary) as against the sanctioned strength of 71 personnel and 25 posts were lying vacant. Out of these 46 personnel, 40 personnel were deployed through deputations from other entities. Further, sanctioned strength prescribed by the RERC provided for deployment of 26 professional personnel (37 per cent) having professional qualification and/or work experience in administrative/technical/ financial/ legal sectors. Out of these professional posts, nine posts⁵ (35 per cent) were vacant as on 31 March 2021.

Powers of the Rajasthan Electricity Regulatory Commission

2.5 The Act 2003 extended the following three powers to the RERC:

Description of Power	Relevant provisions of the Act 2003
To frame regulations	Section 181 of the Act 2003 provided that the SERC may, by notification, frame regulations to carry out the provisions of this Act and the rules framed thereunder. Further, all regulations framed by the SERC shall be subject to the conditions of previous publication. Section 182 provided that every regulation framed by the SERC shall be laid, as soon as may be after it is framed, before the State Legislature. The status of major regulations framed by the RERC that remained in force during 2016-21 is depicted in <i>Appendix-9</i> .
To adjudicate upon disputes	Section 86 (1) (f) of the Act 2003 stipulated that SERCs are to adjudicate upon the disputes between the licensees and generating companies, and to refer any dispute for arbitration. Section 111 and Section 125 of the Act 2003 further provided that any person aggrieved by an order made by an adjudicating officer or SERC under this Act and by APTEL may prefer an appeal to APTEL and Supreme Court of India, respectively. The GoI constituted APTEL in the year 2005 to hear appeals against the orders of the adjudicating officer or SERC.
Executive powers	The executive powers/functions of the RERC are given under Section 86 (1) {except the adjudicative function defined in sub-section 86 (1) (f)} of the Act 2003.

⁵ Five posts of Joint Director level (i.e. Law-1, Finance, Accounts and Administration-2, Technical-2), Two posts of Deputy Director level (i.e. Law-1 and Economic Analyst-1) and two posts of Assistant Director level.

Functioning of the Rajasthan Electricity Regulatory Commission

Audit has reviewed and analysed the performance of the RERC in respect of its executive functions as against the laid down laws, rules and regulations for the period 2016-21. Our examination of records related to executive functions of the RERC disclosed that the RERC could not enforce timely submission of tariff and ARR applications from the entities under its regulation as there was no effective mechanism for its timely compliance and there were significant delays, ranging from 11 days to 428 days, in the submission of these applications. Additionally, the RERC itself exceeded the stipulated timeframes for issuing tariff orders. The proper implementation of the True-up mechanism for ARR on an annual basis was also not effectively ensured by the RERC. These delays were often caused by incomplete information or data provided by the regulated entities, further exacerbating the timely issuance of orders.

The RERC overlooked the directives of NTP 2016, which discourages creation of regulatory assets, and continuously allowed addition of revenue gap to distribution licensees. The RERC allowed revenue gaps to distribution licensees without ensuring efficiency improvements, which could have resulted in reducing the electricity costs for consumers in future.

The approach of RERC in allowing ROE in ARR and their truing up lacked consistency as it allowed varied rates of ROE to the regulated entities. There were shortcomings in monitoring mechanism as regards purchase of power agreements, Renewal Purchase Obligation (RPO) compliance as well as examination of Standard of Performance (SOP) reports. The RERC also did not prescribe automatic payment of compensation mechanism for 16 guaranteed standard of services in SOP Regulation 2021.

2.6 Audit has reviewed and analysed the performance of the RERC in respect of its executive functions as against the laid down laws, rules and regulations for the period 2016-21 and the same are discussed from **sub-paragraph to 2.6.1 to 2.6.15**. The powers of RERC to frame regulations, except sufficiency and adequacy of the framed regulations, and to adjudicate upon disputes are not audited.

Audit objectives

2.6.1 The Audit was conducted to assess whether:

- An efficient and effective process, conforming to the guiding principles of the Act, existed for determination of tariff;
- An effective monitoring mechanism was in existence to ensure that entities adhere to the determined Standard of Performance and redressal of consumer grievance;

- The RERC was prompt in discharging its functions of extending advice to the GoR in the matters referred to it and promoting use of renewable sources of electricity.

Audit findings

2.6.2 The audit findings were communicated (March 2022) to the State Government as well as the RERC. Reply furnished (April 2022) by the RERC was endorsed by the State Government and the same has been considered.

Executive Function

2.6.3 Section 86 (1) of the Act 2003 *inter alia* included the following executive functions of the RERC:

- Determining the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail, as the case may be, within the State;
- Regulating electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies/licensees/other sources through agreements for purchase of power for distribution and supply within the State;
- Promoting co-generation and generation of electricity from renewable sources of energy by providing suitable measures for connectivity with the grid and sale of electricity to any person; and to specify, for the purchase of electricity from such sources, a percentage of the total consumption of electricity in the area of distribution licensee; and
- Specifying or enforcing standards with respect to quality, continuity and reliability of services by licensees.

The findings on the executive function of the RERC are discussed below:

Determination of tariff

Tariff and Aggregate Revenue Requirement

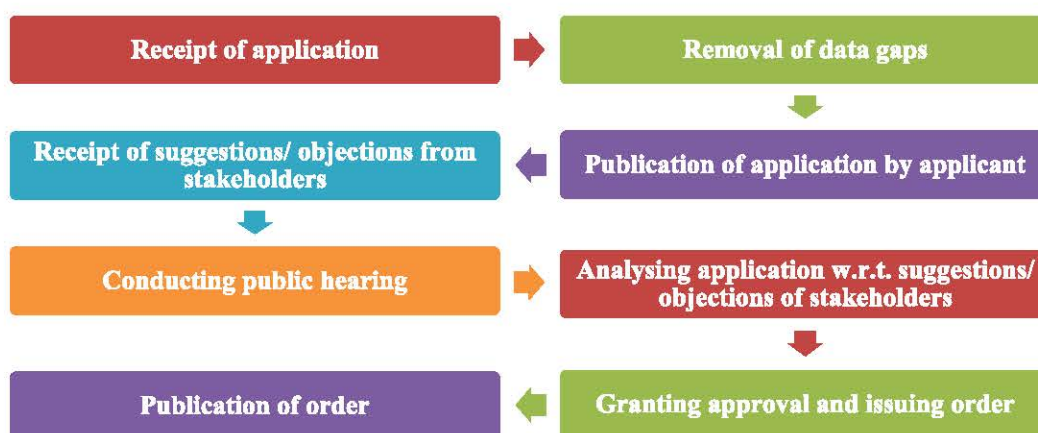
2.6.4 Section 62 of the Act 2003 (Determination of Tariff) provided that an SERC shall determine the tariff for supply of electricity by a generating company to a distribution licensee; transmission of electricity; wheeling of electricity; and retail sale (distribution) of electricity.

The RERC notified (24 February 2014 and 10 May 2019) the RERC (Terms and Conditions for Determination of Tariff) Regulations 2014 (Tariff Regulation 2014) and Tariff Regulation 2019 for the five years' period from

2014-15 to 2018-19 and 2019-20 to 2023-24 respectively. In addition to approval of tariff, both the tariff regulations prescribed provisions for approval of Aggregate Revenue Requirement (ARR⁶) and their truing up⁷.

