This audit inspection report has been prepared on the basis of information provided by Office of the Managing Director, Uttarakhand Power Corporation Limited (UPCL), Dehradun. The office of the Principal Accountant General (Audit) Uttarakhand, Dehradun disclaims any responsibility for any misinformation, non-submission or submission of incomplete records.

Audit inspection of records of Office of the Managing Director, Uttarakhand Power Corporation Limited, Dehradun for the period April 2019 to March 2020 was carried out in exercise of the power conferred by section 19 of the C&AG's DPC Act, 1971 read with section 143 of Companies Act, 2013. Audit Inspection was conducted by Shri Rajesh Petwal, Assistant Audit Officer, Shri Manoj Kumar Negi, Assistant Audit Officer and Shri Bhuvnesh Sharma, Senior Auditor under the supervision of Shri Amit Kumar Mishra, Senior Audit Officer during the period from 06 July 2020 to 20 August 2020.

Part-I

1. **Introduction**:- The last audit of this unit was carried out by Shri A.P. Singh, AAO and Shri Vikas Dhyani, AAO under the partial supervision of Shri Mukesh Kumar, Sr. AO in which records of the period from April 2018 to March 2019 were generally examined. In current audit, records of the period from April 2019 to March 2020 were generally examined.
2. (i) **Functions and geographical jurisdiction of the unit:**

   Main activity of the UPCL is to purchase and sell electrical energy and acquire, establish, construct and operate distribution lines and sub-stations (upto 66 KV) for distribution of energy in the state. UPCL with its corporate office at Dehradun, has units spread over 13 district of Uttarakhand State. The main function of the UPCL is to supply electricity to the industrial, commercial and domestic consumers in Uttarakhand.

   (ii) **Auditing methodology and scope of audit:**

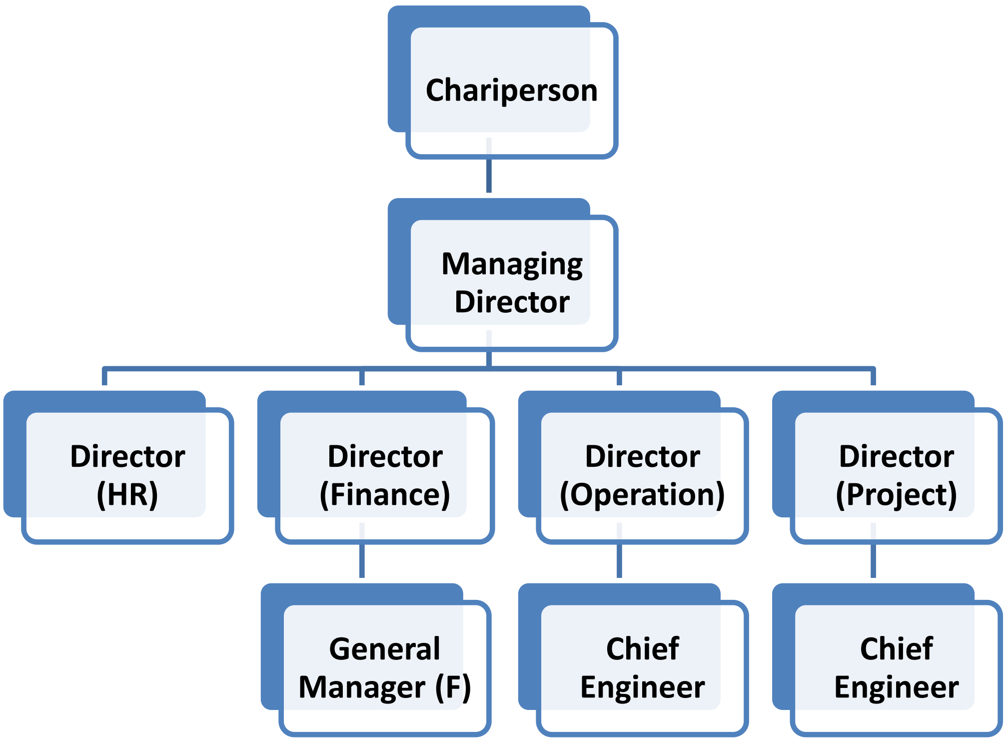
   Office of Managing Director, UPCL was covered in the audit. Inspection reports of all independent Drawing and Disbursing officers are being issued separately. This inspection report is based on findings of audit and July 2019 was selected for detailed examination and October 2019 was selected for Arithmetical Accuracy.

(iii) **(₹ in crore)**

Year	**Revenue**	**Expenditure**	**Profit/loss**
2019-20	6922	7497	575
			-

(iv) Organization structure of the unit and reporting lines.

The management of UPCL vests in a Board of Directors headed by the Chairman. The Managing Director is Chief Executive of the Nigam who is assisted by 03 Directors and other functionaries.



Part II A

Para 1 : Undue benefit to contractor.

Uttarakhand Power Corporation Limited (UPCL) a state distribution utility is a deemed trading licensee under Section 14 of The Electricity Act, 2003 (Act). UPCL procures power from Central/State sector power generating stations/Independent Power Producers (IPPs)/Captive Generating Plants (CGPs) by entering into Power Purchase Agreements (PPAs)/issuing Letter of Intents for onward supply to its consumers by utilising transmission network of State Transmission Utility.

After meeting demand of the State, UPCL sells the surplus power, as and when available, outside the State through Indian Energy Exchange (IEX) and bilateral trading. For the sale of power through IEX, UPCL entered (28th September 2016) into an agreement with M/s Mittal Processor (P) Limited (MPPL) on the following Terms and Conditions:

1.***Sale of Power***: For Sale of Power through Power Exchange, the request for bids (Price and Quality) shall be provided to MPPL by UPCL on or before 11:30 AM of the trading date.

2.***Annual Client Membership Fees***: Amount for exchanges annual client membership fee plus applicable taxes and duties charged on yearly basis by Power Exchanges, shall be payable by UPCL. Presently it is ` one lakh plus applicable taxes.

3. ***Billing:*** MPPL shall raise suitable weekly Credit Bills on UPCL through fax and email based on the actual price and volume of power sold by UPCL.

4. ***Payment Term:*** The 'Due Date' of the payment of the Weekly Credit Bills on UPCL shall be five days from the date of submission of credit bills (excluding the date of submission) either by the facsimile and /or e-mail to UPCL.

5. ***Surcharge for late payment***: Any bill amount that remains unpaid after 'Due Date', will attract surcharge @ 15% PA calculated daily for the number of days of delay beyond the 'Due Date'.

