CHAPTER–II
Planning and Financial Management

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This chapter discusses the deficiencies observed in the planning and financial management of the DDUGJY and SAUBHAGYA schemes. Key issues highlighted include the exclusion of off-grid connections in the SAUBHAGYA scheme, despite guidelines specifying their inclusion. Furthermore, the chapter discusses shortcomings in financial management, such as the deficiency to meet prescribed milestones, resulting in inability to avail additional grants, incorrect claims of GST and state taxes, and avoidable interest obligations due to excess loan claims.

Planning for implementation of the schemes

2.1 To ensure speedy and smooth implementation of projects as well as completion of projects within stipulated time, the utilities needed to formulate an effective implementation plan.

The deficiencies noticed in planning activities in both the schemes are discussed below:

Off-grid connections not included in DPRs

2.1.1 As per guidelines of the SAUBHAGYA scheme, all eligible entities were required to formulate DPRs for the electrification of remaining un-electrified households in two parts, separately for rural and urban areas. Further, the district-wise DPRs were to include number of rural households to be covered under the scheme through grid connections and Solar Photovoltaic (SPV)-based standalone systems.

Audit observed that the DPRs prepared under the '24x7 Power for All' program (a joint initiative of the Central and State governments) were revised and submitted (April 2018) by UPPCL to the SLSC for approval as DPRs for the SAUBHAGYA scheme.

Audit further noticed that, in violation of the guidelines of the SAUBHAGYA scheme, the DISCOMs did not include provisions for providing connections through SPV-based standalone systems in the DPRs submitted to the REC. In response to this omission, REC independently allocated one lakh SPV systems to the DISCOMs' scope of work while approving the DPRs. This oversight highlights a systemic deficiency in the scheme compliance and planning procedures of the DISCOMs.

In its reply, the Government stated (December 2023) that due to time constraints and a lack of manpower, the actual identification of such households could not be completed before submission of the initial DPRs. During the Exit Conference (January 2024), the Management stated that SPV connections have less importance for the State and hence, were not included in the DPRs.

The reply is not acceptable, as the DISCOMs could not comply with the provisions of the scheme guidelines.

Financial Management

2.2 The DISCOM-wise and scheme-wise expenditure[1] *vis-à-vis* the cost sanctioned by the MoP are given in **Table 2.1**.

Table 2.1: Sanctioned cost and expenditure under the schemes

(₹ in crore)

DISCOM	Sanctioned Cost		Expenditure incurred[2]		Expenditure incurred (in *per cent*)	
	DDUGJY	SAUBHAGYA	DDUGJY	SAUBHAGYA	DDUGJY	SAUBHAGYA
MVVNL	1,237.38	4,238.10	1,263.01	2,739.35	102.07	64.64
PuVVNL	1,569.07	4,618.41	1,505.62	3,382.37	95.96	73.24
PVVNL	2,160.05	844.94	2,007.11	703.76	92.92	83.29
DVVNL	1,979.90	2,776.34	1,893.02	1,589.19	95.61	57.24
Total	**6,946.40**	**12,477.79**	**6,668.76**	**8,414.66**	**96.00**	**67.44**

From **Table 2.1,** it is evident that at the time of the closure of the DDUGJY and SAUBHAGYA schemes, the DISCOMs had incurred only 96 *per cent* and 67.44 *per cent* of sanctioned costs, respectively.

The deficiencies in financial management under both schemes are discussed in the succeeding paragraphs.

Inability to avail additional grant due to non-achieving prescribed milestones

2.2.1 Both the DDUGJY and SAUBHAGYA schemes provided for the conversion of loans into additional grants subject to the achievement of prescribed milestones. The following audit findings highlight instances where the DISCOMs were rendered ineligible for such conversion due to their inability to meet the stipulated milestones and targets under these schemes.

(A) As per the guidelines of the DDUGJY scheme, an additional grant (50 *per cent* of the loan component, *i.e.,* 15 *per cent* of the project cost) was to be released subject to achievement of all the milestones, *viz.,* (i) completion of the scheme within the approved time schedule (24 months from the date of Letter of Award for turnkey projects and 30 months from the date of communication of approval of the project by the Monitoring Committee for partial turnkey[3]/departmental projects); (ii) reduction in aggregate technical and commercial (AT&C) losses as per the trajectory finalised by the MoP; (iii) upfront release of admissible revenue subsidy by the State Government based on metered consumption.

The evaluation of criteria (ii) and (iii) was to be conducted over three consecutive years starting from the year of project award. The additional grant was to be divided into three equal annual tranches corresponding to each year of evaluation.

Audit observed that none of the DISCOMs had completed the partial turnkey projects[4] within the stipulated period of 30 months from the date of approval of the projects by the Monitoring Committee (September 2015). The projects were ultimately completed with delays ranging between 29 and 49 months. Additionally, the DISCOMs could not achieve the targeted reduction of AT&C

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1 Expenditure incurred represents the closure cost submitted by DISCOMs to the REC up to closure of the schemes (March 2022 for DDUGJY and March 2021 for SAUBHAGYA).
2 Closure cost submitted by DISCOMs are inclusive of State taxes and PMA charges.
3 Partial turnkey contract means a contract 'where some materials are issued free of cost to the contractor for execution of the project'.
4 All the DISCOMs executed the works of the DDUGJY scheme on partial turnkey basis.

losses during 2018-19 to 2021-22 and did not claim the upfront revenue subsidy from the State Government based on metered consumption.