The process of determination of tariff and approval of ARRs (including their truing up) is depicted in the flow-chart given below:

Chart 2.1: Process of Determination of Tariff



During 2016-21, the RERC determined tariff and approved ARRs and their truing up of three generating companies⁸, one State transmission licensee⁹ which was also maintaining the State Load Dispatch Centre (SLDC) and three distribution licensees¹⁰. As regards the generating companies and transmission licensees where tariff was determined through transparent process of bidding, the RERC adopted such tariff as per Section 63 of the Act 2003.

Submission of applications for approval of ARR and determination of tariff

2.6.5 Section 64 of the Act 2003 (Procedure for Tariff Order) provided that an application for determination of tariff shall be made by a generating company/ licensee.

Regulation No. 6 of the RERC (Terms and conditions for determination of Tariff) Regulations 2014/2019 (Tariff Regulations) provided that every generating company/licensee shall file the application/ petition for approval of

⁶ ARR means the requirement of generating company/licensee for recovery, through tariff, of allowable expenses and return on equity capital pertaining to their business.

⁷ Truing up means the adjustment of the actual amount incurred by the licensee against the estimated/ projected amount determined under the ARR.

⁸ Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL), Giral Lignite Power Limited (GLPL) and Raj West Power Limited (RWPL).

⁹ Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL).

¹⁰ Three State DISCOMs, viz. Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited.

ARR and determination of tariff for the ensuing year latest by 30th November of each year.

Audit analysed the timeliness of the applications/petitions furnished by the generating companies and transmission/distribution licensees for approval of ARR and determination of tariff for the periods from 2016-17 to 2021-22. The delay in receipt of tariff applications beyond the prescribed schedule was as below:

Table 2.1: Delay in furnishing applications for the periods from 2016-17 to 2021-22

Name of regulated entity	(Delay in days)					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
RRVUNL	134	44	54	11	No delay	32
GLPL	207	63	32	14	No delay	120*
RWPL ¹¹	232	No delay	No delay	No delay	No delay	120*
RRVPNL (including SLDC)	42	62	27	50	No delay	31
Three State DISCOMs	427-428	61-62	No delay	256	360	No delay

*Not filed till 31 March 2021.

Source: Information compiled on the basis of Tariff and ARR orders issued by the RERC.

Audit observed that there were events where the applications were filed even after commencement of the financial year concerned.

The RERC stated (April 2022) that the regulated entities seek time extension in case of delay. The RERC further stated (February 2024) that the DISCOMs filed (30 November 2022) the ARR and tariff application for 2023-24 in time.

The reply was not satisfactory as the RERC was unable to ensure timely submission of applications by the regulated entities. Had the RERC prescribed penal provision, as per Section 142 of the Act 2003, in its Tariff Regulations, it could have enforced the regulated entities for timely submission of the applications. Delay in submission of application for ARR by the regulated entities cause cascading effect on the approval of tariff for ensuing year.

Recommendation 1: The RERC may lay down and exercise necessary penal provisions through relevant regulations to ensure strict compliance with the regulations.

Determination of tariff by the RERC

2.6.6 Section 64 of the Act 2003 (Procedure for Tariff Order) provided that the SERC shall either issue a tariff order by accepting the application with such modifications/conditions as may be specified in that order or reject the application for reasons to be recorded in writing within a period of 120 days from receipt of the application. Further, every applicant was to publish the application as specified by the SERC.

¹¹ Renamed as JSW Energy (Barmer) Limited in October 2018.

The APTEL too had issued (November 2011) directions to all SERCs which stipulated that every SERC should endeavour to ensure determination of tariff before 1st April of the tariff year concerned. Further, in the event of delay in filing the application beyond one month, the SERC must initiate *suo-moto* proceedings for determination of tariff for distribution licensees. These directions were also reiterated by the GoI in the Tariff Policy 2016 which stipulated that any gap due to delay should be on account of the distribution licensee.

The time taken for issuing the tariff orders in excess of the prescribed period in respect of the tariff applications relating to 2016-17 to 2021-22 was as detailed below:

Table 2.2: Delay in issuing order/rejecting tariff applications for the periods from 2016-17 to 2021-22

		<i>(Delay in days)</i>				
Name of regulated entity	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
RRVUNL	68	38	No delay	60	167	249
GLPL	46	307	27	126*	142*	Not filed
RWPL#	215	415	443	No delay	No delay	Not filed
RRVPNL (including SLDC)	154	No delay	7	65	198	237
Three State DISCOMs	155-156	155-156	59	64	245	245

* Application rejected as the plants of the regulated entities did not remain in operation.

The RERC determined only interim tariff pending decision on coal transfer price.

Source: Information compiled on the basis of Tariff and ARR orders issued by the RERC.

Audit observed that the RERC could not determine the tariff within the time limit prescribed in the Act 2003. Further, the tariff was determined after commencement of that financial year for which it was to be made applicable. The delay was mainly attributable to not ensuring acceptance of only complete application from the regulated entities. Further, the RERC also took a long time in arranging for additional information/data from the regulated entities and issuing tariff orders even after completion of public hearing. Audit also observed that the RERC had not initiated *suo moto* proceedings for determination of tariff in any of the cases where delay in submission of application by the State DISCOMs was beyond one month. As a result, the RERC could not ensure determination of tariff before commencement of the tariff year concerned.

The RERC, while quoting provisions of Section 64 of the Act 2003, stated (April 2022) that 120 days for deciding the application should be counted from the date from which application has been completed by the applicant and not from the date of filing. As regards delay in issue of tariff orders for RRVUNL and RRVPNL, the RERC further stated (February 2024) that it generally adhered to the timeline, however there was some delay due to delay in filing of applications, submission of reply on comments/suggestions of stakeholders, furnishing of additional information *etc.*

The reply was not acceptable as the Act 2003 clearly stipulated a timeframe of 120 days from the date of receipt of application for issue of the tariff order or

rejecting the same if not found in prescribed manner and therefore, the RERC was required to ensure issue of tariff orders within the timeline stipulated under the Act 2003. Further, delay in determination of tariff puts additional burden on the distribution licensees as the generating companies and transmission licensees can recover the revised tariff from them retrospectively whereas they have to apply the revised tariff prospectively. During 2016-21, tariff was revised for the year 2019-20 with an estimated revenue increase of ₹ 4,817 crore for the DISCOMs. However, the revised tariff order came into force from 01 February 2020 instead of applicable date of 01 April 2019 due to delay in application by DISCOMs and approval by RERC. Thus, as tariff revision was effective for lesser period, the additional revenue for the year 2019-20 works out to ₹ 792 crore only for the DISCOMs.

Truing up of ARR

2.6.7 (i) Regulation No. 6 (read with Regulation No. 5) of Tariff Regulations provided that every generating company/licensee, latest by 30th November of each year, shall file the application/petition for truing up of ARR of previous year based on the audited financial statements.

Audit analysed the timeliness of the applications/petitions furnished by the generating companies and transmission/distribution licensees for truing up of ARR for the periods from 2014-15 to 2019-20. The delay in receipt of tariff applications beyond the prescribed schedule was as detailed below:

Table 2.3: Delay in furnishing applications for truing up of ARRs for the periods from 2014-15 to 2019-20

Name of regulated entity	(Delay in days)					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
RRVUNL	410	44	54	31	No delay	32
GLPL	763	397	32	31	No delay	NA*
RWPL	Application for truing up of ARRs not received as approvals of ARRs were provisional.					
RRVPNL (including SLDC)	58	62	27	50	No delay	36
Three State DISCOMs	375-382	9-16	No delay	0-1	47-58	1-29

* Not applicable as application of ARR and tariff was rejected.