6. ***Trading Margin:*** Trading margin of 0.20 Paise/Kwh shall be applicable for power sold by UPCL on power exchanges through MPPL.

The agreement was valid up to 30th September 2017 and contract performance guarantee of ` 10.00 lakh was required to furnish by MPPL.

Audit noticed (August 2020) that the UPCL extended the same agreement for four times as per following:

Sl.N	Agreement Date	Period of Agreement	Outstanding dues at the time of entering agreement (` in crore)
1.	28 September 2017 (Supplementary Agreement)	01 October 2017 to 31 December 2017	16.15
2.	29 December 2017	01 January 2018 to 31 December 2018	10.72
3.	26 December 2018 (Supplementary Agreement)	01 January 2019 to 31 December 2019	33.55
4.	28 December 2019	01 January 2020 to 31 December 2020	71.52

The terms and condition was modified in the agreement entered on 29 December 2017 as the MPPL was also entrusted the work of purchase of Renewal Energy Certificate (Solar & Non-Solar) for UPCL without trading margin and the trading margin for the sale of Power was increased to 0.35 Paise/Kwh.

Similarly, changes were also noticed in the agreement entered on 28 December 2019 with M/s Kreate Energy (I) Pvt. Ltd:(KEIPL[1]) as the trading margin was increased to 0.45 Paise/Kwh.

Audit further noticed that the terms and conditions of the agreement entrusted with MPPL were not in favour of the UPCL as there was a provision of payment by the contractor after five days after squaring off the transaction which was unduly on the higher side. However, the same was revised to three days in the agreement entered on 28 December 2019. It was also noticed that there was no provision in any of the agreement that contractor had to clear all the outstanding dues before entering into a new agreement. The amount of bank guarantee (₹10 lakh) was also grossly inadequate in the view of the fact that the range of monthly billing of the M/s Mittal Processor was ₹ 53.25 lakh to ₹ 54.90 crore. It was also observed that Management lost the opportunity to get lower rate by inviting tender for fresh agreement instead of entering into supplementary agreements with the same contractor.

On being pointed out, Management stated (August, 2020) that the point of audit in respect of bank guarantee is well taken and there was no such provision in the agreement that all outstanding dues have to be cleared before a new contract is

[1] Formerly Known as MPPL.

entered. Further, the nature of work to be done daily without any failure and in absence of agreement even for one day there may be severe financial losses.

The reply of the management is not convincing as it should have safeguarded its financial interest and the laxity of the management in getting the bank guarantee of appropriate amount and failure to clear all outstanding dues before renewal of the agreement resulted in accumulation of outstanding dues amounting to ` 71.52 crore up to July 2020.

Para 2: -Loss of ₹ 65.22 crore due to withdrawal of Unscheduled Interchange (UI) Power not admissible in tariff during 2016-17 to 2019-20.

Unscheduled Interchange (UI) is the mechanism developed to improve grid efficiency, grid discipline, accountability and responsibility by imposing charges on those who defer from their scheduled generation or drawal. Unscheduled generation and drawal of electricity puts the whole grid and many other electrical equipment in to danger by dumping large fluctuations in frequencies.

The whole motto of UI mechanism is to get away with the grid disturbance issues faced by power sector. There was very low frequency down to 48Hz during peak hours due to over drawal by the SEBs/Distribution companies and a frequency as high as 51Hz during off-peak hours because of not backing down the generation during this period. This caused frequent grid disturbance, tripping of huge turbine & generators, transmission & distribution lines and the supply to huge block of customers was affected for several hours in a day.

UI increases efficiency of the grid: Grid efficiency is definitely increased by meeting merit order dispatch, charging utilities and beneficiaries for deviating from the scheduled supply/drawal. Thus, any utility which draws power without scheduling it had to pay a higher amount.

To maintain the grid UI regulations were introduced. Central Electricity Regulatory Commission (Unscheduled Interchange charges and related matters) (Amendment) Regulations, 2010 was introduced for better management of the grid.

Further, UERC in its Order dated April 11, 2015 had already directed the UPCL to restrict the net drawal from the grid within its drawal schedules whenever the system frequency is below 49.90 Hz in order to ensure grid discipline

When the UPCL fails to maintain the grid frequency or withdraws power below the frequency fixed by the UERC it may disallow the expenditure incurred on purchase of such power. The Commission again directed UPCL in tariff of 2019-20 that it should neither overdraw power at frequency below 49.90 Hz nor resort to load shedding due to improper procurement planning. Further, any drawal below 49.90 Hz shall not be allowed by the Commission. Different rates for the drawal of power at each frequencies is predetermined. UERC allows drawal till rate of ₹4.07 is achieved[2].If UPCL procures power at a higher rate

[2] The rate when grid frequency is 49.90 Hz

same is disallowed. The details of the UI power procured by UPCL during 2018-19 and 2019- 20 is given in the table below:

UI Overdrawal 2017-18

Month	Overdrawal (kWh)	Overdrawal Payment (Rs)	Net Payment after revision	Per unit rate	Allowed rate	Expenditure not recoverable
Apr-17	5411050	42651577	42702725	7.89176315	4.07	20679752
May-17	22846210	97991900	101860803	4.45854271	4.07	8876728
Jun-17	9114562	40168023	40168023	4.40701627	4.07	3071756
Jul-17	15754248	79403550	79613507	5.05346285	4.07	15493718
Aug-17	688806	-3190897	-3190897	-4.6325047	4.07	0
Sep-17	1010435	12845675	12845675	12.7130147	4.07	8733205
Oct-17	23382	5673803	5673803	242.656873	4.07	5578638
Nov-17	0	0	0	0	4.07	0
Dec-17	0	0	0	0	4.07	0
Jan-18	0	0	0	0	4.07	0
Feb-18	0	0	0	0	4.07	0
Mar-18	0	0	0	0	4.07	0
FY 2017-18	54848693	275543631	279673639			**62433797**

UI Overdrawal 2018-19

Month	Overdrawal (kWh)	Overdrawal Payment (Rs)	Net Payment after revision	Per unit rate	Allowed rate	Expenditure not recoverable
Apr-18	13490064	48181293	**48181293**	3.57161337	4.07	0
May-18	25613337	173792470	**175177785**	6.8393191	4.07	70931503.4
Jun-18	22985789	110600569	**110600569**	4.81169339	4.07	17048407.8
Jul-18	29245801	111163462	**111121295**	3.79956408	4.07	0
Aug-18	0	5027653	**5027653**	0	4.07	0
Sep-18	43498	4900416	**4900416**	112.658421	4.07	4723379.14
Oct-18	0	6260031	**6260031**	#DIV/0!	4.07	0
Nov-18	8081264	26055158	**26262272**	3.24977281	4.07	0
Dec-18	3838756	23306014	**23306014**	6.07124131	4.07	7682277.08
Jan-19	6394381	145086468	**144874089**	22.6564681	4.07	118848958
Feb-19	0	54671143	**54217248**	0	4.07	0
Mar-19	0	42856697	**42856697**	0	4.07	0
FY 2018-19	109692890	751901374	**752785362**	6.86266322		**219234526**

