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Report of the
Comptroller and Auditor General of India
on
Public Sector Undertakings
for the year ended March 2016

Government of Telangana
Report No.2 of 2017

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TABLE OF CONTENTS

List of Annexures

Preface

This report deals with results of audit of Government Companies and Statutory Corporations for the year ended March 2016.

The accounts of the Government Companies (including Companies deemed to be Government Companies as per the provision of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act 1956 and Section 139 and 143 of the Companies Act 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to supplementary audit by officers of the CAG and the CAG gives his comments or supplements the reports of the Statutory Auditors. In addition, these Companies are also subject to test audit by the CAG.

Reports in relation to the accounts of a Government Company or Statutory Corporation are submitted to the Government of Telangana by CAG for laying before the State Legislature of Telangana under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

CAG is sole auditor for one Statutory Corporation, i.e., Telangana State Road Transport Corporation.

The instances mentioned in this Report are those, which came to notice in course of test audit for the period 2015-16 as well as those which came to notice in earlier years, but could not be reported in previous Audit Reports. Matters relating to the period subsequent to 2015-16 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

OVERVIEW

1. Functioning of State Public Sector Undertakings

As on 31 March 2016 there were 67 PSUs, falling under audit purview. Out of these, 40 Working PSUs pertain exclusively to Telangana (11 of previous year; 1 newly incorporated and 28 formed due to bifurcation of the State), five PSUs are under demerger and the remaining 22 are Non-working PSUs (yet to be bifurcated). As on 31 March 2016, the investment (capital & long term loans) in 67 PSUs was ₹ 43,051.95 crore. During 2015-16, total outgo from the budget of the State of Telangana was ₹ 17,838.66 crore for working PSUs exclusive to Telangana and those formed due to bifurcation of the State and ₹ 3.93 crore for five PSUs under demerger.

(Chapter I)

2. Performance Audit relating to Government Company

Northern Power Distribution Company of Telangana Limited (TSNPDCL) functions under the administrative control of Department of Energy, Government of Telangana with its registered office at Warangal. The Company is the license holder for distribution of power in five districts/circles of Telangana. As on 31 March 2016, the Company had a distribution network of 2.16 lakh Circuit Kilo Meters (CKM) of lines (33/11 Kilo Volts (KV) and Low Tension (LT)), 1,106 Sub-stations, 1,507 Power Transformers (PTR) and 2,42,539 Distribution Transformers (DTR) of various capacities.

A Performance Audit on **Functioning of Northern Power Distribution Company of Telangana Limited along with IT Audit of Billing Systems** was conducted. Important audit findings are enumerated below:

- The Company had not prepared annual plans for creation of network to meet the projected demand. Due to inadequate planning, there was shortfall in investment during 2011-12, 2014-15 and 2015-16 compared to the amounts sanctioned by State Electricity Regulatory Commission (SERC) for creation of distribution network. The shortfall in investment during the five year period covered in audit was ₹ 752.04 crore.
- The Company had achieved only 56.25 *per cent* of conversion of agricultural services under High Voltage Distribution System Scheme (HVDS) and the objective of reduction in distribution losses was not achieved. The Company had not assessed the requirement of Capacitor banks periodically.
- The Company allowed maximum load losses of 245 watts for 15 kVA Distribution Transformers (DTRs) against the maximum limit allowed (230 watts) for 16 kVA transformers. The energy loss additionally allowed on the 7160 DTRs of 15 kVA capacity procured (2011-16), works out to 0.94 MU per year (i.e. ₹ 58.19 lakh, considering the Average Cost of Supply as ₹ 6.19 per unit).
- The Company had not assessed the aggregate score each year as per the criteria specified in the National Electricity Fund (Interest Subsidy) scheme and failed to claim interest subsidy amounting to ₹ 2.50 crore.

- The Company failed to adhere to the agricultural sales volume approved by SERC in the Tariff Orders and also did not claim the cost of additional units supplied to the agricultural consumers from the Government, resulting in loss of ₹ 1,077.27 crore during 2011-12 to 2015-16.
- As per Financial Restructuring Plan (FRP), the bonds issued by the Company were to be taken over by the State Government in two to five years. The Government had not taken over these bonds even after lapse of over three years (July 2016).
- The percentage of distribution losses was higher than the norm fixed by SERC in all the years. Due to failure in implementation of loss reduction measures effectively, the Company suffered loss amounting to ₹ 194.27 crore (2011-16).
- Due to failure to establish the required information systems, the Company could not submit the proposals under Multi Year Tariff and avail of the benefits. The loss of the Company increased from ₹ 33.78 crore (2013-14) to ₹ 1,348.21 crore (2014-15) mainly due to adoption of Tariff Order of 2013-14 for 2014-15.
- The Company did not limit the cross subsidy to the suggested levels even beyond the target year (2010-11) and the financial impact on categories for which tariff was higher than the maximum allowed as per norm works out to ₹ 909.37 crore (2011-15).
- The Company failed to recover additional expenditure of ₹ 98.91 crore, incurred beyond budget estimates due to increase in the number of Distribution Transformer failures, employee cost, administrative and general expenses during 2013-14, by filing true-up petition.
- The Company had neither collected the subsidy of ₹ 693.23 crore (2014-15 and 2015-16) nor implemented the full cost recovery tariff. The Company claimed ₹ 2,398.81 crore (2014-15) against ₹ 2,555.28 crore subsidy approved by SERC, resulting in short claim of ₹ 156.47 crore. Additional subsidy of ₹ 130.14 crore approved by SERC (2014-15) was also not claimed. The Company paid ₹ 1.01 crore as Delayed Payment Surcharge to the Generating Stations (2015-16) due to non-receipt of subsidy from the Government.
- Arrears of revenue of ₹ 1,232 crore (31 March 2016) included ₹ 820.89 crore pending from the Government Departments/ Local Bodies and ₹ 249.03 crore pending from other live services.
- The Company had not ensured supply for seven hours a day to all agriculture feeders and the Government also had not monitored the supply, though the subsidy was paid for supply of electricity for seven hours a day. As supply was less than six hours a day for a majority of the feeders in many circles, out of the subsidy of ₹ 8,237.63 crore paid by the Government (2011-16), about ₹ 1,176.80 crore (1/7th of the subsidy) was not spent on fulfilment of the objective of the Government of supplying free power for seven hours to the agricultural consumers.
- Though SERC had directed (March 2015) the Company to prepare safety improvement plan for four year period 2015-19 relating to distribution

network and file the report with the Commission by 31 August 2015, the Company has yet to chalk out the plan. Despite allocation of special appropriation amount for improving the safety of distribution network by SERC, the actual expenditure incurred on safety was not accounted for under a separate accounting head.

IT Audit of Billing Systems

- The Energy Billing System (EBS) for billing of LT consumers was developed by the Company in-house in 2013. As at the end of July 2016, the data pertaining to LT consumers, other than those in Restructured-Accelerated Power Development & Reforms Programme (R-APDRP) was maintained in the Energy Billing System (EBS). The HT consumer data was maintained in the Metering, Billing and Collection (MBC) module developed under R-APDRP.
- Though the Company was utilising IT applications like Energy Billing System (EBS), Metering, Billing and Collection (MBC), System Applications Products (SAP), Enterprise Resource Planning (ERP) etc. for managing its various operations, it is yet to formulate and document a formal IT policy and a long/medium-term IT strategy. The Company does not have an approved Information Security Policy for protection of its application/database.
- Absence of interface between SAP ERP and High Tension (HT) billing system resulted in duplication of works and scope for errors which may affect the integrity of the databases. There was no interface between the three billing systems *viz*. MBC, EBS (LT) and EBS (Agriculture) utilised for billing of various consumers.
- The billing of temporary HT service connections was done manually till they were regularised and were not routed through the HT billing application (MBC), resulting in lack of completeness of the database. As the application had also not provided for capturing the minimum agreement period, based on which demand would be raised, the Company had to manually verify and raise demand. The application had not provided for automatic calculation of surcharge in respect of Security Deposits, which were to be paid within 30 days from the date of intimation.
- For Low Tension (LT) category-III consumers, energy charges, fixed charges and Time of Day charges were manually calculated and then entered into EBS. During annual review of Security Deposit, previous data was replaced with current data. Thus historical data was not available in the system. Application was also incorrectly designed to generate the first bill from the date of supply to the date of bill in spite of previous manual bills resulting in excess demand on the consumers.
- The Company had not migrated the billing data available in legacy system into EBS. The legacy applications were not installed in any of the systems available in the Company.
- The field definitions were incorrect and were coupled with lack of proper input validations, thereby, leaving scope for errors.

- In respect of data pertaining to Security Deposit of HT consumers, there was a difference of ₹ 5.06 crore between two applications i.e. SAP and MBC.
- The interest on Security Deposit of ₹ 2.57 crore to 43 HT consumers (Bills stopped consumers) was not credited.
- The Company did not have any approved Backup Policy and had not prepared any business continuity plan or a disaster recovery plan. There was no training policy for the employees for utilising the IT billing systems.

(Chapter II)

3. Compliance Audit Observations

Compliance audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in financial implications. The irregularities pointed out are broadly of the following nature:

Loss of ₹ 36.77 crore in 10 cases due to non-compliance with rules, directives, procedures, terms and conditions of contracts.

(Paragraphs 3.1.3.7, 3.1.3.8, 3.1.3.9, 3.2, 3.3.2.4, 3.3.2.5, 3.3.2.6, 3.4, 3.7 and 3.8)

Loss of ₹ 313.29 crore in nine cases due to not safeguarding the financial interest of the concerned organisation.

(Paragraphs 3.1.3.1, 3.1.3.2, 3.1.3.3, 3.1.3.4, 3.1.3.5, 3.3.2.1, 3.3.2.2, 3.3.2.3 and 3.6)

Loss of ₹ 1.16 crore in one case due to defective/ deficient planning.

(Paragraph 3.5)

Gist of some of the important audit observations is given below:

Telangana State Industrial Infrastructure Corporation Limited

The Company had made investments of ₹ 572.53 crore (1994-2015) in two JVs and 12 SPVs, of which audit covered two JVs and eight SPVs.

The Company had invested ₹ 79.27 crore in two JVs (₹ 59.01 crore) and eight SPVs (₹ 20.26 crore) during the period 1994-2015 either in the form of cash or land and expected to receive return in the form of dividends, lease premium and lease rentals.

The rate of return on investment in one JV (K. Raheja IT Park Private Limited, Hyderabad) was low (0.43 *per cent* per annum).

Apart from equity, the Company had contributed 109.36 acres of land (₹ 54.68 crore) to the JV Company. On the ground of proper implementation of the project, the JV Company was demerged and land was transferred (97.21 acres) to the demerged companies. The balance land (12.15 acres) was transferred to Non-IT/ITES sister companies of M/s Raheja Group, at a rate lesser than the rate fixed by the Price Fixation Committee and without consulting the Company (APIIC). This had resulted in loss of ₹ 73.75 crore.

There was no return on the investments made by the Company in eight SPVs. These included loss of Investment in HITVEL (₹ 1.93 crore); loss of equity investment and Project Development Cost in Nano Tech Silicon India (NTSI) (₹ 56.98 lakh); loss of Equity of ₹ 25.00 lakh in Pattancheru Enviro Tech Limited (PETL).

To promote the Semiconductor industry for setting up of a manufacturing unit for wafer fabrication etc. and to develop as FAB City (fabrication facility), "FAB City SPV (India) Private Limited" was incorporated (May 2006). The investments made by the Company in FAB City was not productive and resulted in blocking of ₹ 78.56 crore. There was undue favour to M/s SemIndia FAB City Private Limited (₹ 22.61 crore) due to non-collection of lease premium, lease rentals and duties. Due to deviation from the guidelines, there was undue benefit in allotment of land to M/s ILFS Waste Management and Urban Services Limited in FAB City (₹ 1.32 crore)

(Paragraph 3.1)

The allotment of land of one acre to the Bank of Baroda, at a concessional rate, ignoring specific provision of the Company's Allotment Regulations, applicable to the Scheduled Banks, had resulted in loss of revenue of ₹ 4 crore.

(*Paragraph 3.2)*

Southern Power Distribution Company of Telangana Limited

The Information and Communication Technology (ICT) policy of the erstwhile Government of Andhra Pradesh inter-alia included the incentive of concessional power tariff i.e. Industrial power tariff (Category-I) to the Information Technology (IT)/Information Technology Enabled Services (ITES) units, which was less than Commercial tariff (Category-II).

This benefit was extended to commercial units like hotels, restaurants, shops, hospitals, banks etc. located in the premises of IT, Infrastructure companies and IT/ITES firms i.e. for non-IT activities. The Company had converted the entire premises to HT category-I, without restricting it to 60 *per cent* area prescribed for core IT activity in the IT policy or verifying the actual consumption of electricity for non-IT activity. This had resulted in loss of revenue of ₹ 50.35 crore. Power concession was extended to firms whose activities were not related to IT/ITES, due to which the Company suffered loss of revenue of ₹ 10.96 crore.

Though seven IT firms had not submitted the relevant documents in support of their category (HT-I) to Detection of Pilferage of Energy (DPE) wing of the Company, these continued to avail of the concessional power tariff, which resulted in loss of revenue of ₹ 30.17 crore. Power concession was extended to second and subsequent units, though not established 100 KMs away from the first unit, in deviation from the IT policy, which resulted in loss of revenue of ₹ 18.07 crore. Extension of concessional power tariff was done without obtaining a fresh Consultative Committee on Information Technology Industry (CCITI) certificate from the new occupant/firm (due to sale/purchase), resulting in loss of revenue of ₹ 5.55 crore. Extension of Concessional power tariff before completion of one year of commercial operation, against the ICT Policy, resulted in loss of revenue of ₹ 1.98 crore.

There was no monitoring mechanism and conversion of category from HT-II to HT-I was done without any time limit. The burden of concessional power tariff was entirely borne by the Company without any subsidy from the Government.

(*Paragraph 3.3)*

The deferment of second phase supply of power to M/s Golden Jubilee Hotels Limited (consumer) beyond six months, against the Company's guidelines and without levying minimum charges, as specified in the Tariff Order, resulted in extension of undue benefit of ₹ 1.70 crore to the consumer.

(*Paragraph 3.4)*

The Singareni Collieries Company Limited

The Company, without ensuring the possibility of acquiring the private land, went ahead with the publication of Draft Notification and Draft Declaration for the proposed Indaram Opencast Mine and incurred an expenditure of ₹ 1.16 crore towards publication charges. As no award was made within the prescribed period, the proceedings for acquisition of land lapsed and the expenditure was rendered unfruitful.

(Paragraph 3.5)

The Company incurred extra expenditure of ₹ 44.14 crore over the original estimates, due to clubbing of the alternate canal to NTR canal with Indirasagar-Rudramkota Lift Irrigation Canal for a length of 28 KMs, against the diversion of only 4.76 KM, required for its mining activities.

(Paragraph 3.6)

Telangana State Power Generation Corporation Limited did not initiate action on the contractor for the defect in the Turbine Generator (TG) building (Stage-I Kakatiya Thermal Power Plant (KTPP)), as per the terms and conditions of the contract. Extension of undue favour to the contractor of Balance of Plant (BOP) works resulted in avoidable additional expenditure of ₹ 2.12 crore towards purchase of Electronically Operated Travelling Type (EOT) crane (Stage-II KTPP).

(*Paragraph 3.7)*

Telangana State Road Transport Corporation had not conducted periodical census of buses as per the Agreement with the agent for display of advertisement on buses. Due to this, the agent paid license fees on the reduced number of buses. This had resulted in undue benefit of ₹ 52.40 lakh to the agent by way of short recovery of license fees.

(*Paragraph 3.8)*

(Chapter III)

Chapter I

1. Functioning of State Public Sector Undertakings

1.1 Introduction

The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations which are established to carry out activities of a commercial nature keeping in view the welfare of the people.

The AP Reorganisation Act, 2014 came into effect from 2nd June 2014 which bifurcated the erstwhile Composite State of Andhra Pradesh and Telangana State was formed on the same day. In Telangana, the State PSUs occupy an important place in the state economy. The accounts of these PSUs are subject to supplementary audit conducted by Comptroller and Auditor General of India (CAG) as per the provisions of Section 143 of the Companies Act, 2013 and audit of Statutory Corporations is governed by their respective legislations.

This is the second Audit Report of the Telangana State after bifurcation of the erstwhile Composite State of Andhra Pradesh.

As per the above Act, the assets and liabilities relating to the PSUs of the erstwhile Composite State of Andhra Pradesh, where such undertakings or parts thereof are exclusively located in, or their operations are confined to a local area, shall pass to the State in which that area is included, irrespective of the location of the Headquarters[1].

The assets and liabilities of PSUs which had interstate operations shall have to be apportioned between the two States[2] as under:

(*a*) The operational units of the undertaking shall be apportioned between the two successor States on location basis; and

(*b*) The headquarters of the undertaking shall be apportioned between the two successor States on the basis of population ratio.

As per the Reorganisation Act, 2014, 33 PSUs having interstate operations were to be demerged. However, only 25 Government Companies and three Statutory Corporations were functionally bifurcated but the transfer of assets and liabilities is yet to be finalised.

Twenty-two Non-working Companies (except Andhra Pradesh Dairy Development Corporation Limited) were not included in the Schedule Nine of the Reorganisation Act, 2014. This aspect requires special attention. Assets and Liabilities of these Companies are also yet to be bifurcated between the two States.

In Telangana State, there were 67 PSUs as on 31st March 2016 including one new Company formed during the year.

1.1 Of these, none of the PSUs was listed on the stock exchange(s). During the year 2015-16, one new PSU (Telangana Drinking Water Supply Corporation

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[1] PSUs coming under Telangana State are referred as PSUs.

[2] PSUs having interstate operations are referred as PSUs under demerger

Limited) was incorporated in addition to incorporation of 28 PSUs which were under demerger; however, these PSUs (except Telangana Power Finance Corporation Limited which submitted 2014-15 accounts) have not submitted their first accounts. None of the PSUs was closed down. The details of the State PSUs in Telangana State as on 31 March 2016 are given below:

Table 1.1: Total number of PSUs as on 31 March 2016

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies	37[3]	**0**	**37**
Government Companies under demerger/Non-working	**5**	**22**	**27**
Statutory Corporations	3[4]	**0**	**3**
Total	**45**	**22**	**67**

Source: Information furnished by State Government and PSUs

Out of 37 Government Companies and 3 Statutory Corporations, only 11 PSUs have submitted their accounts which registered a turnover of ₹ 35,084.62[5] crore as per their latest finalised accounts as on 30 September 2016. This turnover was equal to 7.49 *per cent* of State Gross Domestic Product (GDP)[6] for 2015-16. These PSUs incurred a loss of ₹ 2,647.05 crore as per their latest finalised accounts as on 30 September 2016. They had employed 0.18 lakh employees as at the end of March 2016. **(*Annexure 1.2(a)*)**

The Working PSUs under demerger registered a turnover of ₹ 47.60 crore as per their latest finalised accounts as on 30 September 2016. These PSUs incurred net loss of ₹ 46.89 crore as per their latest finalised accounts as on 30 September 2016. They had employed 256 employees as at the end of March 2016. ***(Annexure 1.2(b))***

The loss making PSUs showed an increasing trend. A review of five years' data showed that some PSUs had been continuously incurring heavy losses and some PSUs had not been finalising their accounts.

As on 31 March 2016, there were 22 Non-working PSUs under demerger, existing from over 20 years and having investment of ₹ 259.19 crore. This is a critical area as the investments in Non-working PSUs do not contribute to the economic growth of the State.

Accountability framework

1.2 The process of audit of Government Companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2 (45) of the Act, "Government Company"

[3] 12 exclusive to State and 25 PSUs formed due to demerger.

[4] Formed due to demerger

[5] ₹ 35,084.52 crore of 10 PSUs as per Annexure 1.2 (a) and ₹ 0.099 crore of Telangana Power Finance Corporation Limited depicted in Annexure 1.2 (c). Other 29 PSUs have not submitted their first accounts

[6] Gross Domestic Product of Telangana- ₹ 4,68,656 crore

means any Company in which not less than fifty one *per cent* of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a Company which is a subsidiary Company of such Government Company.

Further, as per sub-section 7 of Section 143 of the Act, the CAG may, in case of any Company covered under sub-section (5) or sub-section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19 A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test Audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the CAG. An audit of the financial statements of a Company in respect of the financial years that commenced on or before 31 March 2014 continue to be governed by the provisions of the Companies Act, 1956.

Statutory Audit

1.3 The Statutory Auditors appointed by the CAG under Section 139 of the Companies Act, 2013, conduct audit of accounts of the Government Companies and submit their report thereon in accordance with Section 143 of the Companies Act, 2013.

The CAG plays an oversight role by monitoring the performance of the Statutory Auditors with the overall objective that the Statutory Auditors discharge the functions assigned to them properly and effectively. This function is discharged by exercising the power

- to issue directions to the Statutory Auditors under Section 143(5) of the Companies Act, 2013, and
- to supplement or comment upon the Statutory Auditor's report under Section 143 (6) of the Companies Act, 2013.

Audit of Statutory Corporations is governed by their respective legislations. Out of the three Statutory Corporations, CAG is the sole auditor for Telangana State Road Transport Corporation. The audit of Telangana State Warehousing Corporation and Telangana State Financial Corporation is conducted by Chartered Accountants and Supplementary audit by CAG.

Role of Government and Legislature

1.4 The State Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government.

The State Legislature also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports, together with the Statutory Auditors' Reports and comments of the CAG, in respect of State Government Companies and Separate Audit Reports in case of Statutory

Corporations, are to be placed before the Legislature under Section 394 of the Companies Act or as stipulated in the respective Acts. The Audit Reports of CAG are submitted to the Government under Section 19A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971.

Stake of Government of Telangana

1.5 The State Government has a significant financial stake in these PSUs. This stake is of mainly three types:

- **Share Capital and Loans-** In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the PSUs, as and when required.
- **Guarantees-** State Government also guarantees the repayment of loans with interest availed of by the PSUs from Financial Institutions.

Investment in State PSUs

1.6 As on 31 March 2016, the investment (capital and long-term loans) in 67 PSUs was ₹ 43,051.95 crore, as detailed below:

Table 1.2: Total investment in PSUs

(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
40[7](37+3) Working PSUs	3,645.64	36,577.11	40,222.75	87.63	2,278.20	2,365.83	**42,588.58**
5 PSUs under demerger-Working	70.63	133.55	204.18	-	-	-	**204.18**
22 PSUs under demerger-Non working	74.66	184.53	259.19	-	-	-	**259.19**
Total	**3,790.93**	**36,895.19**	**40,686.12**	**87.63**	**2,278.20**	**2,365.83**	**43,051.95**

Source: Information as furnished by PSUs

As on 31 March 2016, of the total investment, 93.43 *per cent* was in Working PSUs, 5.50 *per cent* in Statutory Corporations, 0.47 *per cent* in PSUs under demerger, and 0.60 *per cent* in Non-working PSUs.

This total investment consisted of 8.47 *per cent* in capital and 84.96 *per cent* in long-term loans in respect of Working PSUs. In respect of Statutory Corporations, out of the total investment, 0.20 *per cent* was in capital and 5.30 *per cent* in long term loans. In respect of PSUs under demerger, out of the

[7] Out of these 40 PSUs only 33 PSUs have furnished information. 6 Companies viz., Telangana Drinking Water Supply Corporation Limited, Pashamylaram Textiles Park, Telangana State Handicrafts Development Corporation Limited, Telangana State Industrial Development Corporation Limited, Telangana State Financial Corporation and Telangana Aviation Corporation Limited did not furnish information. However, information in respect of Pashamylaram Textiles Park, available in this office, has been taken.

total investment, 0.16 *per cent* was in capital and 0.31 *per cent* in long-term loans. In respect of Non-working PSUs, out of the total investment, 0.17 *per cent* was in capital and 0.43 *per cent* in long term loans as on 31 March 2016.