Source: Information compiled on the basis of orders issued by the RERC for truing up of ARR.

Audit observed that the RERC did not initiate any penal action against the regulated entities under Section 142 of the Act 2003 for not complying with the tariff regulations.

(ii) The APTEL, in its directions (November 2011), stipulated that every SERC has to ensure that true up of ARRs is conducted on year-to-year basis as per the time schedule specified in regulations. Thus, true up of an ARR is to be done in the subsequent year.

The Scheduled *vis-à-vis* True up year of ARR and the time taken by the RERC for truing up of ARRs *i.e.* calling information from receipt of application,

receiving the information from the regulated entities and thereafter in taking the true up decisions for the periods from 2014-15 to 2019-20 was as detailed below:

Table 2.4: Scheduled *vis-à-vis* True up year of ARR and time taken for truing up of ARRs for the periods from 2014-15 to 2019-20

(Time in days)								
Name of regulated entity	Year of ARR		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Scheduled year of true up		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
RRVUNL	True up year		2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	Time taken to	Call for the information	48	48	56	99	48	215
		Receive the information	78	78	34	30	123	112
		Take the decision	32	32	25	88	116	21
		Total time	158	158	115	217	287	348
GLPL	True up year		2018-19	2018-19	2018-19	2019-20	2020-21	NA*
	Time taken to	Call for the information	99	99	99	99	NA	NA
		Receive the information	10	10	10	23	NA	
		Take the decision	38	38	38	89	NA	
		Total time	147	147	147	211	262	
RWPL	Truing up of ARRs was not done as approval of ARRs were provisional.							
RRVPNL (including SLDC)	True up year		2016-17	2017-18	2018-19	2020-21	2020-21	2021-22
	Time taken to	Call for the information	63	27	15	22	48	223
		Receive the information	47	25	76	135	123	110
		Take the decision	164	63	36	28	147	24
		Total time	274	115	127	185	318	357
Three State DISCOMs	True up year		2017-18	2017-18	2018-19	2019-20	2020-21	2021-22
	Time taken to	Call for the information	31	31	70	38	37	56
		Receive the information	113	113		130	160	113
		Take the decision	149	149	109	228	169	83
		Total time	293-300	293-300	179	396-397	366-377	252-286

* Not applicable as application of ARR and tariff was rejected.

Source: Information compiled on the basis of orders issued by the RERC for truing up of ARR.

Audit observed that the RERC did not ensure acceptance of complete true up application from the regulated entities. It also took inordinate time in calling for information from the regulated entities (ranging between 15 days and 223 days) and taking decision on the applications after receipt of the requisite information (ranging between 21 days and 228 days). Thus, the RERC took long time ranging upto 397 days in issuing the true up orders by completing the truing up process. Further, the RERC did not conduct true up of ARRs on a year-to-year basis.

The RERC, while quoting provisions of Section 64 of the Act 2003, stated (April 2022) that 120 days for deciding the true up orders should be counted from the date from which application has been completed by the applicant. As regards delay in issue of true up orders for RRVUNL and RRVPNL, the RERC further stated (February 2024) that it generally adhered to the timeline, however there was some delay due to delay in filing of applications, submission of reply of comments/suggestions of stakeholders and additional information *etc.*

The reply did not address the audit observation as regards to delay in submission of true up applications by the regulated entities and inordinate time taken by the RERC in taking the decision after receiving the information. The fact thus remained that the RERC could not ensure true up of ARR on year-to-year basis.

Recommendation 2: The RERC may ensure strict adherence to the prescribed timeline for furnishing applications by the licensees and determination of tariff as well as approval/true up of ARR.

Components of tariff and ARR

2.6.8 Section 61 of the Act 2003 stipulated that the SERC, while specifying the terms and conditions for the determination of tariff, shall be guided by certain factors/principles. These factors/principles, *inter alia*, consisted of (i) distribution and supply of electricity on commercial principles; (ii) safeguarding consumers' interest along with recovery of the cost of electricity in a reasonable manner; (iii) the tariff progressively reflects the cost of supply of electricity; (iv) Tariff Policy, *etc.*

During the course of audit, it was noticed that the RERC considers various factors while determining tariff and approving ARRs submitted by the generating companies/ licensees. Audit reviewed the components considered by the RERC while determining the tariff and approving the ARRs with a view to analyse any inconsistency with the provisions laid down in the Act 2003 and rules framed thereunder, regulations adopted by the RERC, *etc.* The inconsistencies noticed in the components of tariff/ARRs, *viz.* regulatory assets/revenue gap and its carrying cost as well as Return on Equity (ROE) are discussed in paragraphs 2.6.9 and 2.6.10.

Regulatory assets/ revenue gap

2.6.9 The Tariff Policy 2016, issued by the GoI, provided that the facility of a regulatory asset¹² should only be adopted by SERCs as a very rare exception. Further, the circumstances should be clearly defined through regulations and should only include natural causes or *force majeure* conditions.

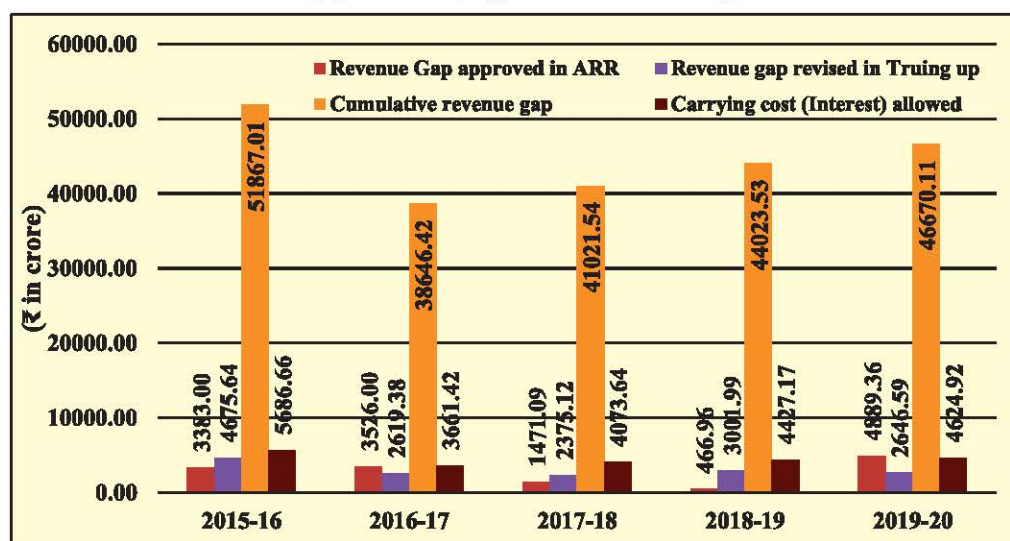
¹² Regulatory Asset is the previously incurred expenditures/losses that have been deferred and can be recovered from consumers by regulatory authorities in future through tariff revision.

The Tariff Regulations 2009, 2014 and 2019 framed by the RERC, also provided that Regulatory Asset shall be created only under exceptional circumstances, such as *force majeure* conditions, like natural calamities, court decree having very high impact, *etc.* and not to limit the tariff hike in any particular year. These regulations further provided that the Regulatory Asset shall be amortised in such a manner that it is co-terminus with the Multi-Year Tariff Control Period and carrying cost shall be allowed to be added to the revenue requirement of each year till such time the Regulatory Asset is fully amortised.