UI Overdrawal 2019-20

Month	Overdrawal (kWh)	Overdrawal Payment (Rs)	Net Payment	Per unit rate	Allowed rate	Expenditure not recoverable
Apr-19	813137	78901008	78901008	97.03285916	4.07	75591540.41
May-19	4711769	115762454	115762454	24.56878807	4.07	96585554.17
Jun-19	9756712	78528047	81940671	8.398389847	4.07	42230853.16
Jul-19	5337984	38246647	38885835	7.284741768	4.07	17160240.12
Aug-19	6338762	47838430	47838430	7.546967373	4.07	22039668.66
Sep-19	2681772	31854244	32861848	12.25378145	4.07	21947035.96
Oct-19	15665915	61727556	60519739	3.863147413	4.07	0
Nov-19	18757340	54815778	54815778	2.922364152	4.07	0
Dec-19	8056592	57560635	56826092	7.053365989	4.07	24035762.56
Jan-20	10192801	53511393	54096317	5.307306304	4.07	12611616.93
Feb-20	1807020	10530392	10530392	5.827490565	4.07	3175820.6
Mar-20	7790377	39074520	39074520	5.015741857	4.07	7367685.61
FY 2019-20	91910181	668351104	672053084	7.312063546	4.07	**322745778.2**

From above it is evident that UPCL made of overdrawal of power below 49.90 Hz amounting to ₹6.24 crore in 2017-18, ₹21.92 crore in 2018-19 and ₹32.27 crore in 2019-20 over and above the prescribed rate.

Further, UERC had already disallowed the recovery of the UI power charges above the prescribed rate amounting to ₹ 11.03 crore of 2016-17, through tariff in the order dated 13 August 2018. The UI charges of 2016-17 was disallowed in the true up petition. It is also pertinent to mention that for better grid management UPCL entered in an agreement with M/s Qu next Decision Sciences Pvt. Ltd. w.e.f. April, 2016 at a cost of ₹ 6.10 crore to leverage real time opportunities including URS to reduce the cost of meeting the load of the end customer, merit order to integrate market and reduce imbalances Despite taking services of the professionals UPCL had to bear loss amounting to ₹ 65.22 crore during 2016-17 to 2019-20 in form of UI over drawal payment which are not passed on in the tariff.

Management replied that ideally the grid demand should be perfectly matched with the energy availability but it does not happen in real time. Also, as per the DSM mechanism hydro generators cannot be held responsible for the disturbance and if any hydro reduces its generation it affects UPCL's demand position leading to UI. Also, UPCL receives more than 55 percent of its power from hydro generators which is unpredictable in nature.

The reply of the management is not convincing as point 5 of the UERC (Deviation Settlement Mechanism and Related Matters) Regulations, 2017 holds generating companies equally responsible for the deviation from the approved plan and for grid discipline. Further, current regime of regulation is covered under 15 minute power slot which means there is 15 minute time with the company to manage grid frequency but NRLDC is moving from 15 minute power slot to 5 minute power slot (refer to the sub group report on introduction of 5 minute scheduling, metering accounting and settlement in Indian Electricity Market) which will make it more difficult for UPCL to manage UI power. Therefore, UPCL, should improve its SCADA and RTU management for the better UI management.

Para 3: - Additional financial burden due to lost opportunity of claiming the additional grant under DDUGJY Scheme on account of slow progress of projects.

As per the guidelines of DDUGJY scheme the utility is eligible for the additional grant of 5 percent on achievement of prescribed milestones wherein the timely completion of the projects is one of the milestone which the utility has to adhere. The guideline further states that the projects, under the scheme shall be completed within a period of 24 months from the date of issue of Letter of Award (LoA) by the utility.

The company has undertaken 13 projects under DDUGJY scheme. On review of the progress of the projects it has been observed that till date none of the projects has been completed in totality. In six projects out of the total 13 projects work done under various sub-components are very slow.

The progress of above mentioned projects under various sub-component ranges from 0 to 71 percent. It has been further noticed that progress in Pauri is very slow which ranges from 0 percent to 56 percent followed by Haridwar where the progress of various subcomponents ranges from 34 percent to 56 percent only.

Further, Uttarakhand Electricity Regulatory Commission in its order dated 06 April 2017 has granted in-principle approval for going ahead with the capital works proposed under DDUGJY for 13 Districts of the Uttarakhand State at an outlay of ` 845.33 Crore. The commission has further stated that any slackness in the part of Petitioner which results in disallowance of issuance of Additional Grant 50% of loan component (i.e. 5% of project cost under the scheme) from the MoP shall be treated as laxity on its part and shall not be allowed as pass through in ARR/tariff. The total sanctioned cost of the projects is ` 837.81 crore and the company is eligible for additional grant of ₹ 41.89 crore (5 percent of ` 837.81 core).

As the schedule date of completion of all the projects has already been lapsed by more than one year, the company has lost the opportunity of availing the additional grant of ` 41.89 crore. This will result in additional financial burden to the company since, the same will not be allowed as pass through in ARR/tariff as per the UERC order dated 06 April 2017.

The details in this regard is given below:

Name of the District	Name of the component	Scope as per survey	Actual	Physical progress in *per-cent*
Haridwar	LT Line (CKm)	225.121	127.1	56.46
	11 kV Line (CKm)	18.243	10.421	57.12
	Meter (LT consumer) (Nos)	3943	1343	34.06
US Nagar	LT Line (CKm)	655.412	461.821	70.46
	11 kV Line (CKm)	68.819	49.191	71.48
	Meter (LT consumer) (Nos)	2200	1400	63.64
Bageshwar	DT (Nos)	106	64	60.38
	LT Line (CKm)	156	103	66.03
	11 kV Line (CKm)	84.65	39.48	46.64
	Meter (LT consumer) (Nos)	1780	957	53.76
Dehradun	DT (Nos)	241	172	71.37
	LT Line (CKm)	800	614	76.75
	11 kV Line (CKm)	212.435	147.573	69.47
	Meter (LT consumer) (Nos)	500	0	0
Paurhi	DT (Nos)	163	40	24.54
	LT Line (CKm)	332.595	187.249	56.30
	11 kV Line (CKm)	131.757	42.359	32.15
	Meter (LT consumer) (Nos)	4105	0	0
Tehri	DT (Nos)	385	245	63.64
	LT Line (CKm)	655.691	465.968	71.07
	11 kV Line (CKm)	302.962	206.594	68.19

Management replied that M/s REC Ltd has given time extension for implementation of DDUGJY projects in Uttarakhand upto 30.09.2020. The reply of the company is not acceptable since the extension of time for completion of the projects has been given so that the grant sanctioned for the projects will not be lapsed. This is evident from the fact mentioned in extension letter of REC that the cost of the balance work beyond the expiry of the extended period will have to be borne by the utility.