1.7 The sector-wise summary of investments in the Working PSUs (including Statutory Corporations) as on 31 March 2016 is given below:

Table 1.3: Sector-wise investment in PSUs

(₹ in crore)

Name of Sector	Working PSUs	Statutory Corporations	Non-working PSUs	PSUs under demerger	Investment
Power	29,127.87	--	--	--	29,127.87
Manufacturing	5,998.27	--	202.41	104.52	6,305.20
Finance	2,355.25	--	23.57	6.33	2,385.15
Miscellaneous	0.25	--	--	4.88	5.13
Service	1,866.53	2,359.16	1.13	--	4,226.82
Infrastructure	862.88	--	--	88.45	951.33
Agriculture & Allied	11.70	6.67	32.08	--	50.45
Total	**40,222.75**	**2,365.83**	**259.19**	**204.18**	**43,051.95**

Source: Information as furnished by PSUs

Special support and returns during the year

1.8 The State Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and interest waived in respect of Working PSUs and PSUs under demerger for the year ended 2015-16, are as follows:

Table 1.4: Details regarding budgetary support to PSUs

(₹ in crore)

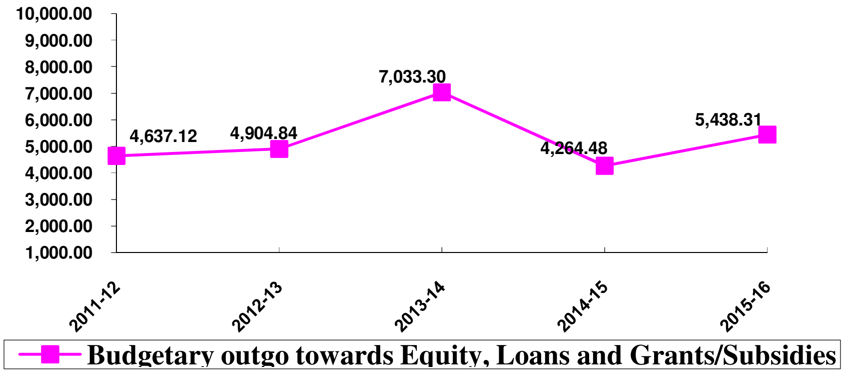
Sl. No.	Particulars	2015-16			
		40[8] Working PSUs		5 PSUs under demerger	
		No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	11	530.92	5	0.00
2	Loans given from budget	8	6,991.16	5	0.00
3	Grants/Subsidy given from budget	12	10,316.58	5	3.93
4	**Total Outgo**		**17,838.66**		**3.93**
5	Interest/Penal interest written off	0	0.00	0	0.00
6	Guarantees issued	1	646.16	0	0.00
7	Guarantee Commitment	5	10,422.77	0	0.00
8	Total Outgo of 12[9] PSUs from Sl. No.4 above		5,438.31		

Source: Information as furnished by PSUs

[8] Out of these 40 PSUs only 33 PSUs have furnished information.

[9] 12 Companies that were included in Telangana as per previous report have only been taken for comparison in the chart. Also, newly formed companies do not have five years data for comparison.

Chart 1.1: Budgetary outgo towards Equity, Loans and Grants/Subsidies



Budgetary support by the State Government in respect of 12 PSUs (exclusive to State) increased from ₹ 4,264.48 crore in 2014-15 to ₹ 5,438.31 crore during 2015-16. However, overall budgetary support increased from ₹ 11,382.12 crore during 2014-15 to ₹ 17,842.59 crore in 2015-16.

In order to enable PSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantees subject to the limits prescribed by the Constitution of India, for which, guarantee fee is charged. This fee varies from 0.25 *per cent* to one *per cent* as decided by the State Government, depending upon the loanees. The guarantee commitment decreased from ₹ 15,249.52 crore in 2014-15 to ₹ 10,422.77 crore in 2015-16 in respect of all PSUs, including PSUs under demerger. There were four[10] PSU's which did not pay guarantee fee/commission during the year and the accumulated outstanding guarantee fee/commission thereagainst was ₹ 6.25 crore (31 March 2016).

Reconciliation with Finance Accounts

1.9 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of differences. The position in this regard as on 31 March 2016 was as follows:

Table 1.5: Equity, loans, guarantees outstanding as per Finance Accounts vis-a-vis records of PSUs

(₹in crore)

Outstanding in respect of	Amount as per Finance Accounts		Amount as per records of PSUs #	Difference
	(A)	No. of Companies**	(B)	(A)-(B)
Equity	885.41	1	885.60	- 0.19

[10] Southern Power Distribution Company of Telangana Limited ₹ 3.63 crore (exclusive to State), The Nizam Sugars Limited ₹ 51.04 lakh, New and Renewable Energy Development Corporation of Andhra Pradesh Limited ₹ 3 lakh, Andhra Pradesh State Financial Corporation ₹ 2.08 crore (yet to be bifurcated between the States)

Outstanding in respect of	Amount as per Finance Accounts		Amount as per records of PSUs #	Difference
	(A)	No. of Companies**	(B)	(A)-(B)
Loans	10.78	1	35.95	- 25.17
Guarantees	21,063.71	8	2,663.59	18,400.12

Source: Finance Accounts and Information as furnished by PSUs
Information as furnished by PSUs
** Information received for these Companies only.

Audit observed that there were differences in respect of 10 PSUs (Information in respect of other PSUs is awaited) and some of the differences were pending reconciliation since long. The matter was taken up (October 2016) with the State Government and replies are awaited. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Arrears in finalisation of accounts

1.10 The financial statements of the Companies for every financial year are required to be finalised within six months from the end of the relevant financial year i.e. by September end in accordance with the provisions of Section 96 (1) of the Companies Act. Failure to do so may attract penal provisions under Section 99 of the Companies Act. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

Table 1.6 provides the details of progress made by working PSUs in finalisation of accounts as on 30 September 2016.

Table 1.6: Position relating to finalisation of accounts of working PSUs

S. No.	Particulars	2015-16[@] Working PSUs				
		PSUs exclusive to State[11]	Formed due to demerger[12]	PSUs under demerger[13]	Statutory Corporations	Total
1.	Number of Working PSUs	12	25	5	3	45
2.	Number of accounts finalised during the year	6	1#	3	0	10
3.	Number of accounts in arrears	26	32	18	3	79
4.	Average arrears per PSU (3/1)	2.16	1.28	3.6	1	1.75
5.	Number of Working PSUs with arrears in accounts	9	25	4	3	41
6.	Extent of arrears	1 to 7 years	2 years	1 to 14 years	1 year	1 to 14 years

Source: As compiled by O/o AG (E&RSA) Andhra Pradesh and Telangana;
@ Position up to September 2016
# Telangana Power Finance Corporation Limited - supplementary audit on accounts of 2014-15 done during current year.

[11] Statement showing investments made by State Government in PSUs (exclusive to state) whose accounts are in arrears *(Annexure 1.1(a))*

[12] Statement showing investments made by State Government in PSUs (formed due to demerger) whose accounts are in arrears *(Annexure 1.1(c))*

[13] Statement showing investments made by State Government in PSUs (under demerger) whose accounts are in arrears *(Annexure 1.1(b))*

It can be observed from the above that as on 30th September, 2016:

- Twenty six accounts pertaining to nine PSUs (exclusive to State) were in arrears
- All the accounts of 25 PSUs (excluding Statutory Corporations) formed due to demerger, were in arrears.

In respect of PSUs under demerger except for The Nizam Sugars Limited, 18 accounts of other four PSUs are in arrears. As regards Statutory Corporations, accounts of all the three PSUs are in arrears.

Further, the extent of arrears ranged from one to 14 years in respect of PSUs under demerger. It is pertinent to mention here that APMDC-SCCL Suliyari Coal Company Limited and AP Tribal Power Corporation Limited have not submitted their 1st Accounts since their formation (2013-14 and 2002-03 respectively). The 24 PSUs formed due to demerger, also did not furnish their first accounts.

The Administrative Departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The arrears of accounts continued to exist though the Departments concerned were informed annually.

1.11 The State Government had invested ₹ 4,260.39 crore in Equity, Loans and Grants in the PSUs (Exclusive to State) for which accounts had not been finalised, as detailed in ***Annexure 1.1(a).***

The State Government had also invested ₹ 1,479.44 crore in Equity, Loans and Grants in PSUs (formed due to demerger) for which accounts had not been finalised, as detailed in ***Annexure 1.1(c).***

The State Government had invested ₹ 16.76 crore towards Grants in respect of two PSUs which were under demerger during the years for which accounts had not been finalised, as detailed in ***Annexure 1.1 (b).***

In the absence of finalisation of accounts and their subsequent audit, it could not be assessed whether the investments and expenditure incurred have been properly accounted for and whether the purpose for which the amounts were invested was achieved or not. Thus, Government's investment in such PSUs remained outside the control of State Legislature.

1.12 In addition to the above, as on 30 September 2016, there were arrears in finalisation of accounts by Non-working PSUs. Out of the 22 Non-working PSUs, 10 were in the process of liquidation whose accounts were in arrears for 2 to 14 years. Of the remaining 12 Non-working PSUs, all had arrears of accounts.

Table 1.7: Position relating to arrears of accounts in respect of Non-working PSUs

No. of Non-working Companies	Period for which accounts were in arrears	No. of years for which accounts were in arrears
10	2 to 14 years	In the process of liquidation
12	Information not available	--

Source: Information as furnished by Official Liquidator

In respect of Non-working PSUs, letters were addressed (September 2015, July 2016 and reminder October 2016) to the Public Enterprises Department of State Government. The reply was awaited (December 2016).

Placement of Separate Audit Reports

1.13 The position depicted in Table 1.8 shows the status of placement of Separate Audit Reports (SARs) issued by the CAG (up to 30 September 2016) on the accounts of the Statutory Corporations, in the Legislature.

Table 1.8: Status of placement of SARs in Legislature

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature	
			Year of SAR	Date of issue to the Government/Present Status
1.	Telangana State Financial Corporation	Accounts have not been submitted to AG. (December 2016)		
2.	Telangana State Warehousing Corporation			
3.	Telangana State Road Transport Corporation			

Source: Information as furnished by PSUs concerned.

Impact of non-finalisation of accounts

1.14 The delay in finalisation of accounts pointed out above ***(para 1.10 to 1.12),*** may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the State GDP for the year 2015-16, could not be ascertained and their contribution to the State exchequer was also not reported to the State Legislature.

Performance of PSUs as per their latest finalised accounts

1.15 The financial position and working results of Working PSUs (Telangana State) and PSUs under demerger and Statutory Corporations are detailed in ***Annexure 1.2 (a)***[14]***, Annexure 1.2(b)***[15] ***and Annexure 1.2(c)***[16]***.*** A ratio of PSUs' turnover to the State GDP shows the extent of PSUs' activities in the State economy. Table 1.9 provides the details of State working PSUs' turnover and State GDP for the year ended 31 March 2016.

[14] PSUs exclusive to State

[15] PSUs under demerger

[16] PSUs formed due to demerger of PSUs

Table 1.9: Details of Working PSUs' turnover vis-a-vis State GDP

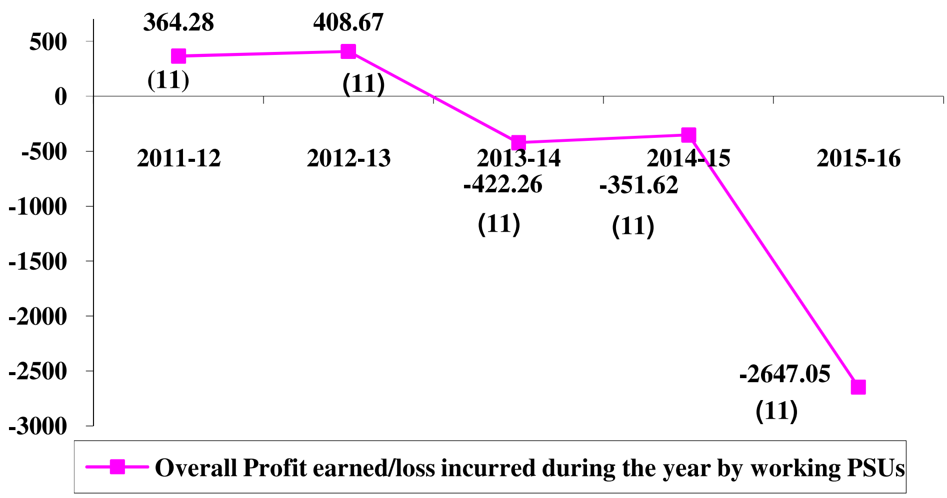
(₹in crore)

Particulars	2015-16			
	Working PSUs		PSUs under demerger	Statutory Corporations
	PSUs (Exclusive to State)	formed due to demerger[17]		
Turnover	35,084.52	0.10	47.60	Accounts not submitted
Telangana State GDP	4,68,656	--	Not applicable	--
Percentage of turnover to State GDP	7.49	--	--	--
Net profit(+)/loss (-)	-2,647.05	--	-46.89	--

Source: As per latest finalised Annual Accounts of PSUs

1.16 Overall profit (losses) earned (incurred) by Working PSUs (exclusive to State) during 2011-12 to 2015-16 are given in the chart below:

Chart 1.2: Profit/Loss of working PSUs (depicted in Annexure 1.2 (a))



(Figures in brackets show the number of working PSUs in respective years)

During the year 2015-16, out of seven Working PSUs which finalised their accounts, one PSU (The Singareni Collieries Company Limited) earned a profit of ₹ 1,066.13 crore. Out of loss incurring PSUs, Power Distribution Companies TSSPDCL and TSNPDCL incurred heavy losses (₹ 3,712.14 crore) while Damodhara Minerals Private Limited and Fab City (India) Private Limited incurred meagre losses. Telangana Power Finance Corporation Limited has reported no profit/loss.

During the year 2015-16, out of five PSUs under demerger, The Nizam Sugars Limited earned a marginal profit of ₹ 24 lakh, while Andhra Pradesh Rajiv

[17] Except Telangana Power Finance Corporation Limited, none of the PSUs has submitted their Annual accounts. Turnover of this PSU was ₹ 0.10 crore.

Swagruha Corporation Limited and Infrastructure Corporation of Andhra Pradesh Limited incurred losses of ₹ 45.78 crore and ₹ 1.55 crore respectively. Andhra Pradesh Tribal Power Company Limited has not yet submitted its accounts.

1.17 Some other key parameters of PSUs are given below.

Table 1.10: Key Parameters of Working PSUs and PSUs under demerger

(₹ in crore)

Particulars	**2015-16**		
	Working PSUs (Exclusive to State)	**Working PSUs formed due to demerger (including Statutory Corporations)[18]**	**PSUs under demerger**
Return on capital employed	-1,449.92	0.00	-4.16
Debt	15,155.44	3.67	56.05
Turnover[19]	35,084.52	0.10	47.60
Debt/ Turnover Ratio	0.43	--	1.18
Interest Payments[20]	1,197.13	0.00	6.90
Accumulated Profits / (losses)	-12,462.42	--	-233.66

Source: As per the latest finalised Annual Accounts of PSUs

1.18 As per their latest finalised accounts, 12 Working PSUs incurred an aggregate loss of ₹ 2,647.05 crore.

As per their latest finalised accounts, five PSUs under demerger incurred an aggregate loss of ₹ 46.89 crore. Further, two PSUs (The Singareni Collieries Company Limited and Telangana State Warehousing Corporation Limited) declared a dividend of ₹ 133.32 crore.

Winding up of Non-working PSUs

1.19 There were 22 Non-working PSUs (22 Companies and Nil Statutory Corporations) as on 31 March 2016. Of these, 10 PSUs have commenced liquidation process. The number of Non-working Companies as on 31st March 2016 is given below.

Table 1.11: Non-working PSUs

Particulars	**2015-16**
No. of Non-working Companies	**22**
No. of Non-working Corporations	**0**
Total	**22**

Source: As compiled by O/o AG (E&RSA), Andhra Pradesh and Telangana;

[18] Except Telangana Power Finance Corporation Limited, none of the remaining 27 PSUs have submitted their Annual accounts.

[19] Turnover of working PSUs as per their latest finalised accounts as of 30 September 2016

[20] Includes PSUs who have finalised their accounts till September 2016.

Since the Non-working PSUs had not been contributing to the State economy and meeting their intended objectives, these PSUs need to be considered either for closure or revival. During 2015-16, three Non-working PSUs incurred an expenditure of ₹ 0.42 crore towards establishment. The information was not furnished by the other Non-working PSUs. The entire expenditure was met from the interest earned on FDRs kept with various scheduled banks, rents collected and provisions written back.

1.20 The stages of closure in respect of Non-working PSUs is given below.

Table 1.12: Closure of Non-working PSUs

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of Non-working PSUs	22	0	22
2.	Of (1) above, the No. under			
(a)	Liquidation by Court (liquidator appointed)	10	0	10
(b)	Voluntary winding up	Not available		
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	Not available		

Source: Information as furnished by Official Liquidator

On the basis of the request of the PSU, the Hon'ble Court appoints liquidator for winding-up the Company. However, the above Companies had not been wound-up even after lapse of two to 14 years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/ pursued vigorously. The Government may like to consider winding-up of remaining Non-working PSUs, where no decision about their continuation or otherwise has been taken after they became non-working.

Comments on Accounts

1.21. (a) Five Working PSUs forwarded their audited six accounts to AG during the year 2015-16. Of these, four accounts were selected for supplementary audit while two accounts (FAB City SPV (India) Private Limited 2013-14 and Damodhara Minerals Private Limited 2015-16) were given Non-Review Certificates. Out of 28 PSUs formed due to demerger, only one PSU i.e. Telangana Power Finance Corporation Limited had submitted one account (2014-15) which was selected for supplementary audit. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of Statutory Auditors and CAG are given in Table 1.13(a):

Table 1.13 (a): Impact of audit comments on Working PSUs

(₹in crore)

Sl. No.	Particulars	2015-16	
		No. of accounts	Amount
1.	Decrease in profit	1	266.06
2.	Increase in loss	02	479.78
3.	Non-disclosure of material facts	04@	3,269.38
4.	Errors of classification	04@	1,424.78

Source: As per comments issued by the CAG and Statutory Auditors

@ includes comments on Telangana State Power Finance Corporation Limited which is one of the 28 PSUs formed due to demerger (2014-15 accounts).

1.21. (b) Three PSUs under demerger forwarded three audited accounts to AG during the year 2015-16. All of these were selected for supplementary audit. The audit reports of Statutory Auditors appointed by CAG and the supplementary audit of CAG indicated that the quality of maintenance of accounts needs to be improved. The details of impact of audit comments of Statutory Auditors and CAG are given below:

Table 1.13 (b): Impact of audit comments on PSUs under demerger

(₹ in crore)

Sl. No.	Particulars	2015-16	
		No. of accounts	Amount
1.	Decrease in profit	01	0.19
2.	Increase in loss	0	0.00
3.	Non-disclosure of material facts	0	0.00
4.	Errors of classification	0	0.00

Source: As per comments issued by the CAG and Statutory Auditors

During the year, the Statutory Auditors have given disclaimer opinion in respect of internal financial control aspects of The Singareni Collieries Company Limited and qualified opinion in respect of TSNPDCL and TSSPDCL. Adverse certificates were not given for any accounts.

1.22 None of the three working Statutory Corporations submitted their accounts to AG during the year 2015-16.

Response of the Government to Audit

Performance Audits and Paragraphs

1.23 For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2016, one Performance Audit and eight audit paragraphs were issued to the Additional Chief Secretaries/Principal Secretaries of the respective Departments with the request to furnish replies within six weeks. However, replies in respect of five compliance audit paragraphs were awaited from the State Government (December 2016).

Follow up action on Audit Reports

Replies outstanding

1.24 The Report of the Comptroller and Auditor General (CAG) of India represents the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, erstwhile Government of Andhra Pradesh had issued (June 2004) instructions to all Administrative Departments to submit replies/explanatory notes to paragraphs/reviews included in the Audit Reports of the CAG of India within a period of three months of their presentation in the Legislature, in the prescribed format without waiting for any questionnaires from the COPU.

Table No.1.14: Explanatory notes not received (as on 30 September 2016)

Year of the Audit Report (Commercial /PSU)	Date of placement of Audit Report in the State Legislature	Total Performance audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received			
				Exclusive to State		Common	
		PAs	Para-graphs	PAs	Para-graphs	PAs	Para-graphs
1992-93	29-03-1994	7	29	0	0	0	0
1993-94	28-04-1995	6	19	0	0	0	0
1995-96	19-03-1997	5	23	0	0	0	2
1996-97	19-03-1998	6	23	0	0	0	0
1997-98	11-03-1999	6	23	0	0	0	7
1998-99	03-04-2000	4	25	0	1	0	5
1999-00	31-03-2001	6	18	0	0	2	6
2000-01	30-03-2002	4	17	0	0	1	1
2001-02	31-03-2003	3	20	0	0	0	0
2002-03	24-07-2004	3	13	0	0	0	2
2003-04	31-03-2005	2	19	0	0	1	0
2004-05	27-03-2006	2	21	0	0	1	1
2005-06	31-03-2007	4	19	0	1	1	1
2006-07	28-03-2008	5	24	0	0	2	6
2007-08	05-12-2008	3	22	0	0	1	0
2008-09	30-03-2010	3	24	0	0	1	6
2009-10	29-03-2011	3	18	0	0	0	0
2010-11	29-03-2012	3	22	0	0	0	9
2011-12	21-06-2013	2	6	0	0	2	4
2012-13	06-09-2014	2	9	0	1	2	2
2013-14	26-03-2015	2	5	0	1	1	2
2014-15	30-03-2016	1	3	1	3	0	0
Total		**82**	**402**	**1**	**7**	**15**	**54**

Source: As compiled by O/o AG (E&RSA), Andhra Pradesh and Telangana

From the above, it could be seen that out of 484 Performance Audits/Paragraphs, explanatory notes to 77 Performance Audits/Paragraphs in respect of 10[21] departments, which were commented upon, were awaited (September 2016).

Discussion of Audit Reports by the Committee on Public Undertakings (COPU)

1.25 The status as on 30 September 2016 of Performance Audits and paragraphs that appeared in Audit Reports (PSUs) and were discussed by the Committee on Public Undertakings (COPU), is as under:

Table No.1.15: Performance Audits/Paragraphs that appeared in Audit Reports vis-a-vis discussed as on 30 September 2016

Year of the Audit Report (Commercial/PSU)	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Paras discussed	
	PAs	Paragraphs	PAs	Paragraphs
1992-93	7	29	6	29
1993-94	6	19	5	19
1995-96	5	23	3	18
1996-97	6	23	3	22
1997-98	6	23	2	10
1998-99	4	25	0	14
1999-00	6	18	1	7
2000-01	4	17	1	15
2001-02	3	20	0	13
2002-03	3	13	3	10
2003-04	2	19	0	8
2004-05	2	21	0	14
2005-06	4	19	0	11
2006-07	5	24	1	5
2007-08	3	22	1	9
2008-09	3	24	1	7
2009-10	3	18	1	7
2010-11	3	22	0	3
2011-12	2	6	0	0
2012-13	2	9	0	0
2013-14	2	5	0	0
2014-15	1	3	0	0
Total	**82**	**402**	**28**	**221**

Source: As compiled by O/o AG (E&RSA) Andhra Pradesh and Telangana

[21] 1. Industries & Commerce 2. Irrigation and Command Area Development (CAD) 3. Revenue 4. Animal Husbandry 5. Energy 6. Agriculture & Co-operation 7. Transport, Road & Buildings 8. Housing, 9. Youth Advancement, Tourism and Culture and 10. Municipal Administration & Urban Development

Compliance to Reports of Committee on Public Undertakings (COPU)

1.26 Action Taken Notes (ATNs) in respect of 333 paragraphs pertaining to 48 Reports of the COPU presented in the State Legislature between April 1983 to March 2007 had not been received (September 2016). The details are indicated below:

Table No.1.16: Compliance to COPU Reports

Year of the COPU Report	Total number of COPU Reports	Total no. of recommendations in COPU Report	No. of recommendations where ATNs not received
1983-84	1	3	3
1990-91	1	4	4
1991-92	5	160	100
1993-94	5	177	97
1995-96	3	33	17
1996-97	2	38	24
1998-99	2	16	16
2000-01	13	110	43
2001-02	1	1	0
2002-03	1	24	0
2004-05	9	66	5
2004-06	1	14	0
2006-07	4	25	24
Total	**48**	**671**	**333**

Note: The above information pertains to erstwhile composite State of Andhra Pradesh.
Source: As compiled by O/o AG (E&RSA), Andhra Pradesh and Telangana

These reports of COPU contained recommendations in respect of paragraphs pertaining to 12[22] departments, which appeared in the Reports of the CAG of India for the years 1983-84 to 2006-07.