The RERC's orders on tariff and ARR of distribution licensees for the period 2015-16 to 2019-20 reflected that the RERC approved the ARRs of the distribution licensees with revenue gap, *i.e.* difference of expenditure and revenue approved in the ARR for the year. The RERC further revised the revenue gap so approved while truing up of ARRs of these periods. The RERC also allowed addition of carrying cost (interest) on the opening cumulative revenue gap of the distribution licensees approved by it.

The revenue gap and carrying cost (interest) allowed for the years during 2015-16 to 2019-20 are given in the Chart 2.2 below:

Chart 2.2: Revenue gap and carrying cost allowed during 2015-16 to 2019-20



Source: Orders issued by the RERC for truing up of ARRs.

Audit noticed that accumulated losses of the distribution licensees during the corresponding period ranged between ₹ 86,867.75 crore and ₹ 94,633.19 crore. Further, despite infusion of subsidy worth ₹ 46,816.47 crore under Ujwal DISCOM Assurance Yojana (UDAY) by the GoR, the level of accumulated losses of the distribution licensees remained almost unchanged. This indicates that one time liquidation of accumulated debt was not enough and there were other factors which needed to be reviewed for better financial management/closing the revenue gap.

NITI Aayog, in its report (Turning Around the Power Distribution Sector), also suggested (August 2021) that no new regulatory assets

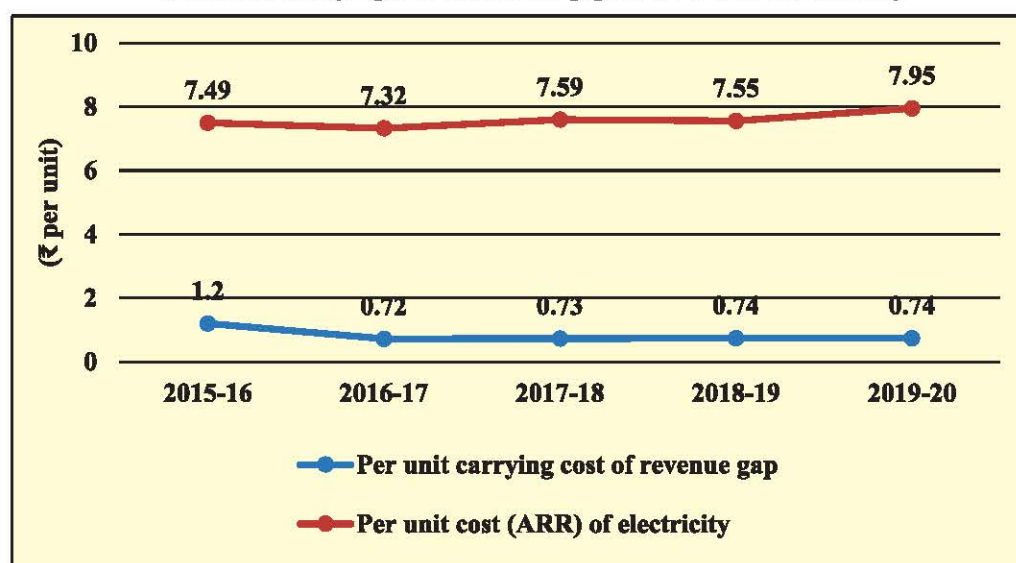
should be created. Further, the existing regulatory assets should be cleared according to a defined schedule over the next three-to-five years through appropriate tariff changes.

Since the distribution licensees were commercial entities, their revenue/ tariff estimates for a financial year should have been higher as compared to the expenditure envisaged for the year. Tariff and ARR applications and truing-up applications filed by the distribution licensees for 2015-16 to 2019-20, however, reflected the reverse position as they claimed significant revenue gap ranging between ₹ 4,816.04 crore and ₹ 11,240.77 crore.

Audit observed that:

- (i) The RERC kept on allowing addition of revenue gap on year-on-year basis which could not be construed as an exceptional circumstance. Thus, the revenue gap allowed in ARRs/truing up of ARRs of the distribution licensees for the period from 2015-16 to 2019-20 was not in consonance with the provisions of the Act 2003, the Tariff Policy of the GoI and Tariff Regulations issued by the RERC itself. Further, the RERC could not devise any mechanism to amortise the cumulative revenue gap of distribution licensees;
- (ii) The RERC considered the carrying cost of revenue gap and allowed its addition on the opening cumulative revenue gap of the distribution licensees. The share of carrying cost of revenue gap in per unit cost of electricity was significant as it ranged between 9.31 *per cent* and 16.02 *per cent* during 2015-20 as shown in the **Chart 2.3** below:

Chart 2.3: Carrying cost of revenue gap vis-a-vis cost of electricity



Source: Orders issued by RERC for truing up of ARRs.

- (iii) Due to continuing the practice of allowing revenue gap, the carrying cost allowed by the RERC on the cumulative revenue gap during each of the five years had surpassed the amount of revenue gap allowed for the respective year as shown in **Chart 2.2**; and

- (iv) The RERC, belatedly, advised (March 2021) the GoR to constitute a Task Force immediately to monitor the performance of the State DISCOMs and to take corrective measures for improving their operational efficiency and financial management. The GoR did not respond to the advice till 31 March 2022.

The RERC stated (April 2022) that the tariff order is issued after following due procedure, considering the suggestions/objections of stakeholders and keeping in view of the orders of the Supreme Court, APTEL, provisions of National Tariff Policy (NTP), National Electricity Policy, etc. to keep balance between consumer interest and recovery of cost of electricity. It further stated that amortization of regulatory assets would be possible only when distribution licensees would have surplus revenue for adjusting the regulatory assets. The RERC further stated that in its recent order (24 November 2021), it has started reducing the gap so as to amortise the regulatory gap.

The reply was not acceptable as NTP 2016 prohibits creation of regulatory assets. Further, the accumulated regulatory gap not only pose a possible tariff shock for the consumers but also is a burden for the DISCOMs which would have to resort to borrowings to meet the revenue gap. The RERC also could not devise any mechanism in reducing/ amortising the regulatory gaps of the DISCOMs which had been accumulated to dangerous levels over the years.

The RERC informed (February 2024) that it had not created any new regulatory assets in ARR orders for 2022-23 and 2023-24 and had taken a view regarding amortisation of the regulatory assets by levying regulatory surcharge, tariff increase or adjustment against revenue surplus.

Recommendation 3: The RERC may take stricter measures to improve efficiency of distribution licensees and allow revenue gap only in exceptional circumstances, as already envisaged.

Return on Equity

2.6.10 Regulation No. 20 of the Tariff Regulations 2014 provided that Return on Equity (ROE) shall be computed at the rate of 15.50 *per cent* for generating companies and transmission licensees and at the rate of 16 *per cent* for distribution licensees. The RERC revised the rate of ROE to 14 *per cent* for transmission licensees and SLDC and to 15 *per cent* for generating companies under Regulation No. 20 of the Tariff Regulations 2019.

Clause 4.2 (Return on Equity) of Rajasthan Power Sector Financial Restructuring Plan (FRP-2013) stipulated (June 2013) that no ROE has been considered for the three distribution licensees of the State during the projection period till 2021-22. It further stipulated that the GoR has also committed not to consider any ROE from RRVUNL (Generation Company of the GoR) and RRVPNL (Transmission licensee) during the same period.

Further, the distribution licensees did not claim any ROE for the periods from 2015-16 to 2018-19 and 2020-21. They claimed ROE (₹ 840 crore) in the tariff and ARR application for the period 2019-20 which was not considered by the RERC.