Thus, the additional grant for which the projects are to be completed within 24 months from date of award and same was not done, which may result in incurring avoidable loss to ₹ 41.89 crores.

Matter was brought to the notice of the management.

Para 4: - Award of contracts in violation of clause of SBD, additional financial burden of ` 2.14 crore and non-deduction of LD of ` 2.14 crore.

On review of the file pertaining to award of contracts under Saubhagya Scheme, the following were noticed:

(**a) Award of contract under Saubhagya Scheme in violation of the clause 30.5 "Contract Agreement Documentation" and consequential delay of works under Saubhagya.**

As per the clause 30.5 " Contract Agreement Documentation"The sequence of contract agreement documentation is given here under:

i. Issuance of Letter of Intent (LoI) by owner and its unconditional acceptance by the bidder within two weeks from date of issuance of LoI
ii. Mutual agreement on PERT chart / Project Execution Plan duly signed and accepted by turnkey contractor and Employer within two weeks from date of acceptance of LoI
iii. Submission of Contract Performance Security, within 28 days from date of LoI, against supply & erection contract as per clause 9.3.1 of GCC
iv. Letter of Award by owner and its unconditional acceptance by the bidder.

However, it has been observed that contracts were awarded before obtaining the performance bank guarantee and execution of agreement with the contractor as detailed below:-

Name of the contractor	Date of LOI	Date of agreement.	Date of PBG	Date of award
M.S Sai Construction and Builders, Ghaziabad	23.05.2018	12.10.2018	Sep 2018 & Oct 2018.	23.05.2018
M.S Ados Renewable Pvt Ltd, Dehradun	23.05.2018	17.07.2018	10.07.2018	23.05.2018
M.S Mishrilala Associates Pvt Limited	23.05.2018	24.07.2018	02.07.2018 & 04.07.2018	23.05.2018
M.S Vertex Power Control Pvt Limited	23.05.2018	16.07.2018	06.07.2018 & 11.07.2018	23.05.2018

Obtaining performance bank guarantee and execution of agreement was pre-requisite for any contract for the work to be completed within prescribed time. If the contracts have been awarded without obtaining performance bank guarantee and if there was undue delay in execution of agreement with the contractor, it was very likely that the work awarded will not be taken seriously which may finally result in delayed completion of work. The utility will also not be able to held the contractor legally liable for the non-performance and safeguard its financial interest in the absence of performance bank grantee.

The above is evident from the correspondence available in records dated 07.07.2018 wherein the difficulties faced by the Executive Engineers of divisions concerned in implementation of the works under Saubhagya Scheme was brought to notice and it was stated that the contractors were not taking the work seriously in the absence of agreement.

The agreements with three contractors were signed in July 2018. However, in case of M/s Sai Construction and Builders, the agreement could be signed as late as on 12 October 2018. It was further observed that the progress of the work was very slow in the absence of agreement in case of of M/s Sai Construction and Builders as evident from various correspondences (27 August 2018, 01 September 2018 and 04 September 2018) which states that the contractor is not working seriously.

In reply it has been stated that the contracts were signed after obtaining PBG and in line with the provisions of SBD. It has been further stated that delay in execution of agreement with M/s Sai Construction was due to reduction in scope of work. The reply of the company is not tenable as the performance bank guarantee is to be taken within 28 days from the letter of intent and agreement is to be signed before award of the contract to contractor as per SBD, hence, the PBG was not taken as per SBD.

(b)Additional financial burden amounting to ` 2.14 crore due to lost opportunity of claiming the additional grant under Saubhagya Scheme.

As per guidelines of the scheme, States are required to complete the work of household electrification by 31 March 2019. However, additional grant 50% of loan component (i.e. 5% of project cost under the scheme) will be released subject to achievement of 100 percent household electrification of all willing households by 31 Dec.2018. As the work of electrification could not be achieved up to Dec.2018, the utility had to forego the claim of additional grant amounting to ` 2.14 crore (5 percent of ` 42.76 [3]crore) eligible under the scheme. This will result in additional financial burden on the company since the same may not be allowed through in ARR/tariff.

In reply management stated that the works under SAUBHAGYA scheme were extended upto March 2019. The matter regarding approval of additional grant is under consideration at MoP, GoI level. The issue would be watched in next audit.

**(C)Non-deduction of liquidated damages amounting to ` 2.14 crore from the contractors: -** The time limit for the works under Saubhagya Scheme was Dec.2018. Audit noticed that the work of M/S Sai Construction (` 7.39 crore), M/s Ados Renewable (` 13.31 crore), M/s Mishrilala Associates (10.89 crore), M/s Vertex Power (11.16 crore) was extended upto March 2019 but UPCL failed to recover liquidated damages amounting to ` 2.14 crore (5 percent of ` 42.76 crore) from the contractors.

In reply management stated that since the scheme was extended upto March 2019,time extension to all the firms for SAUBHAGYA work upto March 2019 was provided. The reply of the company is not tenable since the extension of the scheme by MoP does not mean that the firms are to be provided extension without levy liquidity damages. Since the delay was on part of the contractors as mentioned in point no. (a), the company must deduct liquidity damages from the contractors.

[3]5 percent of the awarded cost has been taken into consideration since the awarded cost is less than the sanctioned amount under the scheme.

Para 5: - Payment of price variation to the contractor in violation of the clause 1.0.9 (Sample forms and Procedure).

The work of electrification of un electrified revenue villages under Package no.4 and Package no.6 of DDUGJY were awarded to M/s Saggi Electrical Co. in February 2016. The total awarded value (Supply and Erection) for both the works were 13.11 crore and 8.06 crore respectively. The Schedule completion date for both the works was April 2017. However, work was not completed and extension was granted up to 01.01.2019 for Package no.4 and upto 31st March 2019 for Package no.6. During the implementation of both the projects contractor M/s Saggi Electrical Co was given the price escalation of ` 17.73 lakh and ` 57 lakh on various items such as steel tubular poles, distribution transformer and cables etc.