It is recommended that the Government may ensure: (a) submission of replies to IRs/explanatory Notes/ draft paragraphs/ Performance Audits and ATNs on the recommendations of COPU, as per the prescribed time schedule; (b) recovery of loss/ outstanding advances/ overpayments within the prescribed period; and (c) revamping of the system of responding to audit observations.

Coverage of this Report

1.27. This Report contains one Performance Audit on Functioning of Northern Power Distribution Company of Telangana Limited (TSNPDCL) along with Information Technology audit on Billing Systems in TSNPDCL and eight paragraphs involving ₹ 5,962.97 crore.

[22] 1. Industries & Commerce 2. Irrigation and Command Area Development (CAD) 3. Revenue 4. Animal Husbandry 5. Energy 6. Agriculture & Co-operation 7. Transport, Road & Buildings 8. Forest, 9. Housing, 10. Youth Advancement, Tourism and Culture, 11. Municipal Administration & Urban Development and 12. General Administration.

CHAPTER II

PERFORMANCE AUDIT RELATING TO GOVERNMENT COMPANY

Functioning of Northern Power Distribution Company of Telangana Limited

Chapter II

Performance Audit relating to Government Company

2. Functioning of Northern Power Distribution Company of Telangana Limited

Executive Summary

Introduction

Northern Power Distribution Company of Telangana Limited (TSNPDCL) functions under the administrative control of Department of Energy, Government of Telangana with its registered office at Warangal. The Company is the license holder for distribution of power in five districts/circles of Telangana. The total share capital of the Company amounting to ₹274.76 crore is held by the Government of Telangana.

As on 31 March 2016, the Company had a distribution network of 2.16 lakh Circuit Kilo Meters (CKM) of lines (33/11 Kilo Volts (KV) and Low Tension (LT)), 1,106 Sub-stations, 1,507 Power Transformers (PTR) and 2,42,539 Distribution Transformers (DTR) of various capacities.

Distribution Network Planning and Execution

The Company had not prepared annual plans for creation of network to meet the projected demand. Due to inadequate planning, there was shortfall in investment during 2011-12, 2014-15 and 2015-16 compared to the amounts sanctioned by SERC for creation of distribution network. The shortfall in investment during the five year period covered in audit was ₹752.04 crore.

The Company had achieved only 56.25 per cent of conversion of agricultural services under HVDS Scheme and the objective of reduction in distribution losses was not achieved.

The Company had not assessed the requirement of Capacitor banks periodically.

The Company allowed maximum load losses of 245 watts for 15 kVA DTRs as against the maximum limit allowed (230 watts) for 16 kVA transformers. The energy loss additionally allowed on the 7160 DTRs of 15 kVA capacity procured (2011-16), works out to 0.94 MU per year (i.e. ₹ 58.19 lakh, considering the Average Cost of Supply as ₹6.19 per unit).

Implementation of Projects/ Schemes

The Company had not assessed the aggregate score each year as per the criteria specified in the National Electricity Fund (Interest Subsidy) scheme and failed to claim interest subsidy amounting to ₹2.50 crore.

The Company failed to adhere to the agricultural sales volume approved by SERC in the Tariff Orders and also did not claim the cost of additional units *supplied to agricultural consumers from the Government, resulting in loss of ₹1,077.27 crore (2011-12 to 2015-16).*

As per Financial Restructuring Plan (FRP), the bonds issued by the Company were to be taken over by the State Government in two to five years. The Government had not taken over these bonds even after lapse of over three years (July 2016).

Operational efficiency

The percentage of distribution losses was higher than the norm fixed by SERC in all the years. The difference in losses allowed by SERC and actual losses increased from year to year. Due to failure in implementation of loss reduction measures effectively, the Company suffered loss to the tune of ₹194.27 crore (2011-16).

The rate of failure of DTRs was on higher side in all the Circles except two Circles. The Company had incurred an expenditure of ₹ 105.03 crore on repairs to DTRs (2011-16), of which ₹6.78 crore was incurred on DTRs failed in excess of the norm.

Billing and Collection efficiency

Due to inability to establish required information systems, the Company could not submit the proposals under Multi Year Tariff and avail of the benefits. The loss of the Company increased from ₹ 33.78 crore (2013-14) to ₹1348.21 crore (2014-15) mainly due to adoption of tariff order of 2013-14 for 2014-15.

The Company did not limit the cross subsidy to the suggested levels even beyond the target year (2010-11) and the financial impact on categories for which tariff was higher than the maximum allowed as per norm works out to ₹909.37 crore (2011-15).

The Company failed to recover additional expenditure of ₹ 98.91 crore, incurred beyond budget estimates due to increase in number of DTR failures, employee cost, administrative and general expenses during 2013-14, by filing true-up petition.

The Company could not collect subsidy of ₹ 693.23 crore (2014-15 and 2015-16) nor could implement the full cost recovery tariff. The Company claimed ₹2,398.81 crore (2014-15) against ₹ 2,555.28 crore subsidy approved by SERC, resulting in short claim of ₹ 156.47 crore. Additional subsidy of ₹130.14 crore approved by SERC (2014-15) was also not claimed. The Company paid ₹ 1.01 crore as Delayed Payment Surcharge to the Generating Stations (2015-16) due to non-receipt of subsidy from the Government.

Arrears of revenue of ₹ 1,232 crore (31 March 2016) included ₹820.89 crore pending from the Government Departments/ Local Bodies and ₹249.03 crore pending from other live services.

The Company had not taken initiative to install prepaid meters for Government departments.

Consumer Satisfaction and Redressal of Grievances

The Company had not ensured supply of free power for seven hours a day to all agriculture feeders and the Government also had not monitored the supply though the subsidy was paid for supply for seven hours a day. As supply was less than six hours a day for majority of the feeders in many circles, out of subsidy of ₹8,237.63 crore paid by the Government (2011-16), about ₹1,176.80 crore (1/7th of the subsidy) was not spent on fulfilment of the objective of Government of supplying free power for seven hours to agricultural consumers.

Though SERC directed (March 2015) the Company to prepare safety improvement plan for four year period 2015-19 relating to distribution network and file the report with the Commission by 31 August 2015, the Company is yet to chalk out the plan. Despite allocation of special appropriation amount for improving the safety of distribution network by SERC, the actual expenditure incurred on safety was not accounted for under a separate accounting head.

IT Audit on Billing Systems of TSNPDCL

Billing Applications

The Energy Billing System (EBS) for billing of Low Tension (LT) consumers was developed by the Company in-house in 2013. As at the end of July 2016, the data pertaining to LT consumers, other than those in Restructured Accelerated Power Development and Reforms Programme (R-APDRP) was maintained in the EBS while the data pertaining to agricultural consumers was maintained in a separate EBS. The High Tension (HT) consumer data was maintained in the Metering, Billing and Collection (MBC) module developed under R-APDRP.

Lack of formulated and documented IT and Security Policies

Though the Company was utilising various IT applications for managing its operations, it is yet to formulate and document a formal IT policy and a long/medium-term IT strategy. Further, the Company does not have an approved Information Security Policy for protection of its application/database.

Lack of interface between various IT Applications

Absence of interface between SAP ERP and HT billing system resulted in duplication of works and scope for errors which may affect the integrity of the databases. There was no interface between the three billing systems viz., MBC, EBS (LT) and EBS (Agriculture) utilised for billing of various categories of consumers.

Lack of functionalities resulting in manual interventions

HT Billing

Some of the cases include :-Manual billing of Temporary connections till their regularisation without routing through the HT billing application (MBC); Failure to capture the minimum agreement period based on which demand would be raised for such minimum period; Failure to provide for automatic calculation of surcharge in respect of Security Deposits (SD) receivable from consumers.

LT Billing

For LT category III consumers, energy charges, fixed charges and Time of Day charges were manually calculated and then entered into EBS; Lack of facility to maintain the historical data pertaining to annual review of SD; Incorrect designing of application resulting in generation of first bill from the date of supply to the date of bill, in spite of previous manual bills, resulting in excess demand on the consumers.

Legacy billing data

The Company had not migrated the billing data available in legacy system into EBS. The legacy applications were not installed in any systems available in the Company. Further, there were no records to indicate that the migrated data from legacy HT billing system to the MBC system was verified and certified to be error-free.

Design errors in MBC Master Tables

The field definitions were incorrect and were coupled with lack of proper input validations giving scope for errors.

Other findings:

There was a difference of ₹ 5.06 crore in the SD balances of the HT consumers between SAP ERP (financial accounts of the Company) and HT billing application.

Interest of ₹ 2.57 crore on SDs of 43 HT bill-stopped consumers was not credited.

The Company neither had a password policy nor change management controls.

The Company did not have any approved Backup Policy and had not prepared any business continuity plan or a disaster recovery plan. There was no training policy for the employees for utilising the IT billing systems.

2.1 Introduction

Consequent to the AP Reorganisation Act, 2014, distribution network in the State of Telangana is carried out by two distribution companies (DISCOMs) viz., Northern Power Distribution Company of Telangana Limited, (TSNPDCL) and Southern Power Distribution Company of Telangana Limited, (TSSPDCL). TSNPDCL (Company) functions under the administrative control of Department of Energy, Government of Telangana with registered office at Warangal. The Company is the license holder for distribution of power in the five districts/ circles[23] of Telangana. The total share capital of the Company amounting to ₹ 274.76 crore, is held by the Government of Telangana.

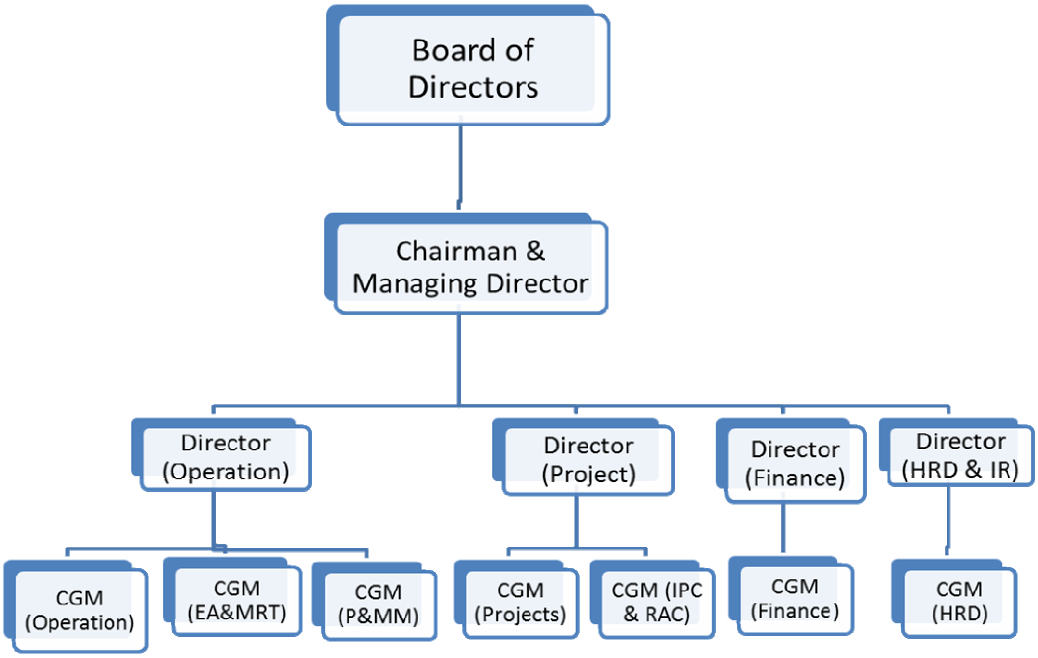
The Distribution sector is the most important link in the power sector value chain, which channelises the revenue realisation to provide overall stability to the sector. The sale of energy by the Company increased from 10,243.92 Million Units (MU) in 2011-12 to 11,565.70 MU in 2015-16, registering a growth of 12.90 *per cent* during the five year period 2011-16. As on 31 March 2016, the Company had a distribution network of 2.16 lakh Circuit Kilometres[24] (CKM) of lines (33/11 Kilo Volts (KV) and Low Tension (LT)), 1,106 Sub-stations, 1,507 Power Transformers (PTR) and 2,42,539 Distribution Transformers (DTR) of various capacities. The turnover of the Company increased from ₹ 5,433.08 crore in 2011-12 to ₹ 7,632.13 crore in 2015-16, registering a growth of 40.48 *per cent* during the period 2011-16. The financial position of the Company deteriorated from a profit of ₹ 3.20 crore in 2011-12 to a loss of ₹ 1,010.08 crore in 2015-16. The cumulative loss of the Company as on 31 March 2016 was ₹ 5,895 crore. The losses were mainly due to higher power purchase cost, making provision for doubtful receivables from the State Government and higher distribution losses, as discussed in Paragraphs 2.6.2.3, 2.6.2.4 and 2.6.3.1. The reasons for the losses in 2014-15 were higher cost of operation and non-recovery thereof, due to adoption of Tariff Order of 2013-14 for 2014-15 also. The tariff proposal submitted for 2014-15 was not approved due to elections, State bifurcation and reduction in subsidy from Government, as discussed in Paragraphs 2.6.4.1 and 2.6.4.5.

[23] Warangal, Khammam, Karimnagar, Adilabad and Nizamabad

[24] Circuit Kilometre (CKM) is the product of the number of lines and the length in Kilometre

2.2 Organisation Chart

The Organisation structure of the Company is detailed below:



2.3 Scope & Methodology of Audit

The Performance Audit covers the performance of the Company during the period from 2011-12 to 2015-16. The Performance Audit mainly deals with network planning and execution, implementation of central schemes, supply of power to consumers including agriculture consumers, billing and collection efficiency, financial management, consumer satisfaction and safety.

The audit methodology adopted for the Performance Audit include:

i) Scrutiny of records at registered office at Warangal and all the five circle offices;

ii) Examination of agenda and minutes of the Board meetings; and

iii) Interaction with the Audited entity and analysis of the data with reference to audit criteria.

2.4 Audit Objectives

The objectives of Performance Audit were to assess:

- adequacy of distribution network and award of works contracts for establishing distribution network in an economic and effective manner;
- whether the Schemes/ Projects were implemented efficiently and effectively;
- operational efficiency in curtailing of sub-transmission and distribution losses;
- billing and collection efficiency of revenue from consumers; and
- whether a system was in place to ascertain the consumer satisfaction and redressal of grievances.

2.5 Audit Criteria

2.5.1 The audit criteria considered for achievement of these audit objectives were:

- The Electricity Act, 2003, the National Electricity Policy, 2005 and the schemes sponsored by Ministry of Power (MoP), Government of India (GoI).
- The guidelines and other directions issued by Ministry of Power, State Electricity Regulatory Commission (SERC), State Government.
- Norms fixed by various agencies[25] with regard to operational activities.
- Agenda and minutes of the meeting of the Board of Directors of the Company
- Standard procedures for award of contracts with reference to the principles of economy and effectiveness, norms for technical and non-technical losses.

2.5.2 The audit objectives and criteria were explained to the Company during the Entry Conference held on 6 June 2016. The Exit Conference was held on 26 October 2016 to discuss the audit findings. The replies of the Government to the audit findings have been considered while finalising the Report.

The Information Technology (IT) policy of the Company, general controls, application controls, design deficiencies, input controls and validation checks and internal controls in IT system were examined and the observations have been included separately.

Acknowledgement

Audit acknowledges and appreciates the co-operation and assistance extended by the officers and the Management of the Company at various stages of conducting the Performance Audit.

2.6 Audit Findings

2.6.1 Distribution Network Planning and Execution

The Distribution Companies in the State are required to prepare long term/ annual plans for creation of infrastructural facilities[26], for efficient distribution of electricity so as to cover maximum population in the State. Besides, DISCOMs are also required to upkeep the existing network and expand the distribution network keeping in view the growth in demand. The planning and execution of network expansion and upkeep of the existing network were examined and findings are discussed below:

2.6.1.1 Shortfall in investment in distribution network

The Company had prepared a Corporate Plan for the five year period from 2012-13 to 2016-17. The demand projected in the five year plan and the actual supply (input units) during the period is indicated in Table 2.1.

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[25] CERC, SERC, MoP and the State Government

[26] Load growth & network strengthening, addition of substations, PTRs, DTRs etc.

Table 2.1: Projected Demand and actual supply of electricity

Year	Projected Demand (MU)	Actual Supply (input units in MU)	Percentage of shortfall
2012-13	12,248.62	11,165	8.85
2013-14	12,843.74	11,868	7.60
2014-15	13,438.86	12,802	4.74
2015-16	14,033.98	13,270	5.44
2016-17	14,629.10	Not Available[27]	Not Available

Source: Five Year Corporate Plan 2012-13 to 2016-17

As can be observed from the above table, there was shortfall in actual supply compared to the projected demand in all the years as the Company had not prepared any annual plans for creation of network to meet the projected demand. Against the amounts sanctioned by SERC in the wheeling tariff for creation and upkeep of network, the actual investments made during 2011-12 to 2015-16 were as indicated below:

Table 2.2: Actual investments for upkeep of network

(₹ in crore)

Year	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Sanctioned by SERC	474.22	298.56	287.88	709.00	983.00	2,752.66
Actual investment	313.90	383.59	312.50	334.28	656.35	2,000.62
Shortfall	-160.32	85.03	24.62	-374.72	-326.65	752.04

Source: SERC Orders for Wheeling Tariff and Financial Statements

From the above table, Audit observed that though the investment was more than the amounts sanctioned by SERC during 2012-13 and 2013-14, there was shortfall in investment during 2011-12, 2014-15 and 2015-16. The shortfall in investment during the five year period covered in audit worked out to ₹ 752.04 crore.

Audit observed that due to lack of planning the Company could not utilise the amounts sanctioned for creation of distribution network. Thus, the consumers were deprived of corresponding benefit through better network/ services. SERC also observed (March 2015) that DISCOMs could not achieve the loss reduction trajectory as prescribed for the Control period[28] due to non-utilisation of sanctioned investments.

The Government accepted and agreed during the Exit Conference to implement year-wise plans for investment as per the approvals of SERC.

2.6.1.2 Adequacy of transformation capacity

A Transformer is a static device installed for stepping up or stepping down voltage in transmission and distribution of electricity. The energy received at high voltage (132 KV, 66 KV, 33 KV) from primary sub-stations of the Transmission Companies is transformed to lower voltage (11 KV) at 33/11

[27] Not available as the period is not completed.

[28] Control Period is a multi-year period fixed by the Commission from time to time, usually five years, for which the principles of determination of revenue requirement will be fixed.

KV sub-stations of the Distribution Companies for use by the consumers. In order to cater to the entire connected load, the transformation capacity should be adequate. The ideal ratio of transformation capacity to connected load is considered as 1:1.

The table below indicates the details of transformation capacity at 33/11 KV sub-stations and connected load of the consumers during the period 2011-16:

Table 2.3: Details of Transformation Capacity

Year	Transformers Capacity (MVA[29])	LT Connected Load with PF 0.90		Gap in Transformation capacity (MVA)	Ratio
		MVA	MW		
1	2	3	4	5=3-2	6=2/3
2011-12	6,320	-NA-	-NA-	-NA-	-NA-
2012-13	6,770	7,967.30	7,170.57	1,197.30	0.85:1
2013-14	7,734	8,129.90	7,316.91	395.90	0.95:1
2014-15	8,315	8,368.14	7,531.33	53.14	0.99:1
2015-16	8,816	8,662.61	7,796.35	-153.39	1.02:1

Source: MIS returns/Company reply

It could be seen from the table above that the ratio of transformation capacity to total connected load in the Company had improved from 0.85:1 in 2012-13 to 1:1 in 2015-16. Due to installation of additional transformation capacity, the shortfall of 1197.30 MVA in transformation capacity as on March 2013 was eliminated by March 2016**.**

2.6.1.3 Conversion of Agricultural services under LVDS to HVDS

Distribution of power through High Tension (HT) line is an effective method for reduction of technical losses, prevention of theft, improved voltage profile and better consumer service. The Government of India (GoI) had also stressed (February 2001) the need to adopt LT-less system of distribution by way of replacement of existing LT lines by HT lines to reduce the distribution losses.

A scheme was sanctioned (2011-12) by GoI for conversion of agriculture services under Low Voltage Distribution System (LVDS) to High Voltage Distribution System (HVDS) in all the five circles of the Company with an estimated cost of ₹ 410.48 crore. Out of 1,24,335 agriculture services to be converted to HVDS by March 2016, only 69,934 services (56.25 *per cent*) were converted as on March 2016.

Due to delay in taking up the conversion works and slow progress of works, the Company could not achieve the objective of conversion of agricultural services under LVDS to HVDS to reduce distribution losses (The details of Distribution losses are further discussed in Paragraph 2.6.3.1).

The Government stated (October 2016) that the works were prone to be hampered due to weather conditions and agriculture seasons and it was not possible to execute the works throughout the year due to standing crops. The balance works would, however, be completed during 2016-17.

[29] Mega Volt Ampere (Volts X Amp X 10,00,000)

The fact remained that the scheme sanctioned during 2011-12 was not completed till the date of audit**.**

2.6.1.4 Adequacy of capacitor banks

Capacitor banks improve power factor[30] by regulating the current flow and voltage. In the event of voltage falling below normal, sufficient capacity of capacitor banks, if provided in the system, improve the voltage profile and reduce dissipation of energy, thereby saving energy. The Company had estimated the savings at the rate of ₹ 2 lakh (approx.) per one capacitor of 1 Million Volt Ampere Reactive (MVAR) per year.

As per the APERC Grid Code (3.5.12.5) 2014 as adopted by TSERC, DISCOMs should install capacitors at various locations of the distribution system so that the power factor at the interface with State Transmission Utility (STU) is not less than 90 *per cent*.

As on 31 March 2014, the Company had 490 MVAR capacity of capacitor banks. The Company had assessed requirement (October 2014) of additional 579 MVAR capacity capacitor banks, against which 442 MVAR capacity capacitor banks (76.34 *per cent*) were installed.

Audit observed that the Company had not assessed the requirement of capacitor banks during the period from 2011-12 to 2013-14. The additional capacity assessed during October, 2014 was also not installed, which resulted in shortage of 137 MVAR capacity as on March, 2015. The savings foregone per year worked out to ₹ 2.74 crore.

Further, the Company had assessed (2015-16) the requirement of 1641 MVAR capacity capacitor banks to meet nine hour per day power supply to agriculture sector. However, the company had installed only 242 MVAR capacity capacitor banks in 2015-16 and 1399 MVAR capacity capacitor banks were yet to be installed (March 2016).

The Government stated (October 2016) that as per the present policy of the Government, nine hours' supply was extended in two spells. Hence, the total agricultural load would not affect the sub-stations at a time and the required capacity of capacitors was not as per the estimated 1641 MVAR. However, the capacitor banks were being planned in a phased manner, as per requirement.

2.6.1.5 Procurement of distribution transformers of non-standard ratings (15 kVA)

As per REC specifications, guidelines of Central Electricity Authority (CEA) and Bureau of Indian Standards (BIS), the Standard Ratings of single phase distribution transformers (DTR) shall be 5, 10, 16 and 25 kilovolt ampere (kVA). The full load loss allowed for 16 kVA DTR as per the specifications approved by the Committee,[31] set up to finalise the specifications for single

[30] ratio of Active power (KW) to apparent power (KVA)

[31] Committee (December 2006) headed by GM (T&D) of REC with members from CEA, CPRI, REC, NTPC, Power Grid, NHPC, DVC, UPPCL, MSEB, APTRANSCO, BSEB and WBSEB.

phase DTRs, was 230 watts. The load losses specified were maximum allowable.

Audit observed that the Company had procured 7160 DTRs of 15 kVA capacity during 2011-16, which were not of standard rating as per the specifications/ guidelines/ standards. A further review of the specifications of these DTRs showed that the Company had allowed maximum load losses of 245 watts, which was higher than the maximum limit allowed (230 watts) for 16 kVA transformers.

Apart from load losses, other parameters viz., the limits for temperature rise over ambient temperature were also fixed[32] at higher than the limits in the specifications[33] approved by the Committee. Higher temperature rise over ambient temperature increases the risk of failure of transformers during summer months.

Thus, with the procurement of 7160 transformers (15 KVA), the permissible energy loss additionally allowed, worked out to 0.94 MU[34] per year (i.e. ₹ 58.19 lakh, considering the Average Cost of Supply as ₹ 6.19 per unit) and resulted in higher distribution losses.