Audit noticed that RRVPNL and RRVUNL claimed ROE in their tariff and ARR applications for the periods from 2015-16 to 2020-21. The RERC, while approving the ARRs and their truing up, considered ROE for these periods as detailed below:

Table 2.5: ROE allowed to RRVPNL and RRVUNL for the period 2015-16 to 2020-21

Financial year	ROE allowed to RRVPNL		ROE allowed to RRVUNL	
	Amount (₹ in crore)	%	Amount (₹ in crore)	%
2015-16	259.53	8.00	201.25	5.00
2016-17	427.78	12.00	700.40	15.50
2017-18	75.74	2.00	752.59	15.50
2018-19	79.94	2.00	788.00	15.50
2019-20	83.80	2.00	0.00**	0.00
2020-21	95.69*	2.00	955.21*	15.00
Total	1022.48		3397.45	

* Based on orders approving ARRs.

** RRVUNL, as against RoE allowed in ARR (15 per cent), claimed zero RoE in true up application as per GoR permission

Source: Orders of truing-up of ARRs.

Audit observed that:

- (i) RRVPNL and RRVUNL, while claiming ROE in the applications submitted for tariff and ARR and for truing-up of ARR, did not disclose the commitment of the GoR under FRP-2013 wherein both these State PSUs were restricted to claim any ROE till 2021-22. The RERC also did not consider this commitment while analysing the ARRs/truing up of ARRs. Resultantly, the RERC allowed ROE in ARRs of RRVPNL and RRVUNL for the periods from 2015-16 to 2020-21 whereas it should have been disallowed;
- (ii) It was also noticed by Audit that GoR gave approval for RoE to RRVPNL and RRVUNL for the years 2015-16 to 2017-18 in contradiction to its own commitment. However, though it denied (January 2020 and August 2020) approval for the years 2018-21, RERC allowed ROE to RRVUNL and RRVPNL for 2018-21 without ensuring proper approval of the GoR, whereas in case of DISCOMs it had denied the claim for the year 2019-20 due to the absence of proper approval.

Thus, the RERC, despite providing for ROE in its regulations, did not adopt a uniform and rational approach in permitting ROE in ARRs and their truing up. It did not observe the commitments of the GoR under the FRP-2013 and did not ensure requisite approval of the GoR in all cases.

Audit also observed that the RERC had overlooked the fact of non-payment of dividend by RRVPNL and RRVUNL on the equity infused by GoR and continuously allowed ROE worth ₹ 2002.64 crore¹³ for 2016-21 to these two State PSUs in their power tariff.

The RERC stated that as per the tariff regulations, it was not required to obtain approval of GoR regarding ROE. It further stated that directions of the GoR

¹³ RRVPNL: ₹ 259.43 crore and RRVUNL: ₹ 1743.21 crore.

were to be followed by RRVPNL and RRVUNL while claiming ARR or were to be disputed by the distribution licensees as respondents.

The reply was not acceptable as the RERC disallowed ROE to the distribution licensees in 2019-20 as they did not furnish approval of the GoR. Thus, the RERC adopted different approaches in allowing ROE in ARR and their truing up during 2018-19 and 2020-21 on one hand and disallowing it in 2019-20.

The RERC replied (February 2024) that from 2021-22 onwards, it had sought clarification regarding approval of the GoR for ROE claimed by RRVPNL and RRVUNL.

Scrutiny of power purchase agreements (PPAs)

2.6.11 Regulation No. 7 of the RERC (Power purchase & procurement process of distribution licensee) Regulations, 2004 provided that any new power purchase arrangement/agreement and amendments to existing agreements entered into by distribution licensees shall be subject to scrutiny of the RERC (after execution) under Section 86 of the Act. The scrutiny of the RERC was to be in respect of necessity, reasonability of cost, promoting efficiency, economy, equitability and competition, conformity with regulations for investment approval, conformity with requirements of quality, continuity and reliability of supply, conformity with safety and environmental standards, conformity with criterion of power purchase as laid down by the RERC, and conformity with policy directives of the GoR and National Power policies.

Audit observed that despite laying down provisions in the regulations, the RERC did not evolve any mechanism to conduct scrutiny of PPAs which is evident from the fact that out of 37 PPAs submitted (May 2017) by the distribution licensees, nothing was found on record as regards scrutiny of these PPAs.

The RERC stated (April 2022) that the power requirement is scrutinized through ARR and Tariff orders. It also analysed power requirement and cost from every plant and assessed the energy availability and power purchase quantum. It further stated that the details of PPA executed by DISCOMs was sought (August 2021) and perused. Besides, it allowed (October 2021) the three DISCOMs to exit from five¹⁴ PPAs aggregating to 252 MW and also it did not approve (December 2021) the three DISCOMs' proposal for procurement of up to 266 MW long-term power through bidding and asked them to reassess the availability and demand of power in the State.

The reply was not relevant as orders allowing exit from the five PPAs pertain to PPAs executed long back (more than 25 years). In the sixth case, the RERC denied approving standard bidding document. Further, the reply was silent on the issue of not conducting scrutiny of the PPAs submitted by the distribution licensees in May 2017 which indicated that the RERC did not review these PPAs.

¹⁴ Anta Gas, Auriya Gas, Dadari Gas, FUGTPS (i), Farraka TPS power plants executed in January 1994.

The RERC informed (February 2024) that it had approved PPAs of 69 projects during 2023-24 after considering provisions of various regulations.

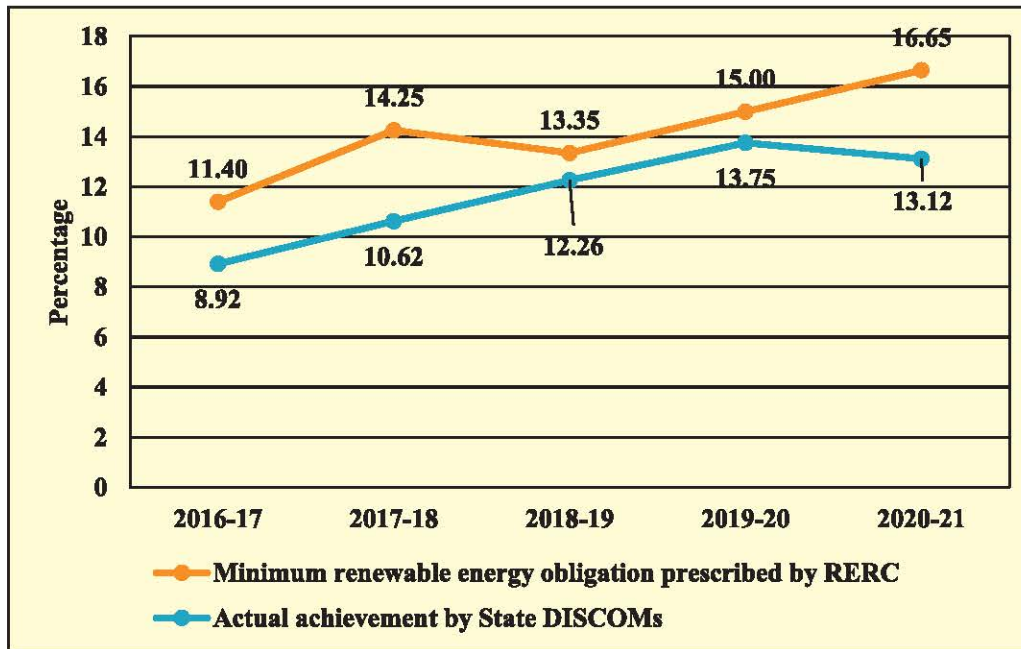
Promoting use of renewable sources of electricity

Compliance with the minimum renewable energy obligations

2.6.12 The RERC notified (December 2010) the RERC (Renewable Energy Certificate and Renewable Purchase Obligation Compliance Framework) Regulations 2010 (Regulations 2010). The Regulation also provided that the Obligated Entity shall procure electricity generated from renewable energy sources as per purchase obligation and any shortfall in RPO can be fulfilled by purchase of renewable energy and/or REC up to 30th June of the next financial year. Further, the RERC prescribed (May 2014, June 2017, January 2019) percentage of minimum renewable energy obligation for the three State DISCOMs¹⁵ for the periods 2016-17, from 2017-18 to 2018-19 and from 2019-20 to 2020-21 respectively.