As per the clause 1.0.9 of the standard biding document (Sample forms and Procedure), No price increase shall be allowed beyond the original delivery dates unless specifically stated in the Time Extension letter, if any, issued by the Employer. It has been observed that the time limit extension letter issued to the contractor in respect of Package no.4 and 6 do not specifically mention that the contractor is entitled for price escalation beyond the schedule date of delivery. However, an amount of ` 17.73 lakh under package 4 and an amount of ` 57 lakh under package 6 was paid to contractor on account of price variation.

In reply Management stated that no price variation was allowed for the period beyond the original contractual delivery schedule. The reply of the company is not tenable as work was scheduled to be completed in April 2017. However, the price escalation was paid for the items that were supplied beyond the schedule date of completion of the work though the time limit extension letter issued to the contractor in respect of Package no.4 and 6 do not specifically mention that the contractor is entitled for price escalation.

Para 6: -Avoidable expenditure ` 3.51 crore.

As per the order Uttarakhand Electricity Regulatory Commission on Generation Tariff of UJVNL for FY 2011-12 "*As the Regulations provides for the recovery of income tax directly by the generating company from the beneficiaries without making any application, the Commission has not considered the Income Tax while determining the tariff of these generating stations for FY 2010-11. UJVNL, shall accordingly raise bills for the purpose of claiming its income tax liability from its beneficiaries including HPSEB, in addition to the tariff approved by the Commission*".

Thus, Uttarakhand Power Corporation Limited (UPCL) was liable to reimburse any Income Tax arising to Uttarakhand Jal Vidyut Nigam Limited (UJVNL) on account by power purchased by UPCL.

It was observed that UJVNL claimed following amount from UPCL on account of reimbursement of Income Tax during 2015-16 to 2018-19.

(Amount in `)

Sl. No.	**Financial year**	**Amount of Income Tax claimed by UJVNL**	**Paid by UPCL**
1.	2015-16	471929540	471929540
2.	2016-17	94811616	94811616
3.	2017-18	97834868	97834868
4.	2018-19	10399538	10399538
	Total	**674975562**	**674975562**

Audit noticed that UJVNL also claimed the amount of interest paid on Income Tax under section 234 (B) & 234 (C) due to less/delay deposit of Income Tax from UPCL. Further, the amount of interest paid by UJVNL was not shown separately but included in the amount of Income Tax paid. The interest paid by UJVNL during 2015-16 to 2018-19 is given below:

(Amount in `)

Sl. No.	**Financial Year**	**Interest**
1.	2015-16	28382746
2.	2016-17	2604354
3.	2017-18	3061575
4.	2018-19	1097973
	Total	**35146648**

Therefore, during 2015-16 to 2018-19 UJVNL claimed/got reimbursement of ` 3.51 crore interest on Income Tax paid.

The regulation provides for reimbursement of Income Tax only and any penalty or interest paid thereon due to delay or incomplete payment of Income Tax should not be reimbursed by UPCL as it was fault on the part of assesse (UJVNL).

Thus, UJVNL made wrong claims of Income Tax amounting to ` 3.51 crore during 2015-16 to 2019-20 and UPCL also paid the same without verifying or obtaining the working papers of calculation of Income Tax from UJVNL.

Management replied that UPCL has holdup the payment of equal amount from the bills of UJVNL and the same will be released only after receiving the complete working of income tax from the UJVNL. Reply of the management is not convincing as management should have asked for working of income tax from UJVNL before reimbursing the tax amount to the UJVNL.

Para 7: -Excess expenditure of ₹ 2.71 crore on purchase of REC

UERC (Compliance of Renewable Purchase Obligation) Regulations, 2010 provides that:

Every obligated entity shall purchase a minimum percentage of its total electricity requirement (in kWh) from renewable energy sources under the renewable purchase obligation during each financial year as specified by the Commission under UERC (Tariff and Other Terms of Supply of Electricity from Co-generation and Renewable Energy Sources) Regulations, 2010. Also, the company can purchase the Renewable Energy Certificates issued under the CERC (Terms and Conditions for recognition and issue of Renewable Energy UERC (Compliance of Renewable Purchase Obligation) Regulations, 2010 Certificate for Renewable Energy Generation) Regulations, 2009, shall be the valid instruments for the discharge of the mandatory obligations set out in these regulations for the obligated entities to purchase electricity from renewable energy sources. Company can use Non solar RPO (In excess of the target) to meet solar targets however such adjustment is allowed for upto 15 percent of the target set. The target of the Solar and Non Solar RPO *vis- a-vis* achievement by the UPCl is given in the table below:

Regarding Non-Solar RPO			
			All figures in MU
Year	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Target fixed by UERC for current year	532.37	665.08	607.72
Backlog of previous year	787.68	0.00	0.00
Total Target	**1320.05**	**665.08**	**607.72**
Achievement			
Through Energy	1166.49	660.75	882.28
Through REC	153.56	192.92	0.00
Carry forward	0.00	0.00	139.00
Total Achievement	**1320.05**	**853.67**	**1021.28**
Deficit (-)/Surplus (+)	**0.00**	**188.59**	**413.56**
Adjusting 15% in Solar RPO	**0.00**	**-49.60**	**-53.99**
Net Deficit (-)/Surplus (+)	**0.00**	**138.99**	**359.57**
Regarding Solar RPO			

All figures in MU			
Year	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**
Target fixed by UERC for current year	266.19	437.98	429.85
Backlog of previous year	161.32	0.00	0.00
Total Target	**427.51**	**437.98**	**429.85**
Achievement			
Through Energy	317.01	368.38	365.86
Through REC	110.50	20.00	10.00
Carry forward	0.00	0.00	0.00
Total Achievement	**427.51**	**388.38**	**375.86**
Deficit (-)/Surplus (+)	0.00	-49.60	-53.99
Adjusting 15% from Non-Solar	0	49.6	53.99
Net Deficit(-)/Surplus (+)	**0.00**	**0.00**	**0.00**

It can be seen from above that on one hand UPCL failed to achieve the target of Solar RPO during 2018-19 and 2019-20 but at the same time it had procured excess non solar RPO during same period and the same was used for meeting the solar targets.