During the Exit conference, the Joint Secretary (Energy) directed the Company to carry out the cost benefit analysis and consider the audit point, while procuring DTRs.

2.6.2 Implementation of Projects/ Schemes

In order to make quality power available to all sections of the society and to improve the power sector in the country, Ministry of Power and the State Government have announced various schemes/ projects viz., National Electricity Fund (Interest subsidy) Scheme (NEF), Pump-set Energisation Scheme, Decentralized Distributed Generation (DDG), Financial Restructuring Plan (FRP) Scheme, High Voltage Distribution System (HVDS), Restructured Accelerated Power Development & Reforms Programme (R-APDRP), Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) from time to time. The Performance Audit of implementation of RGGVY and R-APDRP were covered in the CAG's Report for the years 2013 and 2016, respectively. The schemes and projects taken up by the Company during the last five years except RGGVY and R-APDRP were reviewed and the findings are discussed below:

2.6.2.1 National Electricity Fund

Government of India had introduced National Electricity Fund (Interest subsidy) Scheme (NEF) (March 2012) to promote capital investment in distribution sector and provided interest subsidy ranging from three to five *per cent* on the loans taken by public and private power utilities for execution of various capital works. The Ministry of Power had constituted (February 2012) a Steering Committee for ensuring effective implementation of the scheme.

[32] 45 degrees C and 40 degrees C when measured by resistance and thermometer respectively.

[33] 40 degrees C and 35 degrees C when measured by resistance and thermometer respectively.

[34] ((245-230) watts*24 hours*365 days*7160 DTRs)/1000

The scheme was applicable for the works taken up during 2012-13 and 2013-14.

Based on the aggregate score as per the parameters of the scheme, the Company would be entitled to interest subsidy ranging from three to five *per cent.* For availing of interest subsidy, the Company was required to submit details of loan disbursement and actual interest paid, for approval of the Steering Committee. The interest subsidy was to be explicitly indicated in the Aggregate Revenue Requirement (ARR) so as to pass on the benefits to the consumers.

Audit observed that the Company had not assessed the aggregate score each year as per the criteria specified in the scheme. Considering the lowest score (35 to 50) under the scheme, the Company was entitled to subsidy of three *per cent* on interest rate. Due to failure of the Company to claim interest subsidy, the consumers were deprived of the benefit of interest subsidy amounting to ₹ 2.50 crore, calculated on loan outstanding at the beginning of each year during 2012-16.

The Government stated (October 2016) that the score as per the criteria specified in NEF scheme was not calculated so far as a major part of the loan amounts were drawn during 2015 and the interest subsidy would be claimed after completion of works.

The reply was not acceptable as completion of works was not a prerequisite for claiming interest subsidy under the scheme. The Company had not assessed the aggregate score each year as per the criteria specified in the NEF scheme and had not claimed the interest subsidy. Besides, there was no system in place for tracking the score as specified in the scheme to claim the benefits.

During the Exit conference, the Joint Secretary (Energy) accepted the audit observation and directed the Company to develop a proper system.

2.6.2.2 Delay in availing loans from REC for pump set energisation works

The Company had received sanction from REC during August 2014 to June 2015 for financial assistance of ₹ 116.18 crore for pump-set energisation works. The works were to be completed within 24 months from the date of disbursement of first installment. However, reimbursement claims submitted within a period of one month after the scheme period will be considered for release.

The Company had completed execution of works in few areas covered under the above sanctions during 2013-15, i.e. before obtaining the sanction of loan from REC. As per Clause 5(c) of sanction letter of REC, works completed within one year prior to issue of sanction letter were admissible for reimbursement. As such, the Company was entitled to claim reimbursement of 90 *per cent* of the cost of these works as soon as sanction letter was received. However, reimbursement was claimed only in December 2015 i.e. after a delay of nine months from the date of sanction. Due to delay in filing the claims, an amount of ₹ 2.51 crore towards works completed before March 2015, could not be realised promptly on completion of works.

The Government stated (October 2016) that due to non-availability of 10 *per cent* contribution of the Company, the schemes were not formulated in time.

This indicated the failure of the Company in mobilisation of funds through effective realisation of its receivables from consumers, Government and other sources, as discussed in Paragraph 2.6.4.

2.6.2.3 Supply of free power to agricultural consumers

As per the decision of the State Government, free power supply is extended to agricultural consumers for seven hours a day and the shortfall in revenue on account of free power is to be paid by the State Government in the form of subsidy.

During the period 2011-12 to 2015-16, supply of power to agricultural consumers had increased from 4,432.63 MU in 2011-12 to 4,671.95 MU in 2015-16 and the number of connections had increased from 9,22,913 to 10,57,774.

A Paragraph (No.3.3) on 'Tariff Subsidy to Agricultural Consumers' covering the period 2011-14 was included in the CAG's Audit Report No.4 of 2015. Audit observations on various deficiencies in supply of power to consumers and recovery of subsidy from Government during the period 2011-16 are discussed below:

Estimate of agriculture consumption

The Company, while filing its ARR with SERC, estimates the supply of power to agriculture consumers. After detailed scrutiny, SERC fixed the quantum of supply to be made to the agriculture consumers. Accordingly, subsidy would be paid by the State Government.

In view of uncertainty with regard to actual agricultural consumption due to lack of agricultural metering, overall power deficit scenario and severe criticism from public that the projection of agricultural sales filed by the Company was too high, SERC did not accept the estimates of the Company and approved the agriculture sales volume at much lower level compared to the estimates submitted in all the years from 2011-12 to 2015-16. The Company had to adhere to the agricultural sales volume approved by SERC in the Tariff Orders as no provision exists for additional sales to agriculture consumers for whom supply was made at subsidised rates.

The estimates of sale of energy to agriculture consumers, sales quantity approved by SERC, actual sales and its impact on the Company is indicated in the Table 2.4.

Table 2.4: Sale of Energy to Agriculture Consumers

Particulars	2011-12	2012-13	2013-14	2014-15[35]	2015-16	Total
Agriculture consumption estimates submitted to SERC (in MU)	4,154.22	4,586.85	5,032.65	Not Applicable (No tariff)	4,903.82	18,677.54
Agriculture supply approved by SERC (in MU)	3,596.07	3,955.61	3,955.61	3,955.61	4,340.01	19,802.91
Subsidy approved (₹ in crore)	944.46	1,578.90	1,751.27	1,751.27	2,211.73	8,237.63
Actual supply (estimated by Company) (in MU)	4,432.63	4,066.74	4,361.35	4,738.38	4,671.95	22,271.05
Excess supply (in MU)	836.56	111.13	405.74	782.77	331.94	2,468.14
Average cost of supply (₹)	3.32	4.15	4.87	4.87	5.26	--
Loss due to excess supply (₹ in crore)	277.74	46.12	197.60	381.21	174.60	1,077.27

Source: SERC Tariff Orders and Annual Accounts

It could be observed from the table that against the approval of 19,802.91 MU by SERC, the Company supplied 22,271.05 MU during 2011-12 to 2015-16. As the Company had not claimed the cost of additional units supplied to agricultural consumers from the Government, and the SERC, while truing up power purchase cost, had limited the agriculture sale quantity to the quantity indicated in Tariff Order, the Company had incurred a loss of ₹ 1,077.27 crore.

The Government stated during the Exit Conference (October 2016) that the methodology suggested by SERC for estimation of agricultural consumption was followed from 2012-13. However, SERC had not approved the full quantity and had not considered the additional connections released to agricultural consumers. It was further stated that GoI had approved the UDAY scheme for financial turnaround of DISCOMs and the Government had conveyed its intention to join the scheme, which would cover the above loss.

Installation of Capacitors and implementation of DSM measures

The State Government had declared a modified agriculture policy (January 2005) aimed at incentivising Demand Side Management (DSM) measures in the agriculture sector. DSM measures include installation of frictionless foot valves, capacitors of adequate rating and ISI marked mono-blocks for submersible pump-sets for all new connections and also providing these connections with meters. The DISCOMs were also required to ensure installation of capacitors on the existing pump-sets.

Several studies and pilot projects in the country have indicated a minimum of 25 to 30 *per cent* reduction in agriculture consumption on replacement of inefficient pump-sets of farmers with efficient ones.

[35] The company could not obtain Tariff Order for 2014-15 as the Model Code of Conduct of Election Commission was in force and also due to the bifurcation of the State. Multi Year Tariff was also not filed, as a result the Tariff Order of 2013-14 was made applicable for 2014-15.

The details of agriculture connections, actual supply and average consumption during 2011-12 to 2015-16 of the Company are indicated below:

Table 2.5: Percentage of agriculture consumption to total supply

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Agriculture connections at the end of the year (Nos.)	9,22,913	9,55,799	9,82,396	10,20,501	10,57,774
Agriculture connections issued during the year (Nos.)	43,225	32,886	26,597	38,105	37,273
Supply to Agriculture connections during the year (in MU)	4,432.63	4,066.74	4,361.35	4,738.38	4,671.95
Total Input Units (MU)	11,913.80	11,164.56	11,867.68	12,801.61	13,269.95
Percentage of Agriculture consumption to total supply	37.21	36.43	36.75	37.01	35.21

Source: MIS returns and Company reply

It could be observed from the table above that the energy supplied to agricultural sector, against total input units of the Company, was more than 35 *per cent* during the years 2011-12 to 2015-16. In the public hearings, some members of general public pointed out that though DISCOMs had claimed that 80 *per cent* of pump-sets were provided with capacitors, only 10 *per cent* of pump-sets were installed with capacitors (2012-13). In the Tariff Order 2013-14, SERC directed DISCOMs to provide the data on energy saved due to installation of capacitors on existing pump-sets within three months and to upload the same on its websites. However, the Company had not assessed and submitted the savings achieved to SERC. The relevant data was also not found on the website of the Company.

The SERC had also directed (March 2013) the Company to take necessary steps for removal/ regularisation of unauthorised agricultural services. Audit observed from the records of the Company that there were 34,870 unauthorised agricultural connections as on March 2016. Out of this, though the connection charges were received in respect of 16,977 services, the same were however not regularised up to March 2016.

The Government stated (October 2016) that all the agricultural services were provided with capacitor of suitable capacity but in many places these were removed by the farmers on the ground that capacitors were causing cases of electrical shock. The farmers were, however, being persuaded to provide capacitors to the services. It was also stated that the Company had planned to release all the pending applications along with unauthorised agricultural services existing by the end of December 2016.

2.6.2.4 Implementation of Financial Restructuring Plan (FRP)

The High Level Panel appointed (July 2010) by the Planning Commission to look into the financial problems of State Electricity Boards had opined that a part of losses were displayed as increase in current assets. The current assets of DISCOMs consisted mainly of subsidy to be paid by the State Government.

In order to turnaround loss making State owned DISCOMs and to ensure their long term viability, GoI had formulated (October 2012) a Financial Restructuring Plan (FRP). The scheme, *inter-alia,* provided for takeover of 50 *per cent* of outstanding Short-Term Liabilities (STL) of DISCOMs as on

31 March 2012 by the State Government, which would be converted into bonds. The remaining 50 *per cent* of STL was to be rescheduled by the lenders with moratorium of three years on principal. The repayment of principal and interest would be guaranteed by the State Government. The Company had short term loans of ₹ 2,495 crore accumulated due to procurement of additional power beyond SERC approved quantities. The State Government agreed (November 2013) to assume liability of ₹ 1,270 crore of the Company as on 31 March 2013. As per the FRP scheme, in-principle approval of SERC was to be obtained before implementation. The important observations in implementation of the scheme are as follows:

- ***Delay in implementation of FRP Scheme***

The FRP scheme was to be implemented by December 2012 by adopting the financial figure as on 31 March 2012. The support under the scheme would be available to the DISCOMS having accumulated losses and facing difficulty in financing operational losses.

However, the Company decided to treat the receivables from State Government as bad debts, only in their accounts for 2012-13 and adopted the same for the above purpose. Therefore, the Company obtained approval of MoP for extension of time and also for adopting the financial figures of 2012-13. The State Government decided to participate in the scheme in April 2013 and approved the scheme in January 2014. Accordingly, as per approval of the Board, the Company issued bonds in three series (February to May 2014). The series 1 was issued (3 February 2014) at coupon rate of 9.95 *per cent*, while series 2 and 3 were issued (28 March 2014 and 30 May 2014 respectively) at a coupon rate of 10 *per cent*. Due to delay in implementation of the scheme, the coupon rate had increased from 9.30 *per cent* (estimated in June 2013) to 9.95 *per cent* in 2014. This had resulted in additional expenditure of ₹ 8.89 crore per annum to the State Government.

The Company stated (October 2016) that the scheme was implemented from 16 January 2014 after receipt of approval of State Government (10 January 2014).

However, due to delay in implementing the scheme, the Company had to issue bonds at higher rate.

- ***Non-Initiation of proposal for takeover of bonds by State Government***

As per FRP scheme, the bonds were to be taken over by the State Government in two to five years. Though the Government had indicated that it would take over the bonds over a period of four years, the Government had not started the process of taking over these bonds even after lapse of more than three years (July 2016). As the Company is accounting the bonds as its liability, the financial ratios, terms of loans and interest rates applicable to the Company were adversely affected. Further, the Company obtained *adhoc* cash credit of ₹ 80 crore from State Bank of Hyderabad at high interest rate of 12.95 *per cent* to service the debt on behalf of the State Government, thereby deteriorating its financial condition.

During the Exit conference (October 2016), the Joint Secretary (Energy) directed the Company to submit the proposal for takeover of bonds, well in advance of finalisation of the budget**.**

➢ ***Non-achievement of Expected outcomes***

Contrary to expected outcome of financial turnaround and long term viability, FRP scheme worked counterproductive to the Company as the State Government did not honour its commitments making the Company treat the dues from the Government as bad debt, thereby wiping out its entire net worth. Due to non-fulfilment of responsibilities under the scheme by the Company and the State Government, the objectives and expected outcomes of the scheme were not achieved as discussed below:

- ***Non-obtaining the approval of SERC for FRP scheme***

  The Company had not obtained approval of SERC for implementation of FRP scheme and the reasons for the same were not on record. Due to this, SERC did not consider interest of ₹ 140.87 crore on rescheduled loan in the ARR for 2015-16. As such, the Company could not recover the interest of ₹ 140.87 crore through tariff.

- ***Non-enactment of Model State Electricity Distribution Management Responsibility Bill***

  In order to ensure achievement of the operational and financial parameters prescribed in the FRP, the State Governments were to enact Model State Electricity Distribution Management Responsibility Bill within twelve months from the date of circulation of Model Legislation by the Ministry of Power.

  Model Legislation to be enacted by the State Government had been circulated by the Ministry of Power in September 2013. The FRP also provided for nomination of lenders representative on the Board of Directors of the Company.

  Audit observed that the Company had not initiated any action for enactment of the Act and for nomination of lenders representatives on the Board by the State Government.

  During the Exit conference, the Joint Secretary (Energy) directed the Company to move the proposal to nominate lenders representative on the Board**.**

- ***Non-assessment and claiming of incentive under Transitional Finance Mechanism***

  As per Transitional Finance Mechanism (TFM) under the FRP scheme, annual verification of the performance/ achievements of the DISCOMs had to be done through a third party appointed by Central Electricity Authority (CEA) for release of incentive from Government of India. Audit observed that CEA is yet to appoint a third party for annual verification of performance for the period 2012-13 to 2014-15. As such, the Company had not assessed the incentive eligible under TFM.

Similarly, the scheme also provided reimbursement support of 25 *per cent* of principal repayment of bonds issued by the Company and taken over by State Government. However, the State Government was yet to take over the bonds.

The Government stated (October 2016) that as per TFM, annual verification of the performance/ achievements of the Company had to be done through a third party appointed by CEA for release of incentive and the CEA is yet to appoint a third party.

The reply was not acceptable as the claims for incentive had to be first submitted by the Company/State to CEA to avail of the benefits under TFM, which were available during 2013-14 to 2015-16.

- ***Non-inclusion of private sector in State distribution network***

  The FRP scheme envisaged involvement of private sector in State distribution network through franchisee arrangement or any other mode of private participation to be prepared by the DISCOMs within a year and submitted to Central Electricity Authority (CEA) for approval. It was observed that no action was taken by the Company in this regard.

  The Government stated (October 2016) that Manning and Maintenance works were outsourced by the Company. It was also stated that inclusion of private sector in Distribution network might not be feasible in view of heavy subsidies involved.

  However, non engagement of private sector in distribution is not in conformity with the FRP scheme.

- ***Non-installation of meters/ prepaid meters***

  In order to ensure billing on actual consumption and to reduce AT&C[36] losses, the scheme provided for installation of prepaid meters by 31 March 2013 for all Government consumers and large consumers (1 MW and above) where defaults had occurred and a time bound plan for metering of all categories of consumers was to be put in place and submitted to the Central Level Monitoring Committee (CLMC) through State Level Monitoring Committee (SLMC). It was observed that neither prepaid meters were installed, nor were targets fixed for conversion of unmetered connections.

  The Government stated (October 2016) that procurement and installation of prepaid meters were in progress.

- ***Non-functioning of Monitoring Committee***

  State Level Monitoring Committee with C&MD of the Company as a member was set up (January 2013) by the State Government for monitoring/ review of the progress on quarterly basis till turnaround of the Company. Audit observed that SLMC had met only once (21 December 2013) so far to review the progress.

[36] Aggregate Technical and Commercial

During the Exit conference the Joint Secretary (Energy) had directed the Company to take initiative to conduct the meetings**.**

- ***Ujwal Discom Assurance Yojana (UDAY) scheme***

Government of India had launched *UDAY* scheme in November 2015 to improve the operational and financial efficiency of the State DISCOMs. Under UDAY scheme, State Government would take over 75 *per cent* of the debt of DISCOMs as on 30 September 2015, over a period of two years. The State Government accorded in-principle approval to the scheme. The MoU was signed by Ministry of Power and the Company (January 2017). As per the timelines fixed for achieving the targeted activities of the scheme, compulsory feeder metering was to be completed by June 2016. However, no feeder meters were installed till date (July 2016).

2.6.3 Operational Efficiency

The operational performance of the DISCOMs was judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, minimizing line losses, detection of theft of electricity etc. The deficiencies observed in the Company are discussed below.

2.6.3.1 Distribution losses in excess of SERC norms

The losses at 33 KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. The losses occur mainly on two accounts i.e. technical and commercial. Technical losses occur due to inherent character of the equipment used for transmitting and distributing power and resistance in conductors through which energy is transmitted from one place to another. On the other hand, commercial losses occur due to theft of energy, defective meters, unmetered supply etc.

State Electricity Regulatory Commission determines the maximum percentage of energy losses and considers the same while determining the distribution tariff for the respective year. The energy losses beyond the percentage allowed by SERC are not to be passed on to the consumer and have to be borne by the DISCOMs. Various incentives/ grants under centrally sponsored schemes were also based on achievement of specified reduction in energy losses. Thus, it was imperative for the Company to keep energy losses below the level approved by SERC.

The table below indicates sub-transmission and distribution losses with reference to percentage of loss allowed by SERC during 2011-12 to 2015-16.

Table 2.6: Distribution losses

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16[37]
1	Energy Purchased (MU)	11,913.80	11,164.56	11,867.68	12,811.53	13,269.95
2	Energy sold (MU)	10,243.93	9,671.61	10,287.00	11,104.80	11,565.70
3	Energy losses (MU) (1-2)	1,669.87	1,492.95	1,580.68	1,706.73	1,704.25

[37] In the Tariff Order for 2015-16 different energy losses were adopted for supplies at different voltage. The energy loss units allowed as per SERC were adopted.

4	Percentage of energy losses {(3/1) x 100}	14.02	13.37	13.32	13.32	12.81
5	Percentage of losses allowed by SERC	13.33	12.36	11.88	11.88	-
6	Excess losses (in percentage) (4-5)	0.69	1.01	1.44	1.44	-
7	Excess losses (in MU) {(6x1)/100}	82.20	112.76	170.89	184.48	185.66
8	Average realization rate per unit (in ₹)	1.72	2.45	2.75	2.72	2.98
9	Value of excess losses (₹ in crore) (7x8)	14.14	27.63	47.00	50.18	55.32
10	Total value of Excess losses for the period from 2011-12 to 2015-16 is ₹ 194.27 crore					

Source: Annual Accounts

From the above, it could be observed that percentage of sub-transmission and distribution losses were higher than the norm fixed by SERC in all the years, though the Company had brought down the loss over the years (14.02 to 12.81 *per cent*). The value of excess loss had increased from ₹ 14.14 crore (2011-12) to ₹ 55.32 crore (2015-16). In order to reduce the losses, the Company had taken up implementation of HVDS, DSM measures, installation of adequate capacitor banks etc. However, due to failure in implementation of loss reduction measures effectively, the Company had suffered loss to the tune of ₹ 194.27 crore during the period 2011-16.

The Government stated (October 2016) that due to reduction in sales at higher voltage categories, the Company could not achieve the loss reduction trajectory. The high voltage category sales mainly depended on energisation of lift irrigation schemes proposed by the Government.

2.6.3.2 Performance of Distribution Transformers

Distribution Transformers (DTRs) play a crucial role in power distribution network. Failure of DTRs results in interruption of power supply to consumers, expenditure on repairs and loss of revenue to the Company.

State Electricity Regulatory Commission, though had not fixed any norm for failures of DTRs, the Company had been following the norm of 12 *per cent*. The details of DTRs failed and the expenditure incurred on their repairs are given below (***Annexure-2.1***):

Table 2.7: Expenditure on repair of failed DTRs

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total
DTRs existing at the close of the year (Nos.)	1,78,880	1,87,944	2,08,158	2,26,447	2,42,826	10,44,255
DTRs failed (Nos.)	19,387	24,358	27,777	26,131	26,006	1,23,659
Percentage of failures	10.84	12.96	13.34	11.54	10.71	11.84
Norm fixed/followed	12	12	12	12	12	12
Expenditure on repair of failed DTRs (₹ in crore)	8.83	15.12	26.70	28.77	25.61	105.03

Source: MIS returns

It could be observed from the ***Annexure-2.1*** that the rate of failure of DTRs was on higher side in all the Circles except Karimnagar and Nizamabad Circles. The percentage of failure ranged from 13.64 to 16.74 in Adilabad Circle, 11.32 to 15.87 in Warangal Circle and 11.10 to 15.18 in Khammam Circle during the review period. However, except 2012-13 and 2013-14, the failure of DTR was within 12 *per cent*. The Company had incurred expenditure of ₹ 105.03 crore on repairs to DTRs during the review period, of which ₹ 6.78 crore was incurred on DTRs failed in excess of the internal norm fixed by the Company.

The reasons for the failure of DTRs in 2015-16 were line faults (65.05 *per cent*), overloading (25.24 *per cent*) and lack of maintenance (9.86 *per cent*) which were preventable with proper monitoring and rectification of line faults.

The Government stated (October 2016) that the Company gradually reduced the failure rate and the rate was above the norm during 2012-13 and 2013-14 as drought conditions prevailed in those years. It was also stated that the Company was making efforts to restrict the failure of DTRs within the prescribed norm**.**

However, the Company had not installed sufficient DTRs to provide relief to the overloaded DTRs.

2.6.3.3 Non-maintenance of required rolling stock of DTRs

The Company is required to maintain healthy DTRs as rolling stock for ensuring replacement of failed DTRs. The norm followed by the Company for maintaining rolling stock was four *per cent* of total DTRs. The rolling stock required as per norm and the actual rolling stock maintained by the Company during the last five years is indicated below:

Table 2.8: Surplus / shortage of Rolling stock of DTRs

Year	Total DTRs	Rolling stock as per norm of 4 *per cent*	Actual Rolling stock	Surplus/ Shortage
2011-12	1,78,880	7,155	7,592	+437
2012-13	1,87,944	7,518	7,947	+429
2013-14	2,08,158	8,326	8,233	-93
2014-15	2,26,447	9,058	8,089	-969
2015-16	2,42,826	9,713	8,840	-873

Source: MIS returns

It could be observed from the above that the Company had not maintained the required rolling stock during the years 2013-16, and shortage was 10.70 *per cent* and 8.99 *per cent* of the norm in 2014-15 and 2015-16 respectively. Further, the data relating to time taken for replacement of failed DTRs was not maintained in the field. In order to avoid shortage of DTRs in replacing failed DTRs, the Company should maintain the required rolling stock.