The actual achievement of the three State DISCOMs against the minimum renewable energy obligation prescribed by the RERC for the period 2016-17 to 2020-21 (upto January 2021) is depicted in **Chart 2.4**.

Chart 2.4: Actual achievement vis-à-vis minimum renewable energy obligations prescribed by the RERC for the period 2016-17 to 2020-21



Source: RPO compliance reported by RRECL.

Audit noticed that the State DISCOMs remained far behind the percentage prescribed by the RERC for the period from 2016-17 to 2020-21. Besides, the State DISCOMs also had an unachieved shortfall of 11842 Million Units (December 2020) against the targets of renewable energy obligations fixed for prior periods (upto March 2016).

¹⁵ Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited.

Audit observed that despite prescribing penal provision in RPO Regulations and under the Act 2003, the RERC could not enforce the laid down minimum renewable energy obligation on the three State DISCOMs during the period.

The RERC stated (April 2022) that after considering the facts/circumstances of the cases and being satisfied with efforts made by the OEs (including State DISCOMs), it passed orders and allowed to achieve the previous shortfall of RPO in future years.

It was therefore evident that the State DISCOMs were therefore neither procuring the renewable energy as per prescribed targets nor adhering to the provisions of Regulation 2010 regarding purchase of the Renewal Energy Certificates for the shortfall. Despite this, the RERC time and again extended the timeline to meet the RPO shortfall in future years upto 2023-24.

Standard of Performance for licensees

2.6.13 The RERC, pursuant to provisions contained in Section 57 (Consumer Protection: Standards of Performance of licensee) and Section 59 (Information with respect to levels of performance) of the Act 2003, prescribed (February 2014) the RERC (SOPs for Distribution Licensees) Regulations 2014 (D-SOP Regulations 2014) for distribution licensees. Later, the RERC prescribed (31 March 2021) new SOPs for distribution licensee namely the RERC (SOPs of Distribution Licensee) Regulations 2021 (D-SOP Regulations 2021).

Submission of half-yearly Standard of Performance (SOP) Reports

2.6.14 Clause 8 of the SOP Regulations 2014 stipulated that the distribution licensee shall furnish half-yearly reports to the RERC as well as to the Electricity Ombudsman, within 45 days from 30th September and 31st March of each financial year. These half-yearly reports shall contain actual performance of the distribution licensees in respect of establishment of call centres, redressal of consumer complaints, details of compensation paid and reliability indices, i.e. system average interruption frequency index (SAIFI) and system average interruption duration index (SAIDI).

Audit noticed that during 2016-17 to 2020-21, against 10 half-yearly SOP reports scheduled against each, the three distribution licensees, viz. Jaipur DISCOM, Ajmer DISCOM and Jodhpur DISCOM furnished nine, ten and eight half-yearly SOP reports respectively with delay ranging between 26 days and 147 days, 14 days and 59 days, and one day to 183 days respectively as depicted in **Appendix-10**. Thus, the RERC could not ensure adherence to the laid down provisions for submission of half yearly SOP reports by distribution licensees. Resultantly, the basic purpose of periodic and timely monitoring of performance of the distribution licensees and issuing necessary directives to the distribution licensees for taking corrective action was affected.

Best practice adopted by some SERCs of other States

SERCs of some other States/UTs¹⁶, in their SOP regulations, provided for imposition of penalty on case-to-case basis in respect of non-achievement of individual target of overall SOP and violation of prescribed provisions and to conduct investigation for not complying with the obligations laid down under these regulations.

Had the RERC included specific provisions in its regulations to address the issue of non-compliance by the licensees, then it might have had more enforceable powers to make the distribution licensees comply.

The RERC, while accepting the observation, assured (April 2022) to consider inclusion of penalty clause for late filing of SOP reports in the regulations as per requirement which was not ensured till date (July 2023).

Guaranteed Standards of Performance

2.6.15 Clause 4 of the SOP Regulations 2014 provided that the distribution licensee shall provide best services well within the time limits specified in these regulations for 19 guaranteed standards for various consumer services, viz. no current complaints, overhead line/cable breakdowns, underground cable breakdowns, transformer failure, scheduled outages, voltage variations, complaints for testing/ replacement of meters, shifting of meters/service lines, release of new connections, transfer of ownership, change of category, consumer bill complaint, disconnection of supply, restoration of a disconnected consumer, system reliability, etc. The failure of distribution licensee to achieve these guaranteed standards shall entail payment of monetary compensation to the affected persons/consumers.

Clause 6 of the SOP Regulations 2014 provided that in the event of non-fulfilment of any guaranteed standards of performance, the affected person may file an application, within 30 days of expiry of the specified time, with the Assistant Engineer concerned for the claim of compensation as per rates prescribed in these regulations. The distribution licensee shall pay the compensation, through electricity bills, not later than 90 days from the date of violation of guaranteed standard. Failure to pay the compensation as per these regulations shall constitute a grievance which shall be dealt with and decided by the respective Consumer Grievance Redressal Forum (CGRF) and thereafter, by the Electricity Ombudsman.

Audit observed that out of 113.06 lakh complaints lodged during 2016-21, the three distribution licensees redressed 6.68 lakh complaints beyond stipulated timeframe. However, none of the aggrieved consumers¹⁷ claimed any compensation for the delayed redressal of the grievances.

¹⁶ Himachal Pradesh and Delhi.

¹⁷ Except payment of compensation worth ₹ 50,500 to 10 consumers of Kota Electricity Distribution Limited (KEDL), distribution franchisee of Kota city.

Audit is of the view that complexity in the compensation mechanism and the commensurate compensation rates prescribed¹⁸, act as a deterrent for the consumers in filing the compensation claims.

Best practice adopted by some SERCs of other States

SERCs of some other States/UTs¹⁹ instituted mechanism of automatic compensation payment in respective State/UT where in the event of failure to adhere to the guaranteed standards within the stipulated timeframe, compensation is to be paid to the affected consumers without lodging of any compensation complaint separately.

Audit observed that the RERC, while issuing SOP Regulation 2021 (March 2021), had prescribed automatic compensation mechanism for three guaranteed standards of service²⁰ only. For the remaining 16 guaranteed standards of service, the aggrieved consumers had to face the complexities for claiming the compensation.

The RERC may consider extending the mechanism for automatic payment of compensation for the remaining guaranteed standards of services too.

Recommendation 4: The RERC may adopt universal and transparent mechanism to allow ROE, and strengthen the monitoring mechanism as regards power purchase agreements, RPO compliance and SOP reports.