The status of the REC purchased by the UPCl during 2018-19 and 2019-20 is given below :

(Amount in `)

Month	**Type**	**Number**	**Cost per REC**	**Cost**	**Additional cost**	**Total cost**
Feb 2019	Solar	20000	1500	30000000	4072000	34072000
Feb 2020	Solar	10000	2400	24000000	3116000	27116000

Audit noticed that UPCL also procured Solar REC amounting to ₹ 2.71 crore during 2019-20 whereas the target of RPO was already achieved. It was also noticed that, UPCL procured the RECs in 2019-20 at rates which were 60 percent higher than that of previous year.

Thus, the excess purchase of the REC by the UPCL resulted in excess expenditure amounting to ₹ 2.71 crore by the company.

Management replied that to meet the RPO obligations these RECs were purchased and due to COVID pandemic the target of RPO was reduced because of overall reduction in demand of electricity in the state. However, by then the RECs were already purchased. Reply of the UPCL is not convincing as the lock down was proposed on 22nd March in the State and the RECs serve very little purpose and is procured only with the sole purpose of meeting RPO obligation whereas Solar power can be further sold to generate revenue. Therefore, RECs should be used as last resort to meet the pending targets but UPCL procured RECs in February 2020 at higher rates (in comparison with the previous year). UPCL should have confirmed the requirement in March only then it should have procured the balance RECs.

Para 8 :- Excess Payment of Electricity Duty amounting to ₹ 8.12 crore by UPCL

UERC (THE ELECTRICITY SUPPLY CODE) REGULATIONS, 2007 point 3.3.3 in respect of Complaint on consumer bills provides that :

(1) In case of any complaint being filed, the Licensee shall acknowledge the consumer's complaint immediately, if received in person, or within 3 days from the date of receipt if received by post.

(2) If no additional information is required from the consumer, the Licensee shall resolve the consumer's complaint and intimate the result to the consumer within 15 days of receipt of the complaint. In case, any additional information is required, the same shall be obtained, the issue resolved and result intimated to the consumer within 30 days of receipt of the complaint. Till the complaint on the bill is resolved, the consumer shall either pay the amount specified in the disputed bill or the amount raised in the provisional bill by the Licensee for the disputed period based on average consumption of last three consecutive undisputed bills. Amount so recovered shall be subject to final adjustment on resolution of the complaint.

Further, UPCL levy Electricity Duty on the power consumers as per the order dated 2.02.2016 which is in line with the Uttar Pradesh Electricity Duty Act, 1952. The order specifies the rate of electricity duty to be charged by each category of consumer. The rate of duty is fixed on each unit consumed/booked by UPCL.

Audit noticed that during 2019-20 UPCL did not revise the units booked while revising the bill amount of the consumers. The revision of the incorrect bill was done by revising the bill amount only. Thus, non-revision of the units booked resulted in overpayment of electricity duty by the divisions because ED is paid by the UPCL on the Units sold/booked and not on bill amount. Audit analysis of the non-domestic bill revision cases revealed that UPCL revised electricity bill amounting to ₹74.30 crore using online CCBR[4] facility of the UPCL and ₹10.25 crore were adjusted manually. In both the cases the units booked/sold were not revised.

Considering the tariff rate at ₹4.35 per unit (highest rate for industrial consumers) UPCL failed to adjust 406459635.53 units of power. Further,

[4] Consumer credit in bill revision

considering minimum rate of electricity duty for non-domestic i.e ₹0.20 paise per unit, UPCL paid a minimum of ₹8.12 crore excess[5] electricity duty during 2019-20.

Thus, due to non-adjustment of units while adjusting the amount of the incorrect bill UPCL paid excess Electricity Duty amounting to ₹ 8.12 crores.

Reply of Management not received.

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[5] Taking conservative approach of calculation: Highest rate of tariff is considered to calculate minimum number of units and lowest electricity duty is considered to calculate the minimum amount that was actually overpaid. Actual amount may be much more.

Para 9:-Loss of ` 50.48 crore due to Excess supply of power

UERC (Terms and Conditions for Determination of Multi Year Tariff) Regulations, 2015in respect with the Annual Performance Review specifies as under:

- Under the multi-year tariff framework, the performance of the Generating Company or Transmission and Distribution Licensees or SLDC, shall be subject to an Annual Performance Review.
- The scope of the Annual Performance Review shall be a comparison of the actual performance of the Applicant with the approved forecast of Aggregate Revenue Requirement and expected revenue from tariff and charges and shall comprise of following:

a) A comparison of the audited performance of the applicant for the previous financial year with the approved forecast for such previous financial year and truing up of expenses and revenue subject to prudence check including pass through of impact of uncontrollable factors;

b) Categorisation of variations in performance with reference to approved forecast into factors within the control of the applicant (controllable factors) and those caused by factors beyond the control of the applicant (un-controllable factors[6]).

Thus, UPCL files its ARR projecting the revenue and the expenditure with the regulator. On the basis of the ARR Regulator determines the quantum of power to the supplied to each category in its tariff.

The consumer category wise sales approved are finalized only after the audited accounts and the true up of the tariff.

UERC compare actual category wise booking of power with the projected sales and if the average billing rate of the categories does not match with the tariff it disallows such sale of power.

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[6](a) Force Majeure events, such as acts of war, fire, natural calamities, etc.(b) Change in law, judicial pronouncements and Orders of the Central Government, State (c) Economy wide influences such as unforeseen changes in inflation rate, market interest rates, taxes and statutory levies (d) Variation in power purchase expenses for the Distribution Licensees etc.(e) Variation in freight rates. (f) Variation on account of change in hydro-thermal ix due to adverse natural events; and (g) Variation in number or mix of consumers or quantities of electricity supplied to the consumer (h) Primary fuel cost.

Scrutiny of the true up petition of the 2018-19 revealed that UPCL booked 11853.72 MU sales of power during 2018-19 against different categories of consumer, which when compared by UERC with the average billing rate[7], revealed that only 11690.30 MU power was actually supplied by the UPCL.UERC disallowed the 136.38 MU excess power booked by the UPCL in 2018-19. The category wise details of the excess power booked are as under:

Sl. No.	**Categories**	**Approved in the tariff order dated March 21, 2018** ***(Units in MU)***	**Claimed in the petition by UPCL** ***(Units in MU)***	**After Truing Up approved by UERC** ***(Units in MU)***	**Excess power booked**	**Cost of power supply per unit (in `)**	**Total cost[8] of supply of electricity (in `)**
1	Domestic	2950.13	2849.2	2811.2	38	2.65	100700000
2	Non-domestic	1319.74	1301.34	1286.15	15.19	4.35	66076500
3	Public Lamps	52.63	49.16	47.74	1.42	4.85	6887000
4	Private Tubewell/Pump sets	368.8	190.13	187.79	2.34	1.84	4305600
5	Govt. Irrigation system	161.23	154.42	149.56	4.86	4.85	23571000
6	Public water works	398.41	411.07	397.47	13.6	4.85	65960000
7	Industrial consumers	6392.74	6665.69	6607.45	58.24	3.85	224224000
8	Mixed Load	186.78	177.75	175.04	2.74	4.8	13152000
9	Railway Traction	23.45	27.91	27.91	0	4.35	0
Grand Total		**11853.72**	**11826.68**	**11690.3**	**136.38**		**504876100**

It is evident from the above table that the excess power of supply was136.38 MU and the cost of its ` 504876100 which was disallowed by the UERC.