The Government stated (October 2016) that failure of DTRs was more during certain seasons. The complaints were received telephonically and were recorded in the system, but details of time taken for replacement were not captured in the system.

2.6.3.4 Delay in completion of works and closure of work orders

As per provisions of Electricity Department Manual, all work orders completed or in-progress should be closed up to 31 March and, in the case of capital-works-in-progress and maintenance works for next year, fresh work orders should be issued.

Audit observed that the work orders issued for execution of various works in the Company were not being closed at the end of the year. The work orders were kept open for long periods, in many cases for more than five years due to non-completion of works within scheduled period, delay in returning of balance unused material to stores, right of way problems in the field and non-availability of matching material in the stores. The details of capital work orders issued, closed during the year and pending closure at the end of the year for the period from 2012-13 to 2015-16 are indicated in the ***Annexure-2.2***.

Audit observed that:

- The number of work orders pending for closure had increased from 13,008 (₹ 319 crore) as on March 2013 to 18,318 (₹ 580 crore) as on March 2016. Out of total 18,318 pending capital work orders, 3097 work orders (₹ 141 crore) were pending for more than one year and 768 work orders (₹ 46 crore) were pending for more than two years.
- Delay in closure of work orders resulted in non-capitalisation of assets and non-charging of depreciation, besides non-inclusion of depreciation in ARR for realisation through Retail Tariff.
- The Audit Committee of the Company had recommended (December 2013) to close all the work orders pending for more than one year in which the assets were already put to use. However, it was observed that there were 84 work orders pending for closure for which works were completed and put to use.
- There were 389 work orders relating to service connections pending for closure as on 31 March 2016 valued at ₹ 5.54 crore. Non-closure of work orders relating to service connections resulted in delay in realisation of revenue to the Company.

The Government stated (October 2016) that the main reasons for not closing the work orders was non-availability of required materials at stores and long duration of schemes like HVDS, R-APDRP etc. It was also mentioned that action was being taken to close the work orders and bring the same to a minimum level by pursuing vigorously.

2.6.4 Billing and Collection Efficiency

One of the major aims and objectives of the National Electricity Policy, 2005 was ensuring financial turnaround and commercial viability of Power sector.

The financial viability of the DISCOMs are generally influenced by various factors such as:

- Timely revision of tariff;
- Adequacy of revision of tariff to cover cost of operation;
- Timely release of assured subsidy by the Government;
- Cross subsidisation policy of the Government; and
- Proper billing and collection.

The deficiencies observed by audit are discussed in the following paragraphs.

2.6.4.1 Non-filing of retail tariff proposals under Multi Year Tariff (MYT) framework

State Electricity Regulatory Commission had introduced Multi Year Tariff framework (five years) in 2005, based on which the Company had to file its ARR proposals with SERC for determination of tariff for Wheeling and Retail sale of electricity. The Company, however, expressed its inability to project ARR for five years under Multi Year Tariff (for retail tariff) on the ground that reasonable prediction of their revenue requirement could not be made due to uncertainties surrounding lift irrigation schemes, policy uncertainties and Power Purchase Agreements pending finalisation with a few generating stations. Accordingly, SERC allowed the Company to file annual ARRs.

Multi Year Tariff could have obviated the time, effort and uncertainty of getting Annual Tariff Orders. In view of applicability of model code of conduct of Election Commission and reorganisation of State, the Company could not obtain annual Tariff Order for 2014-15. The Company had not submitted the revised ARR for the remaining period of 2014-15 after formation of Telangana State. In the absence of Tariff Order for 2014-15, the Company had to follow the Tariff Order of 2013-14 for 2014-15 also.

Audit observed that due to its inability to establish required information systems, the Company could not submit the proposals under MYT and avail of the benefits. The loss of the Company had increased from ₹ 33.78 crore during 2013-14 to ₹ 1,348.21 crore during 2014-15, mainly due to adoption of Tariff Order of 2013-14 for 2014-15.

The Government stated (October 2016) that MYT proposals could not be submitted due to difficulties in assessing the availability of power. Government also informed that after implementation of UDAY scheme, it would be submitted quarterly.

The reply was not acceptable, as SERC had suggested MYT tariff after considering all issues involved. Adoption of MYT by the Company would have avoided the adoption of previous year's tariff (2013-14) for 2014-15, and the loss of revenue could have also been reduced.

2.6.4.2 Shortfall in supply of power to subsidised categories

The Company failed in meeting the supply estimates in all the years during 2011-12 to 2015-16. The shortfall in supply was more in LT category where most of the supply was to rural areas. Audit observed that the shortfall in supply was more in the categories where the Government pays subsidy based on estimates. It was seen that against SERC approved supply of 12,491 MU to LT-I category, the Company supplied 11,765 MU only during 2011-16 and thus availed excess subsidy of ₹ 170.13 crore.

The Government stated (October 2016) that if all the subsidised categories including agricultural category were considered, the supplies would have exceeded the SERC approved limits; hence no excess subsidy was claimed.

However, the Company should ensure supplies to all categories as per the quantum approved by SERC. Further, the quantum of supply attributed to agricultural category by the Company was only an estimation which was not accepted by SERC.

2.6.4.3 Cross subsidy beyond the norms suggested by National Tariff Policy

Section 61 of the Electricity Act, 2003, stipulates that tariff should progressively reflect the Cost of Supply of electricity and also reduce cross subsidy in a manner specified by the appropriate commission. The National Tariff Policy (NTP) envisaged that tariff for all categories should range within plus or minus 20 *per cent* of the Average Cost of Supply (ACS) by the year 2010-11.

In the tariff proposals submitted to SERC for approval, the Company had proposed tariff which were beyond the limits allowed as per NTP. A review of the tariff orders for the last five years showed that the tariff fixed for majority of the categories was beyond the limits as given below:

Table 2.9: Details of Tariff fixed

Year	*ACS* (in paise)	Lower limit (in paise)	Upper limit (in paise)	Total categories in Tariff Order	Categories for which the Tariff is fixed		
					less than the minimum	more than the maximum	within the limits
2011-12	382	306	458	75	31	16	28
2012-13	471	377	565	101	42	23	36
2013-14	551	441	661	86	23	22	41
2014-15	551	441	661	86	23	22	41
2015-16	619	495	743	87	30	12	45

Source: SERC Tariff Orders

Audit observed that the Company did not limit the cross subsidy to the suggested levels even beyond the target year (2010-11) and the tariff charged to certain categories reached 189 *per cent*[38] of the *ACS*. The financial impact on categories for which tariff was higher than the maximum allowed as per norm, worked out to ₹ 909.37 crore during 2011-15 (***Annexure-2.3***).

The Government stated (October 2016) that all efforts were being made to adhere to the guidelines.

2.6.4.4 Non-filing of additional expenditure through true-up with SERC

Due to increase in number of DTR failures, employee cost, administrative and general expenses, the Repair & Maintenance budget of the Company for 2013-14 was enhanced by ₹ 98.91 crore. The Board accorded sanction for additional

[38] As against the ACS of 619 paise per unit for the year 2015-16, the tariff for Advertisement Hoardings Category was 1170 paise per unit which was 189 *per cent* of ACS.

budget and directed the Company to recover the additional expenditure by filing true-up petition.

However, the Company had not claimed the additional expenditure incurred through true-up petition on the plea that accumulated losses in the Balance Sheet were covered under FRP scheme. This has resulted in avoidable loss of ₹ 98.91 crore.

The Government stated (October 2016) that the Company had not filed the true up proposals for 1st & 2nd control periods in view of the intention conveyed by the Government to join UDAY scheme as the loss would be absorbed by the UDAY scheme.

2.6.4.5 Non receipt of Subsidy from the State Government.

State Electricity Regulatory Commission approves the ARR taking into account subsidy to be released by the State Government, failing which rates contained in the full cost recovery tariff would be operative. The subsidy amount as indicated in the Tariff Order, must be paid by the State Government in monthly installments, in advance.

Audit observed that:

- The Company had received the subsidy as indicated in the tariff orders for the years 2011-12 to 2013-14. However, for the years 2014-15 and 2015-16, though the Company had claimed subsidy of ₹ 5,932.21 crore, it received only ₹ 5,238.98 crore. The Company could neither collect the balance subsidy (₹ 693.23 crore) nor implement the full cost recovery tariff. Non-compliance with tariff orders by the Company had resulted in loss of ₹ 693.23 crore.
- In respect of 2014-15, the Company was entitled to claim ₹ 2,555.28 crore towards subsidy as approved by SERC. However, the Company had claimed ₹ 2,398.81 crore only, resulting in short claim of ₹ 156.47 crore.
- The Company had claimed subsidy as per Tariff Order of SERC i.e. at ₹ 202.45 crore per month for April and May 2014 and at ₹ 199.39 crore per month from June 2014 (reduced due to transfer of seven Mandals to Andhra Pradesh) but did not claim additional subsidy of ₹ 130.14 crore, approved later by SERC (May 2013). This had resulted in loss of ₹ 130.14 crore.
- Due to non-receipt of subsidy from the Government, the Company was forced to defer the payments to the Generation Companies, resulting in payment of Delayed Payment Surcharge (DPS) at 15 to 18 *per cent* per annum. The Company had paid ₹ 1.01 crore as DPS to the Generating Stations during 2015-16.

The Government stated (October 2016) that the subsidy was paid in full for the year 2013-14. For the balance subsidy relating to 2015-16, Government Order (GO) was issued. In respect of 2014-15, the amount agreed as per GO was paid to the Company.

The reply was not acceptable as the Company had adopted Tariff Order for 2013-14 for 2014-15 and against the entitled subsidy amount approved by

SERC of ₹ 2,555.28 crore, an amount of ₹ 2,398.81 crore only was received, leaving a shortfall of ₹ 156.47 crore.

2.6.4.6 Arrears of Revenue

As per SERC directions, DISCOMs had to make all out efforts to ensure timely collection of dues from the Government/ Local Bodies without allowing arrears to build up. SERC had further opined that installation of prepaid meters would act as one of the mechanisms to reduce/ eliminate delays in payment of outstanding bills and arrears by Government Departments.

A review of arrears of revenue showed that an amount of ₹ 1,232 crore[39] was pending for recovery as on 31 March 2016. Out of this, ₹ 820.89 crore was pending from the Government Departments/ Local Bodies and ₹ 249.03 crore was pending from other live services.

A further test-check of HT consumers with arrears of more than ₹ 10 lakh as on 31 May 2016 showed that an amount of ₹ 65.85 crore was pending for recovery from 64 consumers against which the Company was holding security deposit of ₹ 12.49 crore only and there was no security for the balance amount of ₹ 53.35 crore. The above consumers were under 'D' list (Disconnection list) for more than one year. However, contrary to the provisions of General Terms and Conditions of Supply (GTCS), supply was not disconnected. The Company had also not taken any initiative to install prepaid meters for the Government Departments (July 2016). Therefore, the Company should ensure prompt realisation of arrears by implementing GTCS and directions of SERC.

During the Exit conference, the Joint Secretary (Energy) directed the Company to speed up the process of installation of prepaid meters to avoid accumulation of arrears and enable prompt realisation of revenue**.**

2.6.4.7 Non-realisation of dues from Government towards subsidy for Scheduled Tribe (ST) consumers

The State Government had taken a policy decision (July 2013) to provide free power to the Scheduled Caste/Scheduled Tribe (SC/ST) beneficiaries who are residing in SC/ST housing colonies and whose consumption was less than 50 units per month. The arrears of electricity charges as on 31 March 2012 would be paid in two installments in 2013-14 and 2014-15. In respect of monthly payments, DISCOMs were to furnish detailed consumption particulars of each beneficiary in SC/ST colonies whose monthly consumption was below 50 units to Social Welfare Department. It was seen that the Company had receivables of ₹ 32.13 crore and ₹ 70.86 crore as on March 2013 and March 2016 respectively in respect of ST consumers.

SERC had directed (Tariff Order 2013-14 and 2015-16) that the Company should make all out efforts to ensure timely collection of dues from the Government Departments/ Local Bodies without allowing arrears to build up and take necessary steps as per the GTCS.

Though the dues relating to SC consumers were received, the dues in respect of ST consumers amounting to ₹ 71.45 crore to the end of April 2016 were not

[39] LT consumers: ₹ 995.64 crore and HT consumers: ₹ 236.36 crore.

received resulting in blocking up of funds. Though the Company is pursuing the issue with Tribal Welfare Department, the amount is yet to be realised (October 2016).

The Government stated (October 2016) that efforts were being made to release the budget for payment of dues of ST consumers from Tribal Welfare Department.

2.6.4.8 Adoption of kWh units instead of kVAh units for levy of Electricity Duty (ED) on HT consumers

SERC approved kVAh billing system from 2011-12 for all HT Consumers and LT Consumers for whom Trivector meters have been provided. Accordingly, the Company is charging energy charges based on consumption of electricity measured in kVAh.

As per the State Electricity Duty Act, 1939, every licensee in the State is to pay every month to the State Government a duty at the rate of six paise per unit of energy sold except on the sales made to the Government of India for its consumption or on sales to Railways.

Audit observed that though the Company had switched over to kVAh-based billing (2011-12) and measuring the units in terms of kVAh, it was collecting the electricity duty on kWh units. The kVAh-based billing drives the consumer to reach unity power factor. The kVAh units will be higher than kWh units wherever power factor is less than one. As measurement of energy consumption was changed to kVAh, the ED was to be levied on kVAh units instead of kWh units.

Non-adoption of kVAh units for levy of ED during 2011-16 had resulted in loss of revenue of ₹ 6.34 crore to the Government and undue benefit to the HT consumers.

The Government stated (October 2016) that as per GTCS, unit means kWH (indicated by the energy meter) and hence there was no deviation in billing ED.

The reply was not acceptable as SERC had approved kVAh billing system from 2011-12 for all HT consumers. Further, ED Act provided for levy of ED on energy sold and kVAh being used as the unit of measurement for billing, ED should have been levied on kVAh.

2.6.4.9 Arrears of Additional Consumption Deposit from HT and LT services

High Tension/ Low Tension consumers should at all times maintain an amount equivalent to consumption charges (i.e. demand charges and energy charges etc., as applicable) of two months or three months as security during the Agreement period. Subject to billing periods of three months/ two months as specified in SERC Regulation No.6 of 2004, the adequacy of the amount of Consumption Deposit (CD) in respect of consumers shall be reviewed by the Company, generally once in every year (preferably after revision of tariff for the respective year) based on the average consumption for the period representing 12 months from April to March of the previous year. After such review, Additional Consumption Deposit (ACD) would be demanded in case of shortfall and refunded in case of excess.

The Company reviewed ACD requirement in all the years during 2011-12 to 2015-16 and had raised demands. During the year 2015-16, ACD demands were raised on LT services for ₹ 42.17 crore (1,09,627 services) and HT services for ₹ 36.73 crore (1,214 services). Against this, ₹ 11.39 crore (45,511 LT services) and ₹ 28.32 crore (943 HT services) were recovered, leaving a balance of ₹ 30.78 crore (64,116 LT services) and ₹ 8.40 crore (271 HT services) respectively. Though the Company reviewed the ACD requirement, it failed to recover the ACD and to maintain sufficient consumption deposit.

The Government stated (October 2016) that adequate consumption deposit was being maintained for all live HT and LT consumers except Government services which could not be disconnected as they were meant for emergency services like Water Works, Hospitals and Lift Irrigation etc.

2.6.4.10 Delay in recovery of Restriction & Control penalties from HT services

Keeping in view the acute shortage of power during 2012-13, Restriction and Control (R&C) measures were introduced with effect from September 2012, restricting consumption for certain HT consumers[40]. In case of violation of R&C measures, penalties were leviable. The Company had levied penalties for the period from the consumption month of September 2012 to March 2013. However, based on representations/ objections received from the Company/ consumers and contentions raised in various writ petitions, SERC reviewed R&C measures and issued (August 2013) orders for waiver of 50 *per cent* penalties already levied on the consumers as a one-time measure. Refunds arising out of waiver were not to be refunded but were to be adjusted against future bills.

The total demand raised, amount collected, adjustment made towards refund and balance to be collected are indicated below:

Table 2.10: R&C penalties

(₹in crore)

Sl. No.	Particulars	Adila-bad	Karim-Nagar	Kham-mam	Nizam - abad	Wara - ngal	Total
1	**Total demand raised towards R&C Penalties**	12.05	6.55	6.79	5.41	9.83	40.63
2	**Less : Withdrawal of R&C penalties**	3.50*	3.28	3.40	2.71	4.91	17.80
3	**Balance R&C charges to be collected**	8.55	3.28	3.40	2.71	4.91	22.85
4	**Amount already recovered from CC bills**	1.90	2.00	3.29	2.24	2.64	12.07
5	**Balance amount yet to be collected (3-4)**	6.66	1.28	0.10	0.47	2.27	10.78

Source: Company reply

* *In Adilabad Circle ₹ 3.50 crore only was withdrawn as certain consumers approached the courts on levy of penalties.*

[40] {HT Category I(A), (B) & II} and LT {III(A), (B) & II(C)}

It could be observed from the table that even after waiver of 50 *per cent* penalties and adjustments/ recoveries, an amount of ₹ 10.78 crore was yet to be recovered from 199 HT consumers. Considering cases where bills stopped (22 cases: ₹ 0.26 crore), under disconnection (16 cases: ₹ 0.31 crore) and under legal dispute (6 cases: ₹ 5.76 crore), an amount of ₹ 4.45 crore was pending for recovery from 155 live services since September 2013.

The Government stated (October 2016) that after formation of Telangana State, a representation was submitted by the industrialists to the State Government for waiver of penalties levied on industries as part of encouragement to the industries and the final decision was awaited.

2.6.4.11 Non-recovery of assessed amounts from theft of energy cases

A vigilance team of the Company, headed by an Officer of the rank of Additional Superintendent of Police, was entrusted with the work of conducting raids for checking the premises of the consumers to detect theft/ pilferage of energy cases.

The raids conducted by Vigilance Wing, theft/ pilferages cases detected, amount assessed/ realised etc. are indicated below:

Table 2.11: Unrealised amount in pilferage cases

Year	Consumers as at the end of the year	Raids conducted	Pilferage cases detected	Assessed amount	Amount realised	Unrealised amount	Percentage of unrealised amount
				₹ in crore			
2011-12	44,76,781	1,02,893	12,513	3.66	2.06	1.60	43.72
2012-13	46,74,437	1,13,134	12,618	4.66	2.81	1.85	39.48
2013-14	48,84,013	1,18,571	14,451	6.43	3.77	2.67	41.52
2014-15	50,34,446	1,56,247	16,571	6.20	3.71	2.49	40.16
2015-16	51,78,054	1,48,313	16,120	5.95	5.12	0.83	13.95
Total			**72,273**	**26.90**	**17.47**	**9.43**	**35.06**

Source: MIS returns

For realisation of assessed amounts in pilferage/ theft cases, Disconnection List (D-lists) were being issued to field offices for disconnection of services and follow up action. However, due to ineffective implementation of D-Lists, the arrears accumulated to ₹ 9.43 crore at the end of 2015-16.

The Government stated (October 2016) that review meetings were conducted to improve realisation of assessed amounts. The unrealised amounts were on decreasing trend from 2011-12.

2.6.5 Consumer Satisfaction and Redressal of Grievances

One of the key elements of the Power Sector Reforms was to protect the interest of the consumers and ensure better service to them. The consumers often face problems relating to supply of power such as non-availability of the distribution system for release of new connections or extension of connected load, frequent tripping of lines and/or transformers and improper metering and billing.

2.6.5.1 Non-supply of power to agricultural consumers for seven hours a day

The policy of the State Government is to provide free power to eligible agriculture consumers for seven hours a day. Accordingly, the ARR proposals were based on the assumption of seven hours supply. The cost of supply and subsidy payable by the State Government were also estimated, based on seven hours supply.

During public hearings on tariff proposals, several consumers and other stakeholders expressed concern that the Company had not supplied electricity for the promised seven hours continuously throughout the year.

Though the Company estimated the supplies to agriculture consumers exceeding the quantum of units approved by SERC, on review of records of supply made (day wise) to the agriculture feeders in five circles during January 2016 to March 2016, it was observed that supplies were not made for seven hours a day.

Audit observed that Warangal, Adilabad and Karimnagar circles had 646, 367 and 834 agriculture feeders respectively during the period January 2016 to March 2016. These circles had never supplied power to agriculture feeders for seven hours a day during the entire 91 day period verified in audit. The Khammam circle which had 325 feeders, supplied power for six hours a day or less in all the days in January, February and upto 20 March 2016.

The Company had not ensured supply for seven hours a day to all agriculture feeders uniformly and the Government also had not monitored the supply for seven hours a day, though the subsidy was paid for supply of the same. As supply was less than six hours a day for majority of the feeders in many circles, out of the subsidy of ₹ 8,237.63 crore paid by the Government during last five years (2011-16), about ₹ 1,176.80 crore (1/7th of the subsidy) was not spent on fulfillment of the objective of Government of supplying free power for seven hours to agricultural consumers.

The Government stated (October 2016) that there were occasions where supply exceeded seven hours which compensated for the short supply in other circles. It was further stated that the program of solar power to agricultural connections was under implementation which would ease the problem.

The reply was not acceptable as the Company had extended power for seven hours only to a few feeders in Nizamabad circle while, in other circles, the supply was less than seven hours.

2.6.5.2 Redressal of complaints from Consumers

The Company has a Consumer Care Centre (CCC) facility for resolving the complaints of the consumers relating to fuse off, overhead line/ cable breakdown or underground cable breakdown, DTR failures, transfer of ownership, re-connection of supply, wrong bills/ back bills, meter complaints etc. In case the complaints are not resolved, the consumers can approach Consumer Grievance Redressal Forum (CGRF) established by the Company under Sub- Section (5) of Section 42 of the Electricity Act, 2003. Presently the Forum is catering to the consumers of five circles.

The position of number of complaints at CGRF and their clearances during the five year period is indicated below:

Table 2.12: Year-wise details of complaints at CGRF

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Complaints pending at the beginning of the year	6	6	40	17	264
2	Complaints received during the year	25	351	343	727	378
3	Complaints redressed	25	317	366	480	346
4	Complaints Pending	6	40	17	264	296

Source: Company website

From the above, it could be observed that the number of complaints registered at CGRF increased from 25 (2011-12) to 378 (2015-16). The Company should strive to resolve the complaints within the time prescribed by SERC to minimise the complaints in CGRF and to avoid payment of compensation/ penalties that may be imposed by CGRF. In this connection, it may be mentioned that the CGRF had awarded compensation/penalty of ₹ 6.78 lakh in respect of 44 cases during 2012-13 to 2015-16.

The Government stated (October 2016) that the number of complaints had increased due to display of citizen charter at all offices of the Company and consumers' awareness regarding CGRF.

2.6.5.3 Implementation of safety measures

Several consumers had expressed concern in public hearings conducted by SERC on issues relating to poor maintenance of network, leading to loss of human and animal lives.

SERC had identified (2009) the following reasons for fatal accidents:

- Sub-standard construction practices
- Not providing neutral wire from 33/11 KV sub-stations for all single-phase transformers
- Not following the standard practices which contemplate providing three separate earth pits for construction of DTR installations

To improve safety in distribution network especially in rural areas and to avoid accidents involving human beings and animals, SERC had provided ₹ 5 crore per year as special appropriation expenses in the MYT for 2nd Control period 2009-14, ₹ 25.89 crore for 2014-15 and 2015-16 and ₹ 61.86 crore in 3rd control period (2014-19).

Further, SERC had directed (March 2015) the Company to prepare safety improvement plan for four year period 2015-19 relating to distribution network and file the report with the Commission by 31 August 2015. However, the Company had not chalked out the plan.

The data relating to electrical accidents occurred and ex-gratia paid during 2011-16 is indicated below:

Table 2.13: Payment of Ex-gratia

Year	Fatal Accidents		Ex-gratia paid (₹ in lakh)
	Human (Nos.)	Animals (Nos.)	
2011-12	221	358	114.91
2012-13	196	281	77.81
2013-14	159	298	114.02
2014-15	147	233	192.21
2015-16	139	234	239.53
Total	862	1404	738.48

Source: MIS returns

From the above, it could be seen that the number of fatal accidents (human) have come down from 221 in 2011-12 to 139 in 2015-16 due to various measures viz., proper earthing, rectification of damaged lines/poles/stay wires/defective transformers, road crossing of lines, fencing of DTRs etc. taken by the Company. The *ex-gratia* paid during 2011-16 amounted to ₹ 7.38 crore.