Recommendation 5: The RERC may extend the automatic payment of compensation against valid complaints for all guaranteed services.

¹⁸ Ranged between ₹ 50 per instance and ₹ 2000 per instance as per the SOP Regulations 2014.

¹⁹ Haryana, Odisha and Tamil Nadu in 2004.

²⁰ No Current complaints, No-current complaint due to meter and Testing of Meters.

3 Compliance Audit Observations on SPSUs

This part includes important audit findings emerging from test check of transactions of the SPSUs.

Rajasthan State Mines and Minerals Limited

3.1 Lapses in setting up of the plant and ensuring its operation and maintenance

Failure of the Company in taking appropriate action against the Contractor for shortfall in guaranteed electricity generation resulted in undue benefit of ₹ 9.69 crore.

The Rajasthan State Mines and Minerals Limited (Company) awarded (June 2014) the work of setting up a five-megawatt peak (MWp)²¹ grid interactive solar photovoltaic power plant (solar plant) to Rays Power Experts Private Limited (Contractor). The Contractor was required to (i) commission the solar plant at a total cost of ₹ 26.50 crore within six months from the date of award; and (ii) carry out comprehensive operation and maintenance (O&M) of the solar plant for a period of 20 years from the date of commercial operation. The remuneration for O&M activities was ₹ 0.15 crore for the first year, with a five percent annual increase thereafter.

The terms and conditions of the work order *inter alia* provided for (i) ensuring Net Minimum Guaranteed Generation (NMGG) every year²² during the O&M period; (ii) making payment of compensation at the tariff rate²³ for the shortfall in NMGG in a block period of two years; (iii) computing the maximum compensation per year at seven *per cent* of the contract value; and (iv) not stopping/abandoning the work due to dispute/ differences.

The Contractor commissioned (31 December 2014) the solar plant as per the prescribed schedule and provided (July 2015) bank guarantee of ₹ 5.30 crore (*i.e.* 20 *per cent* of the contract value) as retention money towards performance of solar power plant. The Contractor, however, could not ensure NMGG prescribed in the work order in any of the seven years ended December 2021.

Audit noticed that against shortfall in NMGG in the first block (2015-2016), the Company demanded (January 2017) compensation of ₹ 3.07 crore from the Contractor which was later revised (June 2018) to ₹ 2.58 crore on request of the Contractor. The Contractor contested (July 2018) the revised/reduced demand due to non-availability of grid and did not deposit the compensation amount till December 2018. On this, the Company forfeited (December 2018) the bank guarantee of ₹ 5.30 crore furnished by the Contractor against the shortage in

²¹ MWp is an abbreviation for **Megawatt peak** – a unit of measurement for the output of power from a source such as solar or wind where the output may vary according to the strength of sunlight or wind speed. MWp is a measure of the maximum potential output of power.

²² NMGG per year means the minimum number of units guaranteed by the Contractor to be fed to the grid from the power plant after deducting the power drawn from the grid for captive use.

²³ ₹ 12 per unit for initial three years and ₹ 9 per unit for remaining 17 years.

generation for 2015-18. Responding to the forfeiture, the Contractor served (18 February 2019) notice to the Company for surrendering the solar plant site and asked the Company to construct its own electricity evacuation line within one month. On assurance of the Company to review the issue of non-availability of grid, the Contractor further demanded to reduce the tariff rate for compensation and served (23 February 2019) another notice to discontinue O&M of the solar plant in case the dispute remained unresolved.

The Board of Directors (BoD), while considering the options of resolving the dispute or terminating the O&M contract, approved (April 2019) the former option. As per BoD's approval, the Contractor was to be allowed to install additional solar panels for ensuring regular achievement of NMGG every year and for meeting the past shortfall in NMGG. The Contractor was also to be provided funds upto ₹ 5.30 crore through an escrow account or any other method for installation of additional solar panels. The BoD also authorized the Managing Director of the Company to frame suitable mechanism/ modalities to ensure smooth and uninterrupted operation of the solar plant. The BoD also approved for reconciliation of the grid availability figures.

Accordingly, the Company reworked (July 2019) the compensation at ₹ 4.12 crore for shortfall in generation during 2015-18²⁴. Further, in addition to the BoD's approval, the Management of the Company allowed (August 2019) replacement of the existing panels with new higher efficiency and higher capacity panels, releasing ₹ 4.30 crore as advance to the Contractor for procuring the solar modules/ panels on receipt of proforma invoice.

The Company released (September 2019) ₹ 4.41 crore from the escrow account considering request of the Contractor. The Company also extended (January 2020) the completion schedule upto 20 February 2020. Despite this, the Contractor demanded (May 2020) extension upto September 2020 which was not granted. Subsequently, on being informed (13 August 2020) by the Contractor, the Company visited (21 August 2020) the site to verify installation of additional solar panels. The additional solar panels were, however, not found installed at the site and the existing solar panels (around 1200 kW) were also found removed from the plant.

On being enquired upon by the Company regarding supply of the panels, the vendor informed that the said panels were supplied to the Contractor. On further enquiry with the Contractor, it informed that the panels supplied had been used by them elsewhere.

Audit noticed that the solar plant could generate only 370.43 lakh units of electricity as against the NMGG requirement of 585.92 lakh units during 2015-2021 resulting in a shortfall of 190.60 lakh units²⁵ in NMGG and other shortfall of 24.89 lakh units on the part of the Company during 2015-2021.

²⁴ ₹ 1.96 crore for block period 2015-2016 (i.e. 16.35 lakh units at the rate of ₹ 12 per unit) and ₹ 2.16 crore for block period 2017-2018 (i.e. 10.64 lakh units at the rate of ₹ 12 per unit and 9.81 lakh units at the rate of ₹ 9 per unit).

²⁵ Yearly shortfall in NMGG in 2015: 8.45 lakh units, 2016: 7.90 lakh units, 2017: 10.64 lakh units, 2018: 9.81 lakh units, 2019: 30.02 lakh units, 2020: 52.66 lakh units and 2021: 71.12 lakh units.

Audit observed that as per the terms and conditions of the work order, the Company was required to bind the Contractor for not abandoning the O&M work and maintaining the power evacuation system. However, the Company, to avoid dispute with the defaulting Contractor, reverted its penal action of charging compensation for shortfall in NMGG. Further, due to non-inclusion of risk and cost clause in the work order at the awarding stage, the Company did not have the option to get the O&M work executed from other contractor at the risk and cost of the defaulting Contractor.

Further, the BoD had not approved granting any advance to the Contractor and removing the existing solar panels, yet the Management of the Company agreed (August 2019) to release the advance and permitted removal of the existing solar panels also. Besides, the escrow account mechanism proved futile as the Company released significant part of the forfeited amount in advance without any security/ guarantee. The Company, in contravention to the provisions of work order, also dispensed with the requirement of security/ guarantee for underperformance in future. The Company also did not ensure receipt as well as pledging of the additional solar panels in its favour. Thus, the Company was left with no financial hold against the defaulting Contractor.

Audit further observed that the Contractor not only misappropriated²⁶ the additional solar panels but also removed the existing solar panels²⁷ belonging to the Company without their replacement. Despite serious implications, the Company neither initiated any legal action against the defaulting Contractor nor reported the matter to the BoD.