Analysis of the Annual Performance Review of UPCL revealed the following:

- The sales submitted on the basis of assessment were only 1.4% of the total sales and assessed connections were 3.41% of the total connections and the average percentage of NA/NR/IDF/ADF/RDF was about 13%.
- There was low Average Billing Rate (ABR) of almost all the categories. Some of the divisions ABR were abnormally low as compared to the ABR approved by the UERC including the additional

[7] The average rate based on the available data of the consumers of that category.
[8] Total cost of supply of electricity=Excess power supply X Cost of power supply per unit.

energy charges approved for recovery of Fuel Charge Adjustment (FCA) for the financial year 2018-19.

The true up of the power supplied by the UPCL for FY 2018-19 was finalized by the UERC in April 2018, 2020.

Thus, UPCL had to bear a loss amounting to ` 504876100 in respect of excess supply of power for the financial year 2018-19.

Management accepted the audit observation and stated that that due to recasting of distribution losses and UERC tariff regulation 2015 UPCL had to bear a loss of ₹ 18.88 crore and remaining amount was allowed in tariff. Also, the review petition in this regard was rejected by the UERC. Further, the excess power was booked in different categories because the commercial diaries are being made manually in UPCL. The fact remains that due to wrong booking of power, UPCL had to bear a loss of ₹ 18.88 crores.

Para 10: Non-realization of arrears.

Commercial & Revenue manual of Uttar Pradesh Power Corporation (which is being followed by Uttarakhand Power Corporation Limited) provides that in case a consumer does not pay electricity dues against him, within 30 days from the receipt of bill, his connection would be disconnected and demand notice for recovery of electricity dues will be issued u/s 3 of UP Electricity Dues and Recovery Act, 1958 for depositing of dues against him within 30 days. In case consumer again fails to deposit the dues in the stipulated period then a recovery certificate (RC) U/S-5 of UP Electricity Dues and Recovery Act, 1958 would be issued through concerned District Authority. All such action for recovery of dues should be completed within six months.

During scrutiny of the records of the revenue realization (January 2019), it was observed that the arrears in respect of Government and Non-Government consumers have increased from March 2019 to March 2020. The details are as follows:

(` in crore)

Sl. No.	**Category**	**Arrear as on March 2019**	**Arrear as on March 2020**
1.	Government Consumers	318.37	523.60
2.	Non-government Consumers	1412.71	1764.19
Total		**1731.08**	**2287.79**

It is evident from above that the arrears increased by ` 556.71 crore i.e. ` 1731.08 crore in March 2019 to ` 2287.79 crore in March 2020. UPCL should make sincere efforts and raise the matter with top Management/HoD of the departments for early realization of the remaining amount in case of Government consumers and should take action in accordance with above mentioned manuals in case of Non-Government consumers.

Part-II B

Para 1. Non-compliance of guidelines of DDUGJY and Saubhagya

(a) Non-claiming of TDS deducted on interest amounting to `53.41 lakh under DDUGJY scheme: - As per the sub-clause 6.4 of the clause 6 "Fund Management by the Utility" since capital subsidy/grant under DDUGJY is Govt. of India money and Utilities are only the custodian of that fund, the Utilities shall take necessary steps to seek exemption from Income Tax Department regarding deduction of Tax at Source by the bank on interest accrued on un-utilized fund under DDUGJY. However, in case of deduction of TDS by bank, the Utilities shall claim refund of the deducted amount from Income Tax Department directly while filing annual tax return and remit it to Ministry of Power's account.

It has been observed that during the period 2016-17 and 2017-18 an amount of ` 42.54 lakh and `10.87 lakh respectively was deducted on account of TDS on interest earned. As per the guidelines, the utility had to claim the TDS amount from Income Tax Department directly while filing annual tax return and remit it to Ministry of Power's account. However, till date the amount has not been claimed. The utility may take necessary steps to claim the TDS amount from Income Tax Department and remit the same in MoP account.

Management replied that TDS deducted in 2016-17 and 2017-18 was claimed by UPCL and the same has been received which will be remitted to Mop account. However, supporting documents for TDS received has not been furnished. The same may be furnished. Point may be retained since the interest has not been remitted in Mop account yet.

(b) Non-seeking of exemption from Income Tax Department for deduction of TDS under Saubhagya Scheme: -The utility has not sought exemption for deduction of TDS under the scheme. An amount of `2.13 lakh has been deducted on account of TDS on interest earned during the year 2019-20. The same may be claimed from Income Tax Department and shall be remitted to MoP Account.

Management stated that TDS deducted will be remitted to MoP Account after claiming from income tax department. Point may be retained since the TDS is yet to be claimed from Income Tax Department.

Para 2: Non-compliance of REC directions regarding Quality assurance of DDUGJY.

(a) The Rural Electrification Corporation Limited vide its letter dated 30.11.2018 directed the project implementing agencies to instruct project management agency(PMA) to assess the quality of the work under DDUGJY proactively and report the same to the utility. It has been further directed that extract of report as assessed by PMA to be sent to REC format prescibed.PMA had to assess the quality of the work with reference to the Critical defects ,Major defects and Minor defects.

Critical Defects: Dangerous deficiencies on safety, ground clearance, equipment earthing and protection come under the category of critical defects. These defects can have repercussions in form of compromised safety and poor quality of supply.

Major Defects:serious deviations from drawing and specifications with respect to contract come under the category of major defects. These defects can lead to cost variation and compromised quality of the asset created.

Audit noticed that the following defects were pointed out by PMA as on April 2020 in 13 projects as detailed below :-

Name of the Project	No. of critical defects	No. of major defects
Alomora	209	336
Chamoli	112	164
Champawat	308	713
Pithoragarh	33	97
Tehri	132	282
Uttarkashi	235	208
Haridwar	535	168
Rudraprayag	65	86
Bageshwar	92	276
PauriGarhwal	296	178
Nainital	84	114
US Nagar	181	440
Dehradun	258	337

For timely completion and commissioning of the projects, the critical and major defects pointed out by PMS needs to be rectified without delay. Though, the details of defects pointed out by the PMC have been furnished, the details of defects rectified as on date is not available. The utility has not sent the consolidated report of the defects pointed out by PMC in the prescribed format mentioning total no. of defects pointed out and rectified.