Audit observed that despite allocation of special appropriation amount for improving the safety of distribution network, the actual expenditure incurred on safety could not be ascertained as the Company had failed to account the expenditure under a separate accounting head.

The Government stated (October 2016) that measures such as strengthening of earthing to single phase transformers, conversion of single phase DTRs, erection of middle poles etc., were taken up to reduce electrical accidents and the Company had ordered material worth ₹ 358 crore for improving safety. The Government also stated that a safety plan was being prepared for submission to SERC**.**

Conclusion

The Company had not drawn up year-wise plans for creation of network to meet projected demand for power. The budget approved by SERC for creation of distribution network was also not fully utilised. Requirement of capacitors was not assessed and installed periodically to save power. The Company had not followed the methodology prescribed by SERC for estimation of agricultural consumption and failed to adhere to the sales volume approved by SERC. Due to exceeding the sales volume and not recovering the cost of additional units, the Company had incurred a loss of ₹ 1,077.27 crore during 2011-16. The Company had not obtained full subsidy sanctioned by SERC for the years 2014-15 and 2015-16 from State Government. The Company had also not claimed additional subsidy of ₹ 130.34 crore sanctioned in Tariff Order applicable for 2014-15. The Company failed to avail the benefits fully under FRP introduced by Government of India during 2012-13. The Company could not control distribution losses within the permissible limits and as a result suffered loss. The Company failed to submit the tariff proposals as per MYT resulting in adoption of tariff of 2013-14 for 2014-15 also. The

Company failed to meet the supply estimates in all the years. Despite allocation of special appropriation amount by SERC for improving the safety of distribution network, the Company had not prepared safety plans. Due to delay in redressal of grievances to the satisfaction of consumers, the complaints registered at CGRF have increased from 25 in 2011-12 to 378 in 2015-16.

Recommendations

The Company may consider:

- ***preparing annual plans for development of distribution network and for utilisation of the amount approved by SERC;***
- ***periodical assessment and installation of capacitor banks to save energy;***
- ***adhering to the sales volume approved in Tariff Order, recovery of subsidy from the State Government as per Tariff Orders and implementation of full cost tariff in the event of non-receipt of full subsidy;***
- ***adhering to the terms and conditions of Projects/ Schemes of Central and State Governments to derive the intended benefits;***
- ***preparation of plans for improving the safety of distribution network and accounting the expenditure under a separate accounting head to monitor the investment on safety.***

Information Technology Audit Report on Billing Systems in Northern Power Distribution Company of Telangana Limited (TSNPDCL)

2.7 Introduction

Electricity consumers are divided into two broad categories i.e. High Tension[41] (HT) consumers and Low Tension[42] (LT) consumers. HT and LT consumers are further classified into various categories as per the provisions of the Tariff Orders issued by the concerned State Electricity Regulatory Commission (SERC) from time to time.

Electricity distribution network in the State of Telangana is governed by two Distribution Companies (DISCOMS) viz., Northern Power Distribution Company of Telangana Limited (TSNPDCL) and Southern Power Distribution Company of Telangana Limited (TSSPDCL). TSNPDCL (Company) was incorporated in March 2000 and caters to the needs of 51.78 lakh (HT-0.03 lakh and LT-51.75 lakh) consumers as at the end of March 2016 in the

[41] High Tension consumer means a consumer (other than those of LT III industrial categories) with a contracted load of 70 kVA and above and/ or having a contracted load exceeding 56 kW/ 75 HP. For LT-III industrial category having contracted load more than 100 HP, HT tariffs are applicable

[42] Low Tension consumer means a consumer with a contracted load of 56 kW/ 75 HP and below except for LT-III category which has a threshold of 75 kW/ 100 HP.

northern districts of Telangana viz., Warangal, Khammam, Karimnagar, Adilabad and Nizamabad districts.

2.8 Organisational Setup

The Company functions under the administrative control of Department of Energy, Government of Telangana. General Manager (IT), who heads the IT Department, reports to the Chief General Manager (Projects) and is assisted by a Senior Accounts Officer at Corporate Office. While the billing of LT consumers is the responsibility of the Assistant Accounts Officers at Electricity Revenue Offices (EROs), billing of HT consumers is done by Senior Accounts Officer (HT) at each circle office.

2.9 Billing Applications

Energy Billing System (EBS) (LT Consumers)

Prior to introduction of Energy Billing System (EBS) (at a cost of ₹ 6.68 crore), the LT consumers were billed through Private Accounting Agencies (PAAs) who maintained the data in different formats like simple text format, dbase files or excel sheets, based on their convenience. EBS, which brought the billing of all LT consumers on one platform, was developed in-house in the year 2013 in Oracle 11g as distributed processing system placed on IBM P750 servers having AIX 6.1 Operating System with windows based desktops at EROs acting as clients.

As at the end of July 2016, the data pertaining to LT consumers, other than those in R-APDRP towns, is maintained in the EBS. The data pertaining to the previous month is uploaded to the spot billing machines which is then used to generate bills for the current month based on the current month consumption. The billing information and the payment information are processed at the Data Centre located in the Corporate Office at Warangal to update the consumer ledgers.

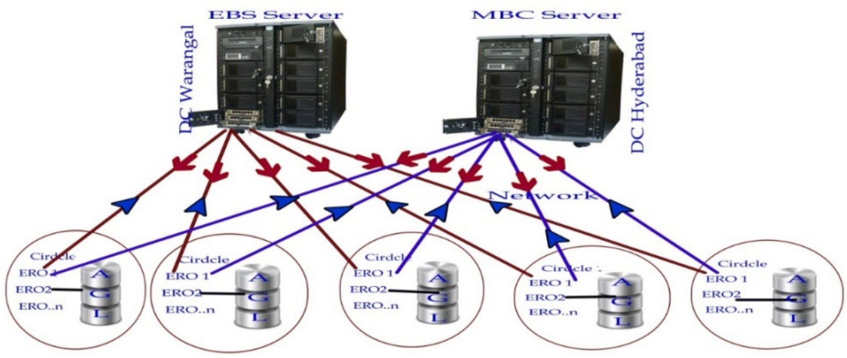
EBS (Agricultural Consumers)

The software was developed in-house on Sun Solaris 8 Operating System with Oracle 7 database and Oracle Forms V4 as back-end and front-end respectively and Pro*C as programming language.

The billing information pertaining to agricultural consumers (LT-V category) is fed by the EROs and is then sent to the Circle Office concerned. The same is processed by the Circle Office and the generated bills are sent to the consumers by the EROs.

Metering, Billing and Collection (MBC) Module (HT Consumers)

The HT consumer data is maintained along with the data pertaining to LT consumers covered under Restructured Accelerated Power Development and Reforms Programme (R-APDRP) in a Data Centre located at Hyderabad in the Metering, Billing and Collection (MBC) module developed under R-APDRP. The billing module is an application with centralised processing at the Data Centre and decentralised data feeding at Circle Offices. The processed bills are then sent to the consumers. A database architecture diagram of these billing applications is shown below:



2.10 Scope of Audit and Audit Methodology

The results of an IT audit on the HT billing systems of the Company was earlier included in the Commercial Audit Report, Government of Andhra Pradesh for the year ended 31 March 2007.

During the present Audit, sample billing data from the databases of LT, HT and Agricultural consumers for the period from 2011-12 to 2015-16 were analysed using CAATs[43] during the period April to August 2016. The results of queries on the databases were cross-verified with physical records at Circle Offices/EROs to evaluate the adequacy of IT controls as well as to identify loss/ leakage of revenue and to examine comprehensiveness of the System.

Sample Selection

There are five[44] Circle Offices, 23 Division Offices and 48 EROs spread over five districts. Among 45 EROs[45] (in these five Circles) where EBS is in use, 10 EROs (two offices from each circle) were selected using simple random sampling technique. Out of the total of 51.75 lakh consumers as at the end of March 2016, the sample selected works out to 17.18 lakh consumers (33.20 *per cent*). Further, the billing data of all 2516 HT consumers (to the end of March 2016) was covered in Audit.

2.11 Audit Objectives

The objectives of the Audit were to see whether

- the Company prepared and implemented IT Policy;
- the IT application for billing implemented by the Company was economical, efficient and effectively addresses business needs and compliance requirements;
- effective internal controls exist to ensure data integrity, safety and business continuity;
- effective controls exist in asset creation/usage, outsourcing and training aspects.

[43] Computer Assisted Audit Techniques

[44] Adilabad, Karimnagar, Khammam, Nizamabad, Warangal Circles

[45] All consumers of 3 EROs out of the total 48 EROs were covered under R-APDRP.

2.12 Audit Criteria

The audit criteria adopted for ensuring the achievement of audit objectives were:

- Provisions of Electricity Act, 2003, the National Electricity Policy and the schemes sponsored by Ministry of Power;
- Tariff Orders issued by SERCs of Andhra Pradesh and Telangana States;
- Guidelines and directions issued by Ministry of Power, SERCs, State Government;
- Norms fixed by various agencies with regard to operational activities;
- Adherence to directions issued by Information Technology & Communications Department vide G. O. RT. No. 268, dated 08 August 2008 for implementation of e-governance projects in PSUs/ Government Departments/ Agencies.

The audit objectives and criteria were explained to the Company during the Entry Conference (6 June 2016). The replies of the Government furnished during the Exit Conference (26 October 2016) have been considered while finalizing the Report.

Acknowledgement

Audit acknowledges and appreciates the co-operation and assistance extended by the officers and the Management of the Company at various stages of conducting the Information Technology Audit.

2.13 Audit Findings

2.13.1 Lack of formulated and documented IT and Security Policies

As per the guidelines issued (August 2008) by the erstwhile Government of Andhra Pradesh (Unified), all Departments/ PSUs were to develop an IT vision and a road map identifying various objectives and services to be provided, milestones to be achieved etc., within a fixed time frame. However, the Company had neither framed a road map nor formed a Steering Committee to guide the development of IT assets till date (August 2016).

Though the Company was utilising IT applications like EBS, MBC, SAP ERP etc., for managing its various operations, it is yet to formulate and document a formal IT policy and a long/ medium-term IT strategy incorporating the time frame, key performance indicators and cost benefit analysis for developing and integrating these applications, resulting in duplication of work as detailed in *Para 2.13.3* infra. This indicates lack of strategic planning in effectively using IT. Further, the Company does not have an approved Information Security Policy for protection of its application/ database as well as the data residing therein as detailed in *Para 2.13.22*.

In this context, a reference is also invited to Para no. 2.5.6 of the 'Review on HT billing' in erstwhile APNPDCL and erstwhile APCPDCL (included in the CAG's Audit Report, Commercial, Government of Andhra Pradesh for the year ended 31 March 2007) wherein similar comment was included, from which it is evident that the Company did not take any action for the last nine years.

The Government accepted (October 2016) the audit observations and stated that suitable policies would be formulated.

2.13.2 Lack of Blueprints

The Company had not prepared System Requirement Specifications and User Requirement Specifications for its in-house developed "Energy Billing Software" used for billing of LT and agricultural services. Non-preparation of these blueprints would pose a hindrance in making systematic changes in the software as and when needed. Detailed objectives of the software and its achievement could not be verified in Audit.

The Government accepted (October 2016) the audit observation.

2.13.3 Lack of interface between various IT Applications

The Company is utilising SAP ERP for accounting purposes and HT billing system (MBC) for billing of HT consumers. Individual ledger accounts were created in SAP for each of the HT consumers while lumpsum totals were maintained for all LT consumers as a single ledger account.

Audit observed that though the bills were being generated in the HT billing system based on the meter readings fed into the system, the data has to be manually downloaded and then uploaded into SAP due to lack of interface between the SAP ERP and the HT billing system. Further, the data pertaining to payments received from the HT consumers was manually fed for each of the consumer in MBC and SAP separately. Thus, absence of interface between SAP ERP and HT billing system resulted in duplication of work as well as scope for errors (as detailed *in Para 2.13.10*), which might adversely affect the integrity of the databases.

Further, it was also observed that there was no interface between the three billing systems viz., MBC, EBS (LT) and EBS (Agri) utilised for billing of various categories of consumers, which would hinder generation of consolidated MIS from these applications.

The Government accepted (October 2016) the audit observation and stated that an interface between HT billing system and SAP is under development.

2.13.4 Lack of functionalities resulting in manual interventions

Audit verified the records of the Circle Offices and EROs and observed that certain billing components were excluded from the softwares, necessitating manual calculations/ interference, thereby affecting the integrity of the system and completeness of the databases as detailed below:

2.13.4.1 HT Billing

1. Temporary HT service connections were being billed manually till they were regularised and not routed through the HT billing application (MBC) resulting in lack of completeness of the database.
2. Though the data pertaining to the consumers including the date of agreement was included in the application, the application did not

provide for capturing the minimum agreement period, based on which demand could be raised for such minimum period, in case of deration of contracted load/ termination before the expiry of the agreement. Due to non-provision of this functionality, the Company had to manually verify and raise demand in such cases.

3. As per the Regulation No. 6 of 2004, consumers who fail to remit the Security Deposit (SD) within 30 days from the date of intimation thereof, have to pay a surcharge of 18 *per cent* per annum on such amounts. Though the data pertaining to the amount of Security Deposit due from the consumer was available in the system, the application did not provide for automatic calculation of the surcharge and was manually calculated and uploaded to the system.
4. The Application did not provide for revision of bills of the open access consumers[46] through the system. The bills were manually revised and the subsequent bill was adjusted through a Journal Entry. However, the other parameters like units billed etc., were not revised, thus, affecting the integrity of the data utilised for review of adequacy of SDs held.
5. In case of seasonal consumers who utilise power for their main plant during the off-season period, the billing system did not provide for automatic revision of the previous bills and raising of subsequent demand by disallowing the concession available for seasonal consumers.
6. The legacy HT billing application did not provide for billing of HT services on proportionate basis for new consumers, due to which bills for the first month from the date of supply were prepared manually. This lack of functionality was not addressed in the new application also.

   Further, the new MBC billing system was incorrectly designed to generate the first bill from the date of supply to the date of bill, thus, inflating the bill. This necessitated manual withdrawal of the excess amounts for every such first bill. Similar was the case with the first bill of the consumers who were converted from LT III (Industrial) to HT category.
7. Provision for inclusion of assessed amounts in malpractice or theft cases was not provided in the system.

As the above changes were being recorded by way of posting a Rectification Journal Entry due to lack of required functionalities, the database continued to depict the old and incorrect data and did not show the revised billing particulars (meter data etc.,) except for the amounts, wherever revised. As a result, the reports generated would be incorrect and the database would continue to carry the incorrect data. As manual processing results in lesser transparency and may lead to errors, the above processes need to be automated.

[46] Consumers utilising the distribution system of the Company for receiving the supply of electricity from a party other than the Company

2.13.4.2 EBS (LT Billing)

1. In case of billing of LT category-III consumers with a contracted load of 75KW/100 HP and above, the energy charges, fixed charges and Time of Day (TOD) charges were manually calculated and then entered into EBS through in-house computer's EBS login giving scope for errors.
2. Whenever the adequacy of SD of the consumers was reviewed annually, previous SD review data was replaced with the current data due to which historical data was not available in the application. Further, the application neither provided for levy of penal interest on additional SD demanded but not paid by the consumers nor facilitated manual posting of such interest. These shortcomings hindered the ability of the Company to review the payment history of the consumers in respect of SD in addition to undue benefit to the consumers and loss to the Company due to non-levy of penal interest.
3. Manual revision of bills was necessitated due to incorrect logic for calculation of adequacy of SDs from new consumers for whom previous 12 months data was not available.
4. The application was incorrectly designed to generate the first bill from the date of supply to the date of the bill, thus, resulting in excess demand on the consumers. However, these bills were not manually reviewed to verify the accuracy of the bill and to withdraw excess amounts as done in HT billing.

The Government accepted (October 2016) the audit observations and stated that the Company would provide suitable modifications to the software.

2.13.5 Non-migration of legacy billing data

Audit observed that the billing data pertaining to LT consumers is available in EBS from the date of implementation of EBS only i.e., April/ December 2013. This indicated that the Company had not migrated the billing data available in the legacy system into the new application. Further, it was also observed that the legacy applications were not installed in any systems available in the Company, due to which the Company cannot verify the past history of the consumers.

The Government stated (October 2016) that historical data of legacy LT billing systems would be migrated in due course.

2.13.6 Verification of balances on migration

Though the data in the legacy HT billing system was migrated to the MBC system, there were no records to indicate that the migrated data was verified and certified to be error-free.

The Government replied (October 2016) that the data was migrated after thorough verification.

However, no documents were furnished in support of the reply.

2.13.7 Usage of Production Environment for testing in MBC

It is an industry standard practice to test the changes to software in test environment before migrating to production environment to mitigate the probable bugs as well as to ensure that the reliability and integrity of the existing data is not affected. A review of the master tables of the MBC showed that the master tables contained few test consumers, which reflected the fact that the production server is also used for testing, instead of migrating the new features after testing in test environment.

The Government stated (October 2016) that testing was done in stages before moving to production.

However, fact remained that the production database had test data which indicated failure in segregation of testing and production databases.

2.13.8 Design Errors in MBC Master Tables

A review of the structure of the MBC master tables showed that the field definitions were incorrect, and were coupled with lack of proper input validations which gave scope for errors. For instance, Mobile number of SC No. KMM899 was only of 9 digits (excluding the prefix 0) instead of minimum 10 digits. These errors could have been avoided by preparation of the blueprints as mentioned at *Para 2.13.2 supra*.

The Government accepted (October 2016) the audit observation and stated that action would be taken to rectify the errors.

2.13.9 Failure to control dues from consumers exceeding their Security Deposits

HT consumers of the Company should maintain SD equivalent to two months of their average consumption of the previous year. A review of the records at the end of March 2016 showed that the Company allowed accumulation of dues of 508 HT consumers amounting to ₹ 201.19 crore, though they maintained a SD of only ₹ 36.12 crore i.e., an excess of ₹ 165.07 crore, which in turn is equivalent to 9.15 times of the existing SD of these consumers. Though a default by these consumers would lead to financial loss to the Company, the system was not designed to generate alerts whenever the dues of a consumer crossed SD by a predetermined threshold limit.

The Government accepted (October 2016) the audit observation and stated that the above 508 consumers pertained to Government services and mostly Emergency services and that efforts were being made for realization of dues.

2.13.10 Variations between Financial (SAP) and Consumer Ledgers (MBC)

The Company is maintaining financial data of the HT consumers in SAP while maintaining the billing data in MBC i.e., HT billing application. A comparison of the data pertaining to SDs in both the applications showed that there was a difference of ₹ 5.06 crore between the two applications at the end of March 2016, rendering the database undependable.

The Government accepted (October 2016) the audit observation and stated that these differences pertained to period prior to implementation of SAP and that efforts would be made to reconcile the differences.

2.13.11 Incorrect levy of Electricity Duty

A review of the billing data of the HT consumers showed that the application is incorrectly designed to levy Electricity Duty (ED) on the kWh units instead of kVAh units, as detailed in *Para No. 2.6.4.8*. Further, in case of consumers whose consumption was less than the minimum demand, the ED was levied only on the actual units consumed and not on the minimum units billed which was in deviation to the provisions of APED Act.

The Government stated (October 2016) that ED was levied on kWh units as GTCS defined "unit" as kWh.

The reply is not acceptable as the GTCS defined a unit as kWh units indicated by the energy meter for billing purpose while ED Act provided for levy of ED on energy sold. As kVAh is being used as the unit of measurement for billing, ED should be levied on kVAh.

2.13.12 Non-review of Security Deposits of Seasonal Industries as per Regulations

As per the provisions of Regulation No. 6 of 2004 (clause 8), the adequacy of the SD of seasonal industries is to be reviewed twice during the year, once before the commencement of the declared season and again after the completion of the season. It was, however, observed in Audit that the Company was reviewing the adequacy of the SD of its 265 seasonal consumers only once a year along with other consumers which is against the SERC Regulations.

The Government agreed (October 2016) to make necessary changes to the software.

2.13.13 Failure to credit Interest on Security Deposits (ISD) of Bill-stopped Consumers

An analysis of the interest given to the consumers on their SD for the year 2015-16 showed that the Company had not credited interest on SDs (ISD) of ₹ 2.57 crore to 43 HT consumers whose bills were under 'BILL STOP' status in the month of April 2015. However, as the clause 7 of Regulation 6 of 2004 which govern the ISD does not differentiate between the regular and bill-stopped consumers, the action of the Company was incorrect.

The Government stated (October 2016) that security deposit along with interest thereon, would be adjusted at the time of termination of service.

The reply is not tenable as the Regulations stipulated that the ISD should be credited every year.

2.13.14 Non recovery of full cost tariff from consumers

A reference is invited to *Para 2.6.4.5* wherein the non-receipt of subsidy from the State Government was commented upon. As per the tariff orders, the subsidy was to be received in advance every month, failing which SERC rates contained in the full cost recovery tariff (FCRT) would be operative. In this context, it was observed that though the Company had not received the entire subsidy for the years 2014-15 and 2015-16 as per the tariff orders, it could not recover the FCRT from the consumers as the billing applications did not have the functionality to recover FCRT in such eventualities.

The Government replied (October 2016) that the release of pending subsidy from Government is being pursued by the Company.

The reply is not tenable as the Company failed to provide necessary functionalities in the billing system to adhere to the instructions of the SERC.

2.13.15 Incomplete Data in Master Tables

A review of the data in the consumer master tables of all the three billing applications viz., MBC (HT Billing), EBS (LT Billing) and EBS (Agriculture) showed that the data capturing was incomplete in various columns like address, email ID, phone number etc.

The Government replied (October 2016) that the missing data would be collected and updated in the database.

2.13.16 Delay in Spot Billing of LT consumers

A review of the billing of the consumers showed that there was a considerable time lag between two consecutive bills in both monthly and bi-monthly billing. For instance, analysis of ledger data of Jagityal ERO for the month of April 2011 revealed that billing in 70,148 records out of 86,494 bi-monthly records and 14,626 out of 16,562 monthly records was delayed by 4 to 59 days and 4 to 29 days respectively. This delay in spot billing was also continued even after implementation of EBS as indicated by delay in 23,66,794 cases (20.52 *per cent*) out of 115,38,595 total monthly/ bimonthly spot billings of the ten test-checked EROs during the period from May 2013 to March 2016. As the delay in spot billing results in shifting of the consumers to a different slab category based on their average consumption, there is a scope of loss to either consumer or to the Company.

The Government replied (October 2016) that the delays were avoided during the current year and that a new software is implemented to avoid loss to the consumer on account of shifting to higher slab due to delay in billing.

2.13.17 Failure to adhere to guidelines of SERC

An analysis of the billing data of Agriculture consumers showed that the Company had not adhered to the guidelines issued by SERC in its tariff orders as detailed below:

1. SERC vide Para No. 4.1 of Regulation No. 5 of 2004, directed the Company to issue all bills at a periodicity of not more than two months. Audit, however, observed that billing of Agriculture (free) consumers, from whom only customer charges were recoverable, was done only once in six months.

2. Though the tariff orders prescribed different tariffs for different groups of agricultural consumers based on various parameters[47], the same were not captured in the application, thereby requiring manual intervention and giving scope for bias and errors.

3. Though all new agricultural connections were to be given only with meters and after implementation of Demand Side Management (DSM) measures like frictionless foot valve, capacitor of adequate rating, HDPE or RPVC piping at

[47] Land holdings and number of connections held by the agricultural consumer along with the data on the second crop grown

suction and/ or delivery and ISI marked mono-block or submersible pump-sets, out of the 1,33,692 free agricultural connections issued during the period of Audit i.e., April 2011 to March 2016, only 59,894 connections were provided with meters. However, readings were not captured in the application even from these meters.

Further, a test check of the records of Warangal Circle showed that 18,511 consumers released during the period under review were without DSM measures. Audit, however, could not verify similar cases in other four Circles as necessary data was not captured in the relevant tables.

The Government replied (October 2016) that these services pertain to unmetered free agricultural services from which only customer charges are collected and that all free services were released only after installation of DSM measures.