This resulted in the DISCOMs not being able to obtain the benefit of conversion of loans of ₹ 1,816.94 crore into grants of ₹ 908.47 crore (50 *per cent* of ₹ 1,816.94 crore).

In its reply, the Government stated (December 2023) that the projects could not be completed within the targeted time schedule due to procurement of major items by DISCOMs separately, engagement of various agencies for supply and erection, time taken for co-ordination with agencies, right of way issues, delays in obtaining Railway/ Forest/ NHAI clearances, and additional time required for certain civil works under the DDUGJY scheme. During the Exit Conference (January 2024), the Government agreed that the prescribed milestones were not achieved.

The reasons cited by the Government, such as delays in procurement, coordination issues, and obtaining statutory clearances, were predictable project risks that could have been mitigated by adequate planning, streamlined procurement, and proactive coordination with the concerned agencies.

(B) As per the guidelines of the SAUBHAGYA scheme, an additional grant (50 *per cent* of loan component, *i.e.,* 15 *per cent* of the project cost) was to be released subject to achievement of 100 *per cent* electrification of all willing households by 31 December 2018.

Audit noticed that while the DISCOMs had released 33.23 lakh connections[5] to households up to 31 December 2018, they submitted claims to the MOP/REC for 64.67 lakh connections[6] and declared saturations up to December 2018, claiming that connections had been released to all willing households. However, a further 28.42 lakh connections were released by the DISCOMs between the declaration of saturation and before the closure of the scheme (January 2019 to December 2020/March 2021). Thus, the DISCOMs had not released connections to all willing households within the targeted time (December 2018) but had submitted incorrect claims regarding release of connections to willing households and achieving saturation.

This resulted in the DISCOMs not being able to obtain the benefit of conversion of loans of ₹ 2,188.28 crore into grants of ₹ 1,094.14 crore (50 *per cent* of ₹ 2,188.28 crore).

In its reply, the Government stated (December 2023) that the contracts were awarded in May 2018. Survey work was carried out by the TKCs after award of work, vendors were ordered to supply the material after survey work, and thereafter material was installed at site. Besides, there were right of way issues at the site. As a result, the work could not be completed within such a short time of seven months. During the Exit Conference (January 2024), the Government agreed that the prescribed milestones were not achieved.

The justification that seven months was too short for completing the work is not acceptable, as the scheme guidelines and timelines were known from the outset, and it was the responsibility of the DISCOMs to ensure the timely award and initiation of work.

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[5] MVVNL: 9,66,967; PuVVNL: 10,70,584; PVVNL: 6,01,698; and DVVNL: 6,83,774.

[6] MVVNL: 19,05,595; PuVVNL: 25,03,874; PVVNL: 7,39,206; and DVVNL: 13,18,213.

Incorrect/ inadequate claims of GST /state taxes

2.2.2 As per the tripartite agreement executed (July 2016) among the GoUP, REC, and DISCOMs under the DDUGJY scheme, State taxes were to be borne by the State/DISCOMs. Further, the Monitoring Committee decided (November 2020) that under the SAUBHAGYA scheme, State taxes would be borne by the respective State Government, as was the case in the DDUGJY scheme.

Instances of incorrect or inadequate claims relating to GST and State taxes by the DISCOMs are discussed in the succeeding paragraphs.

(i) Excess GST reimbursement on departmentally supplied materials

During the execution of the SAUBHAGYA scheme through turnkey contracts, DISCOMs also supplied materials such as meters, cables, and PCC poles departmentally.

Audit noticed that PVVNL supplied materials valuing ₹ 23.78 crore departmentally, based on the Stock Issue Rates (SIR) of 2018-19 of UPPCL *plus* Goods and Services Tax (GST). However, the SIR issued by UPPCL were already inclusive of GST. This led to an inflation of the project closure cost by ₹ 3.63 crore on account of the excess GST **(Appendix-2.1).** Consequently, PVVNL claimed and received excess reimbursement of ₹ 1.09 crore (₹ 1.82 crore x 60 *per cent*) towards CGST portion from REC and ₹ 1.81 crore towards SGST from the GoUP.

In its reply, the Management stated (January 2024) that the SIR was exclusive of GST, as the UPPCL letter did not specify that the rates included taxes.

The reply is not acceptable, as the SIR issued by UPPCL was inclusive of GST, as is evident from the working details of the finalisation of SIR by UPPCL.

(ii) VAT/Labour Cess not claimed from the State Government

Under the DDUGJY scheme, REC informed PVVNL in the closure documents about State taxes (SGST/VAT/WCT/Entry Tax/Labour Cess/any other tax) amounting to ₹ 133.51 crore. Out of this, PVVNL claimed only SGST of ₹ 107.95 crore from the GoUP up to April 2022, which was pointed out by audit in October 2022.