Thus Audit could not comment on the actual rectification and the critical and major defects still persistent in the projects.

In reply management stated that most of the defects has been rectified for which the reports are awaited and remaining defects will be rectified soon. In this regard, the reports pertaining to rectification of errors and further progress in rectification of errors may be furnished. Further, a copy of the report furnished to REC regarding the same may also be furnished to audit as and when the same is sent to REC.

(b) The Rural Electrification Corporation Limited vide its letter dated 22.08.2016 has directed that “ A clause should be added at appropriate place in the SBD to the effect that in case of conflict between the provisions (relating to financial criteria/parameters) of the SBD and the GFR, the provision of the latter (i.e GFR) shall prevail. However, no such clause has been incorporated in SBD.

Reply has not been furnished by management.

Para 3. Loss of ` 1.05 lakh due to non-submission of supervision charge.

The Government of Uttarakhand grant permission and issue guidelines for installation for over ground (mobile towers) and underground (optical fiber cables) infrastructure to facilitate better quality of telecom services and internet speed under Uttarakhand Right of Way-2018 policy.

Reliance JioInfocom Limited (RJIL) vide its application number RJIO/UK/2018-19/12/UPCL/03 dated 07-12-2018 sought permission for use of 69700 numbers of electricity poles under the jurisdiction of UPCL in the Uttarakhand State for laying any type of communication cables i.e. OFC (Optical Fibre Cables), Co-Axial.

As per the letter No. 1363/UPCL/Com/MS/CE dated 01-05-2019 the supervision charges of `5000/- per division for carrying out joint inspection shall be payable by RJIL. Also, the booster amplifiers used in the network shall be powered by the independent UPCL metered power connection.

In this respect, audit noticed the following:

1. RJIL paid `202130000/- (Rupees Twenty crore Twenty One Lakh Thirty Thousand only) as rent for 69700 poles for 2018-19 to 2022-23.
2. Apart from above, RJIL had to pay ` 105000/- (` One Lakh Five Thousand only) @ 5000/- per division as supervision charges to UPCL. It was noticed that UPCL failed to collect the same from M/s RJIL. The reasons for not collecting the supervision charges form M/s RJIL may be provided to audit.
3. As per the letter No. 1363/UPCL/Com/MS/CE dated 01/05/2019, M/s RJIL had to enter into an agreement with UPCL. Whether M/s RJIL entered into agreement with UPCL within 30 days. If yes, kindly submit the copy of agreement to audit.
4. The lease rent for the poles was fixed `500/- per pole per year for the year 2019-20. Kindly intimate to audit that the rate of lease rent was revised in the year 2020-21 or not?

Para 4: Deficiencies noticed in the internal Control System.

Internal controls system includes a set of rules, policies and procedures an organization implements to provide direction, increase efficiency, and strengthen adherence to policies.

During the review of records in audit, the following deficiencies were noticed in the internal control system of Uttarakhand Power Corporation Limited.

(A) The files/ records furnished to audit did not contain any page numbering on the documents enclosed. In absence of the same, the integrity of the records furnished to audit is unassured.

(B) As per the Central Public Works Account Code the payment vouchers of contractors should be prepared in Running Account Bill Form No. 26/26 A for the supply & erections. The payment bills of contractors should be prepared from the measurements in the measurement books by the concerned section/deptt. It was seen that the payment vouchers are not being were not being prepared in the Running Account Bill Form No. 24 or 26.

(C) The various sections/departments are operating in the company like Finance, procurement, Civil, IT etc. The files and records maintained in the Company are according to the department/section. This implies the fact that each department has separate files for a particular project/scheme or work. Also, in the absence of proper listing of the files /records maintained by the relevant department, the above methodology adopted by the company in the maintenance of records lacks the continuity. During the audit, it was observed that all the files pertaining to a particular projects could not be reviewed in a single instance. It should either the files are properly listed project wise by the departments or the same would be available at one place as the working file.

Part III

Details of unsettled paras of previous inspection reports:-

Sl. No.	Period	Part-II-A	Part-II-B
1.	04/2003 to 12/2004	01 to 03	02 to 04
2.	01/2005 to 12/2005	01,03,04,05,06	01 to 03
3.	01/2006 to 12/2006	01 to 08	01 to 08
4.	01/2007 to 12/2007	01 to 08	01 to 06
5.	04/2011 to 03/2013	01 to 10	01 to 06
6.	04/2013 to 03/2014	01 to 08	01 to 05
7.	04/2014 to 03/2015	01 to 06	01 to 08
8.	04/2015 to 03/2016	01 to 03	01 to 12
9.	04/2016 to 03/2017	01 to 07	01 to 05
10.	04/2017 to 03/2018	01 to 05	01 to 06
11.	04/2018 to 03/2019	01 to 4	01 to 07

For obtaining the replies of old outstanding AIRs/paras, the audit memo number 75 (book number 956) was issued to the management of UPCL. In this regard, UPCL intimated that the replies of six old AIRs (for the period 04/2011 to 03/2013, 04/2013 to 03/2014, 04/2014 to 03/2015,04/2015 to 03/2016,04/2016 to 03/2017, 04/2017 to 03/2018 and 04/2018 to 03/2019) has been sent through post to PAG Office. However, the copy of the same was not provided to audit team for examination.

Part IV

Best practices of the unit

NIL

Part V

Acknowledgement

1. Office of the Principal Accountant General (Audit) Uttarakhand, Dehradun expresses gratitude towards O/o the Managing Director, Uttarakhand Power Corporation Dehradun and their officers and employees for promptly providing desired documents and information including infrastructure related co-operation during the course of audit.

2. Persistent irregularities. -NIL

3. The following officers held the charge of head of the office during the audit period:

Sl. No.	Name	Post	Period
1.	Shri B.C.K. Mishra,	Managing Director	since 07.04.2017 to 31.07.2020
2.	Shri Neeraj Khairwal, IAS	Managing Director	01 August 2020 to till date

Minor and operational irregularities which could not be resolved at the time of audit and have been included in Temporary Audit Note with the request that the compliance report on the same may be sent to Deputy Accountant General/AMG-II (Power sector), Office of the Principal Accountant General (Audit), Mahalekhakar Bhawan, Kaulagarh, Dehradun- 248195 within one month of receipt of the letter.

Sr. AO/AMG-II