The reply is not acceptable as Warangal Circle data showed that new agricultural services were released without DSM measures. Further, issue of free agricultural connections without meters and issue of bills at six-monthly intervals were against the instructions of SERC.

2.13.18 Billing on the basis of incomplete data

The Company levied additional tariff on HT and LT III consumers (with load above 100 HP) for consumption between 6 pm to 10 pm of everyday as TOD Charges. Audit observed that though TOD charges were correctly levied on HT consumers as per the actual data obtained from the meters, the same were levied at one-sixth of the month's consumption from LT III consumers due to lack of TOD readings. Thus, the Company resorted to billing of LT III consumers on the basis of incomplete data which rendered its billing inaccurate.

The Government replied (October 2016) that TOD is not applicable to LT services.

Audit observed that HT tariff is applied to LT III consumers with load more than 100 HP as per the tariff approved by ERC which included TOD charges. As such, levy of TOD on these LT consumers on approximation due to non-availability of compatible tri-vector meters, rendered billing inaccurate and unreliable.

2.13.19 Weak user authentication

Passwords are used as a mechanism for user identification, authentication and non-repudiation. It was observed that the Company neither had password policy approved by competent authority nor enforced any restrictions on password usage by the users/ administrators. Therefore, there was a risk of unauthorized access and data modification that could not be traced.

The Government stated (October 2016) that password policy would be formulated.

2.13.20 Lack of Backup Policy

The Company did not have any approved Backup Policy. Though the Management stated that backups were taken on daily basis and maintained for 20 days in addition to the backups taken on monthly basis before and after processing of the ledger, a verification of the backups available with the Company showed that the Company was having only weekend backups and not daily backups. Further, the Company could not produce any record to show that the backups taken at any point of time were actually tested to review its ability to recover data in case of any eventuality.

The Government accepted (October 2016) the audit observation and stated that a backup policy would be formulated.

2.13.21 Deficiencies in Change Management Controls

Modifications made to both master data and the application to accommodate the changes in business rules were not documented. This was evident from the fact that the Management had not maintained any records to indicate that the HT bills generated were test-checked by higher authorities whenever there was a revision in tariff. In this connection, a reference is invited to Para no. 2.5.8 of the Review on HT billing in erstwhile APNPDCL and erstwhile APCPDCL (included in the CAG's Audit Report, Commercial, Government of Andhra Pradesh for the year ended 31 March 2007) wherein similar comment on failure to test check the HT bills was included. Further, a formal policy for authorising changes made and for testing their accuracy did not exist.

The Government accepted (October 2016) the audit observation and stated that change management procedures would be formulated. It was also stated (October 2016) that the bills were test checked across all categories and that records would be maintained in future to substantiate the same.

2.13.22 Lack of Data Security

2.13.22.1 Though the Finance Wing of the Company, after implementation of EBS, instructed the EROs to submit the legacy data to the IT wing, the same was retained with the PAAs, which is a security lapse on part of the Company in maintaining its data. Being the data owner, it was the responsibility of the Company to keep the data, which is critical and confidential, under its control rather than leaving it in the hands of outsourced service providers.

The Government stated (October 2016) that legacy data is being obtained.

2.13.22.2 Further, it was seen in Audit that the HT billing data was maintained by a third party in a Data Centre at Hyderabad along with the data of another DISCOM viz., APSPDCL. The data given to the Audit for analysis included data pertaining to APSPDCL which signifies the fact that the data was not segregated and maintained properly at the Data Centre.

The Government stated (October 2016) that HT billing data is presently maintained in a separate server.

2.13.23 Lack of 'Business Continuity and Disaster Recovery Plan'

The billing system being mission critical for the Company, would impact its revenue earning capacity substantially if the consumer bills are not generated on time. The Company, however, had not prepared any business continuity plan, outlining the action to be undertaken immediately after a disaster and to effectively ensure that information processing capability can be resumed at the earliest. It did not have a disaster recovery plan outlining identities of personnel, their roles/ responsibilities and plan/ procedure to support such a critical IT system in the event of a failure.

The Government accepted (October 2016) the audit observation and stated that a suitable DR plan would be formulated.

2.13.24 Non-availability of the Source Code with Company

Though the MBC billing software developed under the R-APDRP project is owned by the Company, the source code of the software is yet to be obtained from the implementing agency (M/s TCS Limited). In the absence of the source code with the Company, Audit could not verify the adherence to the guidelines of SERC regarding adjustment of the payments received against arrears/ current dues and annual review of SDs of the consumers.

The Government accepted (October 2016) the audit observation and stated that the source code would be obtained.

2.13.25 Lack of protection from Viruses and Trojans

An analysis of the systems available at EROs where EBS (LT) was installed showed that anti-virus solutions were not installed thus exposing the systems to risk from viruses and trojans.

The Government stated (October 2016) that anti-virus solutions were deployed on all desktops.

However, Audit observed that anti-virus applications were not available in some of the test checked offices.

2.13.26 Lack of documented Training Policy

Audit observed that the Company did not have any training policy for the employees utilising IT billing systems and that none of the users of EBS at two offices[48] were trained till date. Further, the Company did not have any records to indicate that there was an approved evaluation and review mechanism regarding the effectiveness of the trainings imparted to its staff and its utilisation.

The Government accepted (October 2016) the audit observation and stated that training policy would be formulated.

Conclusion

The Company was utilising three billing systems for billing of its HT, LT and Agricultural consumers. In spite of specific instructions from the State Government to develop an IT vision/ road map, the Company had not even developed an IT policy/ strategy to guide its IT activities due to which there was no interface between the IT applications resulting in duplication of work. Further, the Security Deposit balances maintained in the HT billing system differed from those recorded in the books of accounts. Manual processing of several activities resulted in lesser transparency and gave scope for errors. In spite of availability of suitable functionalities in the HT billing application, the Company resorted to manual calculations, thereby affecting the integrity of the

[48]Narasampet and Hanmakonda (Rural) EROs

system and completeness of the database. The systems were vulnerable to internal as well as external attacks due to poor controls.

Recommendations

The Company should:

- ***formulate and document IT and backup policies;***
- ***formulate and implement a comprehensive Business Continuity Plan;***
- ***include all activities of the billing process in the applications to reduce dependence on manual processing and attendant errors creeping into the system;***
- ***integrate the IT applications to prevent duplication of work and scope for errors;***
- ***formulate and implement a comprehensive security policy to safeguard IT assets and fix the existing vulnerabilities; and***
- ***build appropriate IT controls for data integrity and reliability.***

CHAPTER III

COMPLIANCE AUDIT OBSERVATIONS

Chapter III

3. COMPLIANCE AUDIT OBSERVATIONS

GOVERNMENT COMPANIES

Telangana State Industrial Infrastructure Corporation Limited

3.1 Investments of Telangana State Industrial Infrastructure Corporation Limited in Special Purpose Vehicles (SPVs) and Joint Ventures (JVs)

3.1.1 Introduction

Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) was incorporated in September 1973 as a wholly owned undertaking of the Government of Andhra Pradesh (GoAP). The APIIC was bifurcated (02 June 2014) into Andhra Pradesh Industrial Infrastructure Corporation Limited and Telangana State Industrial Infrastructure Corporation Limited as per AP Reorganization Act, 2014. Telangana State Industrial Infrastructure Corporation Limited (TSIIC) (Company) was incorporated on 4 September 2014 with an authorised capital of ₹ 10 crore and paid up capital of ₹ 6.82 crore. The Assets and Liabilities were duly apportioned between Andhra Pradesh and Telangana States as per AP Reorganisation Act, 2014 and the Demerger Scheme was submitted to the Expert Committee of Government of India whose approval is awaited. The accounts of TSIIC for the period from 4 September 2014 are yet to be finalised.

The main objectives of the Company are to provide industrial infrastructure through development of industrial areas and employment generation. The Company converts/ develops the earmarked/ allotted land into industrial plots i.e. builds industrial sheds and provides common facilities like internal roads, water, power, street lighting etc. The Company also undertakes execution of industrial infrastructure projects like sector specific Special Economic Zones (SEZ), Multipurpose SEZs, Information Technology (IT) / Information Technology Enabled Services (ITES) SEZs etc. and projects under Public Private Participation (PPP) model through establishment of Special Purpose Vehicles (SPVs) / Joint Ventures (JVs) on its own, as well as those entrusted to it by the State Government and Government of India.

3.1.2 Organisation Structure

The Management of the Company is vested with Board of Directors (Board) headed by a Chairman and two Directors including the Vice Chairman & Managing Director (VC&MD). The VC&MD is the Chief Executive of the Company and is assisted by one Executive Director and three functional heads (i) General Manager (Engineering), (ii) General Manager (Asset Management/ Projects) and (iii) General Manager (Personnel & Administration) and Chief Engineer at Head Office with six Zonal Managers at field level.

Audit was conducted to verify whether the objectives of infrastructure creation, industrial development and employment generation were achieved; the investments of ₹ 572.53 crore made by the Company in SPVs/ JVs ***(Annexure-3.1)*** yielded expected return; the rules, regulations and decisions, orders and guidelines of the erstwhile Government of Andhra Pradesh and present Government of Telangana, TSIIC and Government of India were complied with and the terms and conditions of Agreements/ MoUs with developers/ Government were adhered to.

3.1.3 Audit Findings

Investments in SPVs and JVs

The Company had invested ₹ 79.27 crore in two JVs (₹ 59.01 crore) and eight SPVs (₹ 20.26 crore) during the period 1994-2015 either in the form of cash or land and expected to receive return in the form of dividends, lease premium and lease rentals. The Company had also made investments of ₹ 493.26 crore in four SPVs (covered in AR (Commercial) No.4 of March 2011). Out of two JVs and eight SPVs as on 31 March 2016, two JVs and three SPVs are working, three SPVs are defunct and two SPVs are incomplete. The details of investment, the status of JVs/ SPVs i.e. working, non-working (defunct) and projects not completed and Return on Investment are given in ***Annexure-3.2***.

The Company had made an investment of ₹ 59.01 crore by way of cash/ land in two JVs. The investment of ₹ 1.98 crore was made in one JV (L&T Infocity Limited) in the form of land in the year 1997 for which the Company received dividend of ₹ 42.80 crore during the period 1997 to 2016 and which yielded a Rate of Return of 113.76 *per cent* per annum. However, in respect of the other JV (K. Raheja IT Park (Hyderabad) Private Limited), though an investment of ₹ 57.03 crore was made by the Company, the Return on Investment was ₹ 2.95 crore (0.43 *per cent* per annum) for the period 2004 to 2016. This is further discussed in Para 3.1.3.1.

The Company had invested a total ₹ 20.26 crore in all eight SPVs by way of cash/ land. The investment in the eight SPVs did not yield any return due to non-implementation of projects, companies becoming defunct and incomplete implementation of projects. The detailed audit observations are given in subsequent paragraphs.

Investments in JVs

3.1.3.1 *Unauthorized sale of land to Non-IT sister companies by the JV Company - K. Raheja IT Park (Hyderabad) Private Limited (KRITPL) - Loss of ₹73.75 crore*

The erstwhile GoAP had entered (June 2002) into a Memorandum of Understanding (MoU) with a private limited company[49] to develop and construct complexes for development of Information Technology (IT) and IT Enabled Services (ITES) Companies in 115 acres (Approx.) of land, under

[49] K. Raheja Corporation Private Limited, Mumbai

Mindspace Cyberabad Project at Madhapur, Hyderabad with an investment of over ₹ 600 crore.

Subsequently, Memorandum of Agreement (MoA) for development of the above Project in an area of 109.36 acres was entered into (May 2003) between the erstwhile Government of Andhra Pradesh and the private limited company. For this purpose, a Joint Venture company[50] was incorporated on 02 June 2003. The JV partners, K. Raheja Corporation Private Limited and APIIC, contributed to the equity share capital of ₹ 1.00 crore (₹ 89 lakh/- (89 *per cent*) and ₹ 11 lakh (11 *per cent*), respectively). The JV Agreement between APIIC and the JV Company was executed on 23 August 2003 according to which the project was to be completed in 10 years from the date of Agreement.

Apart from equity, the Company contributed 109.36 acres of land valued at ₹ 54.68 crore (₹ 50 lakh per acre) to the JV Company for this project. Four Development Agreements were entered into between December 2003 to June 2004 and the land was transferred to the JV Company. Government of Andhra Pradesh, Department of Information Technology and Communications had directed (11 August 2003) that the development was to be carried out in four phases for which four separate Development Agreements were entered into. On completion of development, the built up area, undivided interest in land and plotted area of land, if any, was to be transferred jointly by APIIC and the JV Company to the final owners.

Subsequently, KRITPL, on the ground of proper implementation, requested the Company (18 October 2006) for permission to demerge the original company into:-

- Raheja IT Park (Hyderabad) Private Limited (M/s KRITPL)
- Sundew Properties Private Limited
- Intime Properties Private Limited

The above proposal of JV Company was submitted by APIIC to the Government (16 November 2006). The Government conveyed (10 January 2007) to APIIC that it had no objection to the proposal of APIIC and advised the Company to suggest a suitable supplementary Memorandum of Agreement to be entered into by Government with the above companies. The Government further stated that the original JV company should be wholly and solely responsible to the Government, irrespective of division of the capital among the three successor companies and also required to comply with other terms and conditions of the main Memorandum of Agreement (19 May 2003).

Audit observed that:

- The erstwhile Government of Andhra Pradesh, without adopting any tender process, had identified M/s K. Raheja Corporation Private Limited, Mumbai to develop and construct complexes for IT and ITES

[50] K. Raheja IT Park (Hyderabad) Private Limited (KRITPL).

Companies on the ground that they had experience and expertise in the construction, retailing and hospitality industry.

- While the Government approved "in principle" the demerger of JV into three companies and directed APIIC to submit draft Supplementary Memorandum of Agreement to the Government which had to be signed by the Government and the three demerged companies, the same was not submitted to the Government by APIIC even after the lapse of nine years. In the absence of supplementary agreement, the Government / APIIC were not in a position to ensure compliance with the terms and conditions envisaged in Memorandum of Agreement and also directions of the Government which would have formed part of the supplementary agreement.

- After demerger, the JV Company transferred 97.21 acres out of 109.36 acres to demerged companies (September 2006 - March 2007) and sold the balance 12.15 acres to Non IT / ITES sister companies of Raheja Group viz., Trion Properties Limited - Inorbit Mall (7.6 acres) and Chalet Hotels Private Limited-Westin Hotel (4.55 acres) at ₹ 1.5 crore per acre, for a total consideration of ₹ 18.23 crore, without consulting the APIIC. However, as per rate fixed by the Price Fixation Committee (PFC), constituted by the VC & MD, the cost of 12.15 acres of land was ₹ 73.75 crore (₹ 6.07 crore per acre) as on 31 March 2007. However, the JV Company had sold the land without the knowledge of the Company and also ignored the rate fixed by the PFC in violation of Government directions (11 August 2003). Further, no money was received by the Company out of the sale proceeds from the JV partner, resulting in loss to the Government/APIIC to the tune of ₹ 73.75 crore. Though the General Administration (Vigilance and Enforcement) Department had conducted enquiry on the irregularities in the execution of the Mind Space Cyberabad Project and submitted its report to Government (28 July 2011), the same was not finalised till the date of audit.

Investments in SPVs

3.1.3.2 Loss of investment of ₹1.93 crore in HITVEL

M/s Hyderabad Information Technology Venture Enterprises Limited (HITVEL), an Asset Management Company[51], was started (31 March 1998) as a subsidiary of Andhra Pradesh Industrial Development Corporation Limited (APIDC) with an authorized capital of ₹ 25.00 lakh for managing the Hyderabad Information Technology Venture Capital Fund (HIVE) as per Government directions (31 March 1998). It was later converted into a Joint Sector Company as per Government directions (03 November 1999) with the participation of SIDBI, APIDC and APIIC.

[51] Company that invests in clients' pooled funds into securities with specific financial objectives

Against the proposed corpus for HIVE Fund of ₹ 15.00 crore, contribution of ₹ 13.75 crore was released by SIDBI, APIDC and APIIC collectively (SIDBI ₹ 6.25 crore, APIDC ₹ 5.00 crore and APIIC ₹ 2.50 crore).

Audit observed that:

- Out of ₹ 13.75 crore, HITVEL had invested ₹ 10.05 crore in seven companies during the period from 2001-05 and refunded ₹ 2.27 crore to the contributors[52]. The balance amount of ₹ 1.43 crore was not refunded to the contributors till date (October 2016).

- HITVEL had received offers for buy back of the shares in all seven companies during 2006 to 2014 but no disinvestment was made till date. As per the status report of investment in seven companies available with HITVEL, five out of the seven companies were non-working companies and only two were working. In respect of one company, the promoter was absconding.

- HITVEL had failed to comply with statutory requirements of filing the financial statements for the year 2011-14 with the Registrar of Companies. Despite this, the Board of Directors including the Company had not taken any action to ensure compliance with the provisions of the Companies Act.

Thus, considering the contribution of ₹ 2.50 crore made by the Company and refunded an amount of ₹ 0.57 crore by HITVEL, the balance investment of ₹ 1.93 crore made by the Company did not yield any return and resulted in loss of the investment. The Management of the Company, as a contributor, had also not taken any action to recover its investment of ₹ 1.93 crore.

3.1.3.3 Non-implementation of Project NANO TECH SILICON INDIA (NTSI) - Loss of equity investment and Project Development Cost – ₹56.98 lakh

The Government of Andhra Pradesh had entered into a Memorandum of Understanding (MoU) (06 December 2004) with Intellect Inc, a South Korean firm as a lead promoter for setting up the first semiconductor manufacturing unit in FAB City in Hyderabad.

As per the Government directions (17 March 2005):

- APIIC had to provide 50 acres of land on lease basis for a period of 30 years free of cost, infrastructure support of roads to the site, 40 MW power supply, 10 Million Litres per Day (MLD) of water to the FAB facility and meet the interest costs on loan raised for the construction of FAB facility to a maximum extent of ₹ 35 crore per annum for a period of 10 years.

[52] Refunded to SIDBI ₹ 0.55 crore, APIDC ₹ 1.15 crore, APIIC ₹ 0.57 crore, making the net investment of ₹ 5.77 crore, ₹ 3.85 crore and ₹ 1.93 crore respectively.

- APIIC was nominated as a Nodal Agency with the following conditions:
  - APIIC was to subscribe to equity not exceeding ₹ 50.29 lakh on reimbursement basis from IT&C Department.
  - APIIC was to get a project report prepared by an experienced consultant in the semiconductor industry for an amount not exceeding US $ 21,000 and the same was to be reimbursed by the IT& C Department.

A share subscription agreement was entered (17 March 2005) into between the lead promoter, APIIC and a third party (Mr. D. Jai Ramesh, CMD of M/s Vijai Electricals Limited). The investment pattern was ₹ 1.41 crore by the lead promoter, ₹ 47.08 lakh by the Company and ₹ 47.08 lakh by the third party towards equity capital. A SPV, NANO TECH SILICON INDIA (NTSI) was incorporated on 25 April 2005 with an authorised capital of ₹ 2.50 crore. NTSI failed to attract investors for the proposed unit as it required huge investment and no promoter showed interest in setting up such industries. The SPV did not start its business as envisaged in Share Subscription Agreement (Clause 16.1) and became defunct. The whereabouts of the private promoter was not known to the Company.

The GoAP had directed (August 2009) the Company to cancel the share subscription agreement, MoU and the concessions extended to the SPV and take back the possession of land as the promoter had failed to fulfil his commitment to bring finance[53] (US $ 370 million) and also failed to start its operations.

Audit observed that:

- The Company had made a provision of ₹ 47.08 lakh towards loss of investment in the accounts for the year 2013-14. Hence the investment of ₹ 56.98 lakh made by the Company towards equity (₹ 47.08 lakh) and project development cost (₹ 9.90 lakh) was a loss.
- No efforts were made by the Company to trace the whereabouts of the promoter.
- The Company had no record/details in respect of capital contributed by the private promoters.

Thus, failure of the Company to exercise due diligence while selecting the partners before investment and absence of internal control mechanism to monitor the activities of NTSI for establishment of semiconductor manufacturing unit had resulted in loss of investment of ₹ 56.98 lakh.

The Management in its reply stated (27 February 2016) that the amounts invested were on reimbursement basis as per Government directions (17 March 2005).

[53] US $ 80.00 million of foreign equity, US $ 70.00 million of non-debt financing from captive customers and US $ 220.0 million of debt financing from multinational finance institutes.

The reply should be viewed in the light of the fact that the Company had not submitted (March 2016) its claim even after 11 years for reimbursement of its investment made in 2005, though the Company had incurred a loss of ₹ 56.98 lakh.

3.1.3.4 Lack of monitoring resulted in loss of Equity of ₹ 25.00 lakh in SPV- Pattancheru Enviro Tech Limited

The APIIC had floated Pattancheru Enviro Tech Limited (PETL), a SPV Company in the year 1989 for establishment of a Common Effluent Treatment Plant for treating the industrial effluents emanating from Patancheru industrial belt. The APIIC had invested ₹ 25 lakh towards equity (2,50,000 shares of ₹ 10/- each) in the SPV. The Company had allotted 5.96 acres of land to PETL, constructed sheds and provided necessary infrastructure in the year 1994. The plant had started its operations in 1994 and is functional as on date.

Audit observed that:

- Though the Company had invested equity share of ₹ 25 lakh in the SPV, no physical document such as share certificate etc. was available with the Company.
- Though the Common Effluent Treatment plant had started its operations in 1994, the Company had not received any dividend on the investment of ₹ 25 lakh made in the SPV and no follow up action was taken by the Company for payment of dividend.

Investments In FAB City

3.1.3.5 Unproductive investment on infrastructure development in FAB City SPV (India) Private Limited resulting in blockage of ₹ 78.56 crore and undue favour to M/s SemIndia FAB City Private Limited of ₹ 22.61 crore due to non collection of lease premium, lease rentals and duties

The Government of Andhra Pradesh had entered into a MoU with M/s SemIndia Inc., USA, an Anchor Industry[54] on 16 February 2006 to promote the Semiconductor Industry in the earmarked 1200 acres of land for setting up of a manufacturing unit for wafer fabrication etc. and to develop as FAB City (fabrication facility). The MoU stipulated (Clause 1(a)) that the primary obligation of SemIndia was to establish the Project in the FAB City and to arrange finance in the range of US $ 1.5 to US $ 3 billion over a period of four to five years. In pursuance of the MoU, GoAP had issued a GO (28 April 2007) as per which SemIndia was to establish the project in the FAB City, which should house Fab(s) (units) and had investments over a period of five years in Phases as given below:

[54] Anchor Industry means a central source of support and stability. In the present context, it brings entrepreneurs for establishment of units to promote semiconductor industry.

Phase-I: US $ 75 million for Assembling, Testing, Marking and Packing (ATMP) with an employment potential of 2000 within 18 months from the date of allotment of land.

Phase-II: US $ 750 million, semiconductor chip manufacturing with an employment potential of 1000 within three years from the date of allotment of land.

Phase-III: US $ 2.25 billion, for an advanced Semiconductor plant with an employment potential of 5000 within five to seven years from the date of allotment of land.

Accordingly, "FAB City SPV (India) Private Limited" was incorporated on 02 May 2006 under the Companies Act, 1956 with an authorised capital of ₹ 5.00 lakh.

Out of 1200 acres of earmarked land for FAB City, an area of 1,075 acres in Srinagar and Raviryal villages of Ranga Reddy district was notified by Government of India under sector specific SEZ vide Notifications dated 15 January 2007, 13 December 2007 and 10 July 2009 for extension of certain incentives/concessions to M/s SemIndia for implementing the project.

Out of 1,075 acres of land notified for SEZ, APIIC had allotted 401.108 acres to 16 units (284.04 acres to 9 units and 117.068 acres to 7 units) during the period from 2007 to 2011.

However, the land allotted to seven units (117.068 acres) was subsequently cancelled and the possession of the land was taken back by the Company as the units had not come up. Further, GoAP had cancelled/withdrawn the incentives/concessions and other benefits (09 February 2010) given to M/s SemIndia FAB City SPV (India) Private Limited due to poor implementation of the project.