Thus, due to lack of prudence and financial control, extension of undue relaxations, non-initiation of requisite legal action against the defaulting Contractor in time and failure to ensure proper O&M of the solar plant, generation of electricity was affected severely. Resultantly, the Company suffered shortage of 190.60 lakh units of electricity against NMGG assured by the Contractor till November 2021. The Company also failed to take necessary steps to bind the Contractor for honouring its commitments and could not ensure recovery of applicable compensation of ₹ 9.69 crore²⁸ for shortfall in NMGG upto November 2021 as per provisions laid down in the work order.

The Government (March 2022) while accepting the facts stated that the Contractor did not install the additional solar panels despite receipt of supply from the supplier firm concerned and regular correspondence made by the Company. It further stated that a legal notice was served (November 2021) to the Contractor including claim for compensation and assured to take appropriate decision/ action in due course.

²⁶ ₹ 4.41 crore were released from the ESCROW Account to vendor for supply of required solar panels however, the supplied solar panels were used elsewhere by the Contractor.

²⁷ Existing solar panels of around 1206 kilowatt found to be removed during site visit in August 2020.

²⁸ ₹ 4.12 crore for 2015-2018 + ₹ 5.57 crore for 2019-2021 (*i.e.* ₹ 1.855 crore per year * three years where maximum annual compensation has been restricted to seven *per cent* of the contract value).

In subsequent reply (June 2022), the Company informed that the major part of the existing solar panels²⁹ which were removed from the site earlier were found reinstalled at site but none of the additional solar panels were found installed at site during verification (April-May 2022). It further stated that a high-level committee has been formulated to deal with the matter and to give its recommendations on the issue. In view of Company's reply, the Government sought (October 2022) further progress of the case from the Company which was awaited (June 2023).

Thus, the Company is yet (September 2023) to take tangible action in this regard.

Rajasthan Rajya Vidyut Prasaran Nigam Limited

3.2 Idle payment of transmission charges

The Company raised demand for two line-bays without assessing viability/ feasibility of the transmission line concerned. Inordinate delay in awarding the line work attracted idle payment of transmission charges worth ₹ 7.24 crore.

The Central Electricity Regulatory Commission (CERC) determines tariff for an inter-State transmission of electricity as per CERC (Terms and Conditions of Tariff) Regulations, 2014 (Tariff Regulations 2014). The Tariff Regulations 2014 and CERC decision (August 2015) has mandated that the State Transmission Utility (STU) concerned, who had requested for keeping provision of line bays³⁰ for downstream transmission network³¹, shall bear the transmission charges in case of delay in completion of the downstream system.

In the 34th meeting (August 2014) of the Standing Committee on Power System Planning of Northern Region (Standing Committee), the Power Grid Corporation of India Limited (PGCIL), being the CTU, proposed augmentation of transformation capacity of its 400/220 kV substation, Sikar by 500 MVA. Rajasthan Rajya Vidyut Prasaran Nigam Limited (Company) also agreed to the proposal of PGCIL and assured the Standing Committee to confirm details of two 220 kV line bays required by it within a fortnight. The Company also confirmed (September 2014) the requirement of two 220 kV line bays with 500 MVA transformer at the proposed 400 kV GSS, Sikar of PGCIL and laying of 220 kV double circuit line from the proposed GSS to its nearby 220 kV GSS/line after getting the technical feasibility examined as per field conditions. The confirmation was reiterated in the 35th meeting (November 2014) of the Standing Committee.

²⁹ 1005 kilowatt (3350 solar panels of 300 watt each) against 1206 kilowatt (4019 solar panels of 300 watt each).

³⁰ A bay is a power line within an electrical substation which connects a circuit (such as a power line or transformer) to a busbar. Each bay typically includes circuit breakers, disconnectors, instrument transformers, surge arresters, etc.

³¹ It stands for the circuit/transmission line passing onward from the line bays to connect the sub-transmission/ distribution system.

The Project Planning and Monitoring (PPM) wing of the Company sought (between September 2014 and July 2017) technical feasibility report from its transmission and construction (T&C) Circle concerned (*i.e.* T&C, Sikar) for the interconnection proposed at PGCIL's 400 kV GSS, Sikar. The feasibility report was to include status/details in respect of right of way (ROW), bays, line length, *etc.* as it was essential for carrying out the load flow studies. The T&C, Sikar belatedly forwarded (July 2017) the feasibility report along with four different proposals. Since the feasibility report/ proposals were found incomplete, the PPM wing sought (August 2017 to January 2018) feasibility report with complete details. The T&C Circle, Sikar furnished (July 2018) the final feasibility report. Meanwhile, PGCIL informed (between April 2017 and January 2018) the Company about progress of the bay work with expected commissioning schedule. Besides, PGCIL requested the Company to expedite the construction of downstream transmission lines so as to match the construction schedule of lines with construction of bays but the same was not acted upon.

PGCIL completed the construction of both the bays by 31 March 2018 and approached (Year 2017) CERC for approval of COD of the assets belonging to these two bays in accordance with the regulation no. 4 (3) (ii) of the Tariff Regulations 2014. The notice issued by the CERC in this regard remained unanswered by the Company. The CERC approved (July 2018) COD of both the bays with effect from 1 April 2018 and decided annual transmission charges of ₹ 1.81 crore for the assets created by PGCIL (two 220 kV bays). The CERC also ordered the Company to bear the transmission charges which were to be paid from the COD of these bays/assets created by PGCIL till the COD of the downstream assets (transmission lines) committed by the Company.

Looking at the order of the CERC, the Company requested (November 2018) PGCIL to allocate these bays to any renewable energy developers but the proposal could not materialise. Thereafter, the Company belatedly decided (April 2019) to erect a 220 kV transmission line from PGCIL's 400 kV GSS, Sikar to its nearby 220 kV GSS, Dhod. After inordinate delay, the Company issued (April 2020) work order for construction of the proposed transmission line with scheduled completion by October 2020. The Company, however, could not commission the downstream assets and incurred ₹ 7.24 crore³² towards transmission charges till 31 March 2022.

Audit observed that the Company, without any proper planning and feasibility study, committed for erecting transmission line from PGCIL's 400 kV GSS, Sikar and accordingly, raised requirement of two 220 kV bays. The Company also failed to chalk out and communicate a viable proposal to PGCIL in time as it neither assessed the technical feasibility of the line to be erected in the area nor conducted the requisite load flow study. The Company also did not respond to the correspondence of PGCIL and proceedings of the CERC. Since the Company did not have any reason to justify the delay in construction of the transmission line, it was imposed significant and recurring transmission charges by the CERC.

The Government accepted (October 2021) that the interconnecting line was to be constructed in matching timeframe (upto March 2018). It also accepted the

³² ₹ 1.81 crore per annum*4 years (2018-22).

facts of delay in furnishing the feasibility report by the T&C, Sikar. It further stated that selection of feasible proposal was dependent on completion of another transmission line (*i.e.* 220 kV Dhod to Danta Ramgarh) which could be completed in November 2018. Due to constraints in getting ROW, the Company also requested (November 2018) PGCIL for using the bays for solar developers/ other consumers but the same could not materialise. Thereafter, the Company awarded (April 2020) the erection work of 220 kV Sikar-Dhod line which faced severe ROW issues and stay order. It further informed (May 2022) about commissioning of the line as on 31 March 2022.

The fact remained that improper assessment of viability of line, failure in matching line construction schedule, delay in awarding the work contract for downstream lines resulted in idle payment of transmission charges of ₹ 7.24 crore.



(ARCHANA GURJAR)
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JAIPUR
The 17th April 2024

Countersigned



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

NEW DELHI
The 6th May 2024