After being pointed out by Audit, PVVNL claimed the differential amount of ₹ 25.56 crore, pertaining to VAT, Labour Cess, *etc.*, from the GoUP up to February 2023, and received ₹ 21.35 crore up to January 2024. The remaining ₹ 4.21 crore was yet to be released. Thus, due to not claiming State taxes timely, PVVNL could not secure reimbursement of the total State taxes from the GoUP.

In its reply, the Management stated that effective efforts are being made to obtain the remaining ₹ 4.21 crore from the Government, which was also acknowledged by the Government (December 2023).

Recommendation 1:

The DISCOMs may ensure accurate assessment and timely claims of taxes from the State Government and the REC.

Loss due to avoidable interest obligation on excess loan from REC

2.2.3 As per the guidelines of the SAUBHAGYA scheme, the eligible amount of REC loan was limited to 30 *per cent* of the project cost.

REC approved (September 2021) the closure of the SAUBHAGYA scheme for PuVVNL at a total project cost (excluding PMA charges and State taxes) of ₹ 2,992.29 crore against a closure claim of ₹ 3,001.14 crore submitted (10 August 2021) by PuVVNL.

Audit noticed that PuVVNL was eligible for a loan of ₹ 900.34 crore (30 *per cent* of ₹ 3,001.14 crore) from REC, based on the closure claim. Since, PuVVNL had already availed ₹ 879.49 crore by October 2020, it was eligible for an additional loan of ₹ 20.85 crore (₹ 900.34 crore - ₹ 879.49 crore). However, PuVVNL demanded (16 August 2021) additional loan of ₹ 104.19 crore, against which REC released (August and October 2021) ₹ 84.18 crore. Consequently, PuVVNL had to return (June 2022) the excess loan amount of ₹ 66 crore to REC.

As a result, PuVVNL had to incur avoidable interest obligation of ₹ 3.94 crore[7] on the excess loan availed from REC.

During the Exit Conference (January 2024), the Government and the Management concurred with the audit observation and stated that the excess loan amount availed by PuVVNL was returned to REC.

Excess payment of interest on REC loan

2.2.4 REC sanctioned (September 2017) financial assistance of ₹ 644.79 crore to PVVNL under the DDUGJY scheme for 14 districts. As per the loan sanction letter, PVVNL was offered an ‘A+’ grade for the purpose of determining the interest rate due to the implementation of the Financial Re-Structuring Plan (FRP), while PVVNL’s actual grade was ‘B’.

The interest rate offered in the sanction letter was 9.75 *per cent* per annum (10.50 *per cent* for ‘A+’ rated DISCOMs *minus* a 0.75 basis point rebate) and 9.60 *per cent* per annum (10.35 *per cent minus* a 0.75 basis point rebate) with an interest reset option for three years and 10 years, respectively. PVVNL opted for the three-year reset interest rate. In March 2018, REC offered PVVNL an additional rebate of 17 basis points if the interest rate exceeded 9.75 *per cent* per annum. However, REC withdrew (March 2019) the benefit of offering the interest rate for the 'A+' category for all future disbursements under existing or fresh schemes.

Audit noticed that REC charged interest at the rate of 10.58 *per cent* instead of the effective rate of 9.83 *per cent*[8] on loan instalments amounting to ₹ 322.40 crore disbursed between 19 September 2018 and 28 December 2018. PVVNL, without verifying the applicable interest rate, made payments as demanded by REC. This resulted in the payment of excess interest amounting to ₹ 7.19 crore **(Appendix-2.2)**.

During the Exit Conference (January 2024), the Government acknowledged the issue. UPPCL directed PVVNL to communicate with REC regarding the refund or adjustment of the excess interest payment for the period highlighted by the audit.

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[7] Difference of interest rate on REC loan and time deposit rate for applicable period.

[8] RoI for A+ category at the rate of 10.75 *per cent minus* (standard rebate at the rate of 0.75 basis point *plus* additional rebate at the rate of 17 basis point).

Recommendation 2:

The DISCOMs may thoroughly assess their actual loan requirements and strictly adhere to the agreed terms with the funding agency to prevent excess interest payments.

Conclusion

There were significant deficiencies in the planning and financial management of the DDUGJY and SAUBHAGYA schemes. Off-grid connections were not incorporated in the SAUBHAGYA scheme's DPRs. In terms of financial management, the DISCOMs could not achieve key milestones, rendering them ineligible for the conversion of loans into grants amounting to ₹ 2,002.61 crore in the DDUGJY and SAUBHAGYA schemes. Additionally, incorrect and inadequate claims for GST and State taxes led to financial discrepancies, including excess GST reimbursement of ₹ 2.90 crore and outstanding reimbursements of ₹ 4.21 crore. Furthermore, excess interest of ₹ 7.19 crore was also paid on REC loans due to not verifying the applicable interest rates.