APIIC had also allotted 100 acres (20 June 2007), out of the 1,200 acres, to M/s SemIndia FAB City Private Limited (a unit sponsored by M/s SemIndia Inc., USA the anchor industry) under SEZ. For this, Lease Deed was executed (25 June 2007) between M/s SemIndia FAB Private Limited and M/s FAB City SPV (India) Private Limited. However, the unit (M/s SemIndia FAB Private Limited) had occupied only 22 acres out of 100 acres of land and did not implement the project. Due to non-implementation of the project, GoAP had cancelled (09 February 2010) allotment of unused land of 78 acres in FAB City and permitted APIIC to fix lease rentals at two *per cent* per acre per annum on the remaining land cost.

Audit observed that:

FAB City SPV (India) Private Limited

- The project was not implemented as envisaged in MoU. The response from the entrepreneurs was poor. The Company received a return of 32.40 *per cent* between 2007 and 2016. Despite providing all infrastructure by the Company, M/s SemIndia could not attract entrepreneurs against the earmarked land of 1200 acres as envisaged in

MoU. This indicates that investments were made by the Company without due diligence.

- The Company had acquired 1,249.14 acres land at the cost of ₹ 18.25 crore and had incurred ₹ 97.97 crore towards development of infrastructure, electrical works, laying of roads and water supply etc., during the period 2006-07 to 2015-16. Against total investment of ₹ 116.22 crore, the Company received only ₹ 37.67 crore (Lease premium ₹ 36.63 crore, Lease rentals ₹ l.03 crore) apart from Security Deposit of ₹ 1.63 crore.

M/s SemIndia FAB City Private Limited

- The SPV did not fulfill any of the obligations of bringing investment and creating employment in the three Phases as per Clause 1(a) of MoU (February 2006) and as prescribed in GO (April 2007). There was no progress in construction of buildings on the land, except for semi finished construction/ shed on the allotted land.

- A Lease of 66 years was given for ₹ one per acre per annum though the lease period for other allottees was only 33 years. The Company had neither collected the lease premium of ₹ 20 crore and lease rental of ₹ 1.80 crore (2 *per cent* on lease premium for nine years from 2006-07 to 2015-16) on the allotted land of 100 acres nor taken back the possession of land. Non-implementation of the project resulted in undue favour to M/s SemIndia FAB City Private Limited amounting to ₹ 21.80 crore.

- Due to non-implementation of the project, the Development Commissioner, Visakhapatnam SEZ ordered (31 December 2014) M/s SemIndia FAB City Private Limited to pay back the exemptions availed of on the Central excise duties for the goods procured for the project (viz. cement, steel etc.) to the tune of ₹ 66.69 lakh. Due to non-payment of the same within the stipulated period (14 January 2015), the unit was liable to pay ₹ 81.22 lakh including interest of 18 *per cent* on the duty exempted (15 January 2015 to 31 March 2016). Non-payment of the above amount would result in loss to the Government.

- M/s SemIndia FAB City Private Limited had neither submitted details of financial closure for implementation of the project, nor the Company insisted for the same as required in GO (28 April 2007).

- M/s SemIndia FAB City Private Limited had mortgaged 100 acres of land and raised ₹ 100 crore loan from the SBI (June 2009). The SBI initiated e-auction of the land to recover its dues and the matter is subjudice. The Lease Deed (Clause 9) permitted the allottee to obtain loans from the banks and other financial institutions. It was observed that the Company was not aware of the grant of loan of ₹ 100 crore by SBI till the receipt of e-auction notice. The fact that the loan was taken without obtaining No Objection Certificate (NOC) from the Company indicates absence of suitable clause in the Allotment Regulations of the Company for safeguarding its interests. However, the Regulations were suitably amended in the revised Regulations (October 2012) wherein consent of the Company is required.

The Management in its initial reply (December 2015/February 2016) stated that the TSIIC had revised the layout of FAB city and had proposed these lands (part of the FAB city) as E-City for better use. It was also stated that an amount of ₹ 21.93 lakh towards lease rentals was yet to be received from FAB City SPV. Further, it was stated that the Company had filed WP No.16355 of 2015 against the SBI and others and the matter was pending in the Court. However, the reply was silent on the undue benefit extended to M/s SemIndia FAB City Private Limited. The land was entangled in litigation due to non-incorporation of specific clause in the Lease Deed regarding consent of the Company in the form of No Objection Certificate before obtaining loans to safeguard the interest of the Company. Further, the Company had also invested an amount of ₹ 116.22 crore without conducting any proper feasibility study. The reply is also silent on the unproductive expenditure of ₹ 78.56 crore. Besides, lack of internal control and monitoring mechanism had also resulted in loss of ₹ 22.61 crore besides non-achievement of the targeted objective.

3.1.3.6 Undue benefit of ₹ 1.32 crore in allotment of land by deviation from guidelines - M/s ILFS Waste Management and Urban Services Limited, in FAB City

The Company had allotted five acres of land in FAB City SEZ at Raviryal Village, Maheshwaram Mandal, RR District on "as is where is basis" to M/s ILFS Waste Management and Urban Services Limited (ILFS), to establish a Common Effluent Treatment Plant (CETP), on lease basis for a period of 33 years. The Lease Deed was executed on 28 October 2009 between the Company and ILFS. As per prescribed land allotment guidelines (20 May 2008), the Company was to charge lease premium of ₹ 20 lakh per acre and lease rentals of ₹ one lakh per acre per annum.

Audit observed that the Company had allotted five acres of land to ILFS for establishment and operation of CETP on Build Own and Operate (BOO) basis to facilitate the Member Industries of FAB City SEZ without payment of lease premium, which had resulted in loss of ₹ one crore (5 acres x ₹ 20 lakh per acre) to the Company. Similarly, the Company had levied lease rentals of ₹ 10,000 per acre, instead of ₹ one lakh per acre, and received ₹ 3.23 lakh for five acres which had resulted in short recovery of ₹ 32.00 lakh for the period from 2009 to 2016.

The Management in its reply (February 2016) stated that to facilitate a Common Effluent Plant in the park, the proposal of ILFS was considered and land was allotted (five acres) on soft lease terms and there was no loss incurred by the Company.

The reply of the Management was not acceptable as no such “soft lease” term was mentioned either in the Lease Deed or in the allotment regulations. Thus, the Company had incurred loss of revenue of ₹ 1.32 crore due to non-collection of lease premium and short recovery of lease rental in violation of allotment guidelines and extended undue benefit to the ILFS.

3.1.3.7 Delay in implementation of Semiconductor project (M/s Embedded IT Solutions (India) Private Limited) in FAB City and non-levy of penalty and non-recovery of lease rentals - Loss of ₹33.50 lakh

The Company had allotted 10.02 acres of land on lease for 33 years to M/s Embedded IT Solutions (India) Private Limited, for setting up a Semiconductor & PCB manufacturing unit in FAB City and a Lease Deed was executed (14 July 2008). The land was handed over to the allottee on the same day.

As per Clause 3 (i) of the Lease Deed, the allottee was to commence construction on the site within six months, complete the work in not later than 18 months and commence production within 24 months.

Audit observed that:

- Though the project was not set up within 24 months as envisaged in the Lease Deed, the Company did not give notice for non-completion of the project even after the expiry of 24 months (July 2010). The Company granted extension of time till December 2013**,** based on the request of allottee (November 2012)**,** i.e. after expiry of two years from scheduled date of completion. Though the Company had levied penalty of ₹ 28.06 lakh at the rate of seven *per cent* on the prevailing land cost for delay as per the provisions of the allotment rules, the same was not recovered from the allottee, till the date of audit.
- As per terms 1 (c) of the Lease Deed, lease rental at the rate of two *per cent* per annum per acre on 50 *per cent* of the lease premium (₹ 20 lakh per acre per annum) was payable which worked out to ₹ two lakh per annum. Lease rentals were in arrears from July 2013 to March 2016 which worked out to ₹ 5.44 lakh. The Company had not taken action under Revenue Recovery Act, as per Clause 3 (b) of the Lease Deed, to recover the arrears.

3.1.3.8 Non-recovery of penalty - FAB City - M/s XL Telecom & Energy Limited - Loss of ₹1.18 crore

The Government of India had issued Notification (13 December 2007) for setting up and developing Sector Specific Special Economic Zone over the identified area under FAB City and, accordingly, the GoAP, Industries & Commerce Department had also issued orders (21 February 2008 & 01 March 2008).

Based on Government Notifications, the Company had allotted land (Plot No. 36) measuring 50 acres in FAB City SEZ at Raviryal Village, Maheswaram Mandal, RR District to M/s XL Telecom & Energy Limited (XL Telecom) on "as is where is basis" to establish manufacturing unit for Solar Photovoltaic Cells and Solar Photovoltaic Modules on lease. The lease was for a period of 66 years with a lease premium of ₹ 20 lakh per acre. The Company received (13 March 2008) a total lease premium of ₹ 10 crore and Security Deposit of ₹ 30,000, equivalent to six years rent (annual rent of ₹ 100/- per acre per annum). Possession of the land was taken by the XL

Telecom on 13 March 2008 and the Lease Deed was executed on 10 June 2008.

Audit observed that:

- Out of 50 acres of land allotted, the Company had utilised 25 acres. Another 15 acres though developed was lying unutilised. The Board decided to levy penalty for the 15 acres land but M/s XL Telecom had requested the Company for waiver of penalty. The Board agreed to waive the penalty on the developed but not utilised land of 15 acres, based on the recommendations of Extension of Time (EOT) Committee. The decision of waiver of penalty of ₹ 48.03 lakh on 15 acres of land developed and not utilised was not in order as the Company should have levied penalty in view of the delay in implementation of the project as per Allotment Regulations.

- The Board had also decided to levy penalty on 10 acres (proposed to be surrendered by the XL Telecom) at 7.5 *per cent* of land cost which worked out to ₹ 69.97 lakh. The Company had neither initiated any action to recover the penalty of ₹ 69.97 lakh nor taken back the possession of 10 acres of unutilised land.

- The SPV Company had obtained demand loan of ₹ 40 crore (22 November 2007) as project finance by depositing the Lease Deed with Bank of India, as security for the credit facilities sanctioned. Though the Lease Deed was registered on 10 June 2008, the demand loan was sanctioned by the Bank on 22 November 2007 itself, and the amount was disbursed without submission of registered Lease Deed.

- Though the Lease Deed (Clause 8), permitted the allottee to obtain loans from banks and other financial institutions, the Company should have incorporated specific clause regarding prior consent of the Company in the form of No Objection Certificate before obtaining such loans, to safeguard the interests of the Company.

The Company had incurred total revenue loss of ₹ 1.18 crore due to non-collection of penalty for 25 acres of land and extended undue benefit to the allottee.

Others

3.1.3.9 Irregular appointment of Consultants

The Company had appointed seven Consultants and sought study reports, Due-diligence Reports, Opinions on financial Impact on Restructuring Plan and Demerger/ Effect on share of IIC for the JVs/SPVs, for which an amount of ₹ 49.50 lakh was paid.

Audit observed that:

- As per CVC guidelines (January 1983), the appointment of Consultants was not to be made arbitrarily or on *adhoc* basis. Each enterprise was to prepare its own instructions and procedure duly approved by Board for appointment of Consultants. Audit observed that the Company had not prescribed its own instructions or procedures for appointment of Consultants. The appointment of Consultants was done on nomination basis, in violation of CVC guidelines.

- In the absence of any clear clause in the JV/SPV agreement regarding sharing of fees of Consultants, the Company could not recover the expenditure incurred on Consultants from the JV/SPVs and thus had to bear the entire expenditure amounting to ₹ 49.50 lakh.

- Out of the seven Consultants, payments were made to five Consultants. The details of payments were not available with the Company in respect of two Consultants nominated to seek opinion on EMAAR Projects.

- Though the payment was made to the Consultant (M/s Feed Back Ventures) for CBD Towers (Development of Trade Towers and Business Distribution Project), the report of the same was not available with the Company. Thus, apart from bearing the expenditure, the Company was unable to get the benefit of the consultancy service.

Conclusion

The objective of the Government was to make use of unutilised/surplus land available in the State to support industrial growth and generate employment through the Company and its JV/SPV partners. However, the intended objective of JV and SPVs for setting up of projects and employment generation could not be achieved due to:

- Non-conducting of feasibility studies on the projects proposed before entering into MoUs with the Developers.

- Absence of monitoring by the Company on industrial growth and employment generation by the respective SPVs as assured in MoUs.

- Non-conducting of periodical review to assess the financial position/ activities/progress made by the SPVs/JVs.

Thus, the investments made by the Company in one JV was low while it was nil in respect of all the eight SPVs.

3.2 Loss of revenue of ₹ 4 crore due to non-recovery of the cost of land as per the Allotment Regulations

The allotment of land of one acre to Bank of Baroda at concessional rate, ignoring specific provision of the Company's Allotment Regulations, applicable to Scheduled Banks, resulted in loss of revenue of ₹ 4 crore

Telangana Industrial Infrastructure Corporation Limited (TSIIC) (Company) have prescribed Allotment Regulations for allotment of land. Based on an application from Bank of Baroda (allottee), the allotment of land of one acre (4,000 Sq. meters) in Gachibowli, Hyderabad for establishment of Bank's Disaster Recovery Centre, was approved by the State Level Allotment Committee (7 November 2012), subject to fixation of land cost. The Company provisionally allotted (27 November 2012) the land to construct building for Bank's Disaster Recovery Centre as the allottee had paid (January 2013) the provisional cost of land of ₹ 8.00 crore, at the rate of ₹ 20,000 per Sq. meter. The Price Fixation & Infrastructure Committee (PF&IC), in their meeting held in February 2013, fixed the cost of land as ₹ 20,000 per Sq. meter. However, as per Clause 15.3 (a) of the APIIC Allotment Regulations, for allotment of land to Scheduled Banks, 1.5 times of the land cost fixed by the PF&IC is to be recovered. Therefore, in this case, the amount to be recovered was ₹ 12.00 crore at the rate of ₹ 30,000 per Sq. meter.

Accordingly, the Company asked the allottee to pay the balance amount of ₹ 4 crore[55]. However, instead of paying the balance amount, the allottee stated that as per the discussions held with the Company earlier, the land cost would be the same as that fixed by the PF&IC. Consequently, the Company entered into an agreement (September 2013) at the rate of ₹ 20,000 per Sq. meter without insisting for difference amount of ₹ 4 crore.

It was observed in Audit that the Company ignored Regulation No. 15.3 (a) of the Allotment Regulations relating to recovery of 1.5 times of land value from Scheduled Banks (April 2013) and agreed to the request of the allottee for a lesser amount. The reasons and the grounds on which the Allotment Regulations were ignored were not on record.

Thus, failure of the Company to allot the land to the allottee without adhering to the provisions of the Allotment Regulations led to loss of ₹ 4 crore.

The Management in its initial reply (October 2014) had stated that since the allottee had proposed utilising the entire allotted area of 4000 Sq. meters for IT purpose i.e., Disaster Recovery Centre, the land cost as fixed by PF&IC was adopted as per the Allotment Regulations, 2012. It was also stated that the action taken by the Company was in accordance with the guidelines and no loss was caused to the Company on allotment of land.

The reply of the Management was not tenable as the principal business of the allottee was banking and not Information Technology. However, the Company treated Bank of Baroda as an IT company and allotted land at concessional rate by ignoring the specific provision in the Allotment Regulations applicable to Scheduled Banks, resulting in a loss of ₹ 4 crore.

Southern Power Distribution Company of Telangana Limited

3.3 Release of Power Connection, Tariff and Billing to Information Technology Firms

3.3.1 Introduction

In order to make the State a leading destination for investments in Information & Communications Technology (ICT), the erstwhile Government of Andhra Pradesh had declared its ICT policy in May 1999, later revised in June 2002, March 2005 and August 2010. The policy *inter-alia* included the incentive of

[55] (4,000 Sq. meters x 1.5 times x ₹ 20,000 per Sq. meter minus ₹ 8.00 crore already paid)

concessional power tariff i.e. Industrial power tariff (Category I) to the Information Technology (IT)/ Information Technology Enabled Services (ITES) units, which was less than Commercial tariff (Category II).

The incentives were administered by a High Level Coordination Committee called Consultative Committee on Information Technology Industry (CCITI) which included, among other Members, CMD, Southern Power Distribution Company of Telangana Limited (TSSPDCL) (erstwhile Central Power Distribution Company of Andhra Pradesh Limited (APCPDCL)). The IT Companies, intending to avail of the concessional power, were to apply to the IT&C Department of the GoAP along with copies of Power bills, Memorandum and Articles of Association, Annual Reports etc. The applications were considered and approved by the CCITI after which the IT &C Department issued a certificate stating that the incentives may be given to the IT/ ITES units as per eligibility. The IT companies then claimed the benefit of concessional tariff under Category HT-I from TSSPDCL.

The Management of the Company is vested in Board of Directors (Board) comprising three functional Directors and the Company is headed by a Chairman & Managing Director.

There were 114 IT Parks/ IT Infrastructure/ IT firms under the jurisdiction of TSSPDCL and their category was converted to HT-I. Out of these, a sample of 80 IT Companies was selected for review. The audit methodology included scrutiny of records of Category conversions, electricity bills of IT/ ITES units and websites of the respective services/ consumers.

3.3.2 Audit findings

3.3.2.1 Undue benefit of ₹ 50.35 crore to commercial units located in the premises of I.T. Infrastructure companies and IT/ ITES firms

The IT Infrastructure Companies/ Software Technology Parks were given a single High Tension (HT) connection initially under HT category-II (Commercial) by the Company. However, on the approval of CCITI and based on certificate issued by IT&C Department, the category was subsequently converted to HT-I (Industrial).

As per the operational guidelines of ICT policies, the notified IT Parks/ IT campuses were to provide 60 *per cent* of the net developable/ usable area for IT activities and 40 *per cent* area for other amenities[56].

As per the SERC tariff orders, the electricity supply to Industries categorized under HT category-I was not to include Shops, Business Houses, Offices, Public Buildings, Hospitals, Hotels, Hostels, Choultries, Restaurants, Clubs, Theatres, Cinemas, Printing Presses, etc., and other similar premises.

Audit observed that eight IT infrastructure companies and six IT/ ITES firms had Hotels, Restaurants, Shops, Hospitals, Banks, ATMs, Recreation Centres

[56] such as housing/ club house/recreation center, shopping center, school and other support activities, service area like water supply system, drainage and sewerage, electric power, other utilities.

etc. in their premises, which fell under non IT activities. The Company had, however, converted ***(Annexures 3.3(a) & 3.3(b))*** these services from HT-II (Commercial) to HT-I (Industrial) category, i.e. the entire premises, without restricting the same to 60 *per cent* prescribed for core IT activity, as per the policy, or verifying the actual consumption of electricity for the purpose of IT activity and non-IT activity.

As a result, the 40 *per cent* area meant for activities other than IT i.e., hotels, restaurants, recreation centres etc. were also extended the concessional tariff, which was not in line with the policy guidelines and the SERC approved Tariff Order. In the absence of clear demarcation and separate billing for non-IT activity, the Company incurred loss of revenue of ₹ 50.35 crore ***(Annexures 3.3(a) & 3.3(b))*** and extended undue benefits to IT Infrastructure Companies/ IT & ITES firms**.** As the Company has not been conducting periodical inspections/ maintaining any record for consumption of power for IT and non-IT purposes, audit worked out the loss of revenue considering 60 *per cent* of consumption for IT purpose and 40 *per cent* for non-IT purpose.

On this being pointed out by audit (February 2016), the Company inspected (18 March 2016) one such service (hotel) and found that the hotel had been availing of the concessional power tariff. The Company reconverted the service back to HT category II (Commercial) (May 2016), duly back billing for an amount of ₹ 51.97 lakh for one year only as permissible as per SERC Tariff Orders, though the back billing was to be made from July 2004 to May 2016 (12 years). Had the Company verified/ examined the activities of the establishments housed in the IT infrastructure Companies before conversion of the category and monitored them effectively from time to time, it would not have foregone the revenue of ₹ 2.84 crore (July 2004 to May 2016) in this case alone.

The Management replied (October 2016) that although as per Tariff Order, Shops, Hotels and Restaurants were mentioned in other than industrial category, it would not be made applicable to the Hotels/ Restaurants/ Recreations centre built in 40 *per cent* area of IT park, as they were meant for use by the staff working in the IT/ITES organisations for their recreation purpose.

The Management's contention was not acceptable as the Government directive did not specify the extension of concessional power tariff to commercial units or amenities established within the IT firms. The certificate only indicated the conversion of category as per eligibility and did not specify that the non-IT activities are eligible for concession tariff under HT-I category. The Company in its own financial interest should have identified the non-IT activities housed in the IT infrastructure/ IT firms and billed them accordingly, as per the approved Tariff Order, which categorically included shops, hotels etc. under HT category II.

While making a comparative study, it was observed that in the Karnataka State IT policy, commercial activities in the IT firms were not allowed concessional tariff.

Further, the ITE&C Department (October 2016) also, while endorsing the views of the Management, agreed to set up an institutional mechanism soon to ensure usage of electricity in a manner balancing the growth of IT industry and also check the misuse of electricity under concessional category.

3.3.2.2 Undue benefit of ₹ 10.96 crore due to extension of power concession to non- IT/ non-ITES companies

As per the ICT policy, IT Industry means and includes Information Technology (IT), Information Technology Enabled Services (ITES) and Hardware (non-hazardous) Manufacturing (IT Hardware & Electronics) units/ companies. IT/ ITES units/ companies include IT software, IT services and IT Enabled Services/ BPO/Animation & Gaming/ Digital Entertainment and IT Engineering Services companies. However, on scrutiny of records of the Company, it was observed that two firms were extended the concessional power tariff, though not related to IT/ ITES activities as seen from their websites viz., Financial and investment advisory service and registered office resulting in extension of undue benefit of ₹ 10.96 crore **(*Annexure 3.4*)**.

The Management replied (October 2016) that the conversion of these Companies were done on the basis of CCITI certificate.

The ITE&C Department replied (October 2016) that scope of technical services was far beyond the conventional software development. Thus, all these companies were IT companies.

The reply was not acceptable. Satyam Computers Services Limited which housed its registered office in that premises is not involved in any IT activity. Similarly, IQ Information Systems Private Limited, is a financial services company and not an IT Company. Hence, these units should not be solely considered as software development companies for the purpose of concessional tariff. Thus, the Company had extended undue benefit of ₹ 10.96 crore.

3.3.2.3 Undue benefit of ₹ 30.17 crore due to Conversion of category of services without obtaining relevant documents

The Detection of Pilferage of Energy (DPE) wing of the Company visits/inspects consumers' premises to check cases of pilferage, if any. During inspection, DPE had directed (December 2011) eight HT-I**,** IT consumers to submit certain documents/certificates within two and half months, indicating the firms' nature of operations, Annual reports etc., for verification. The IT consumers were also cautioned that if they fail to submit the relevant documents, the concessional power tariff would be withdrawn and duly back billed from the date of release of the service.

Audit observed that the Company had withdrawn the concessional power tariff and re-converted (2012) only one service (HDN-670) to category II, duly back billing for an amount of ₹ 96.27 lakh for one year. There was no document on record to show that the Company had further pursued the matter in respect of the remaining seven cases ***(Annexure 3.5)***. The Company continued to bill these services at concessional power tariff and thereby suffered loss of revenue of ₹ 30.17 crore**.**

The Management replied (October 2016) that the required documents called for were submitted subsequently after which the category was converted.

The reply was not acceptable as the audit observation was on calling for the documents at the time of inspection of the converted services by DPE and not about the documents submitted at the time of initial conversion.

3.3.2.4 Undue benefit of ₹ 18.07 crore due to extension of power concession to second and subsequent units though not established 100 KMs away from first unit

As per ICT policy for 2005-10 (March 2005), the existing IT Industry units in Andhra Pradesh commencing operations at a new location within the State, should be 100 KMs away from the existing location, for being treated as a new unit, to be eligible for the incentives under the policy.

It was observed from the billing address/ locations of the services that in respect of four IT units, though the second and subsequent units were established within the radius of 100 KMs, the Company had extended the benefit of concessional power tariff to these IT units and thereby suffered loss of revenue of ₹ 18.07 crore **(*Annexure 3.6).***

The Management replied (October 2016) that it was the decision of the IT&C Department to allow the IT Industries within 100 KMs range of its first unit, in view of the advantages of having more IT Companies which would generate employment, revenue etc. to the State Government.

The IT&C Department replied (October 2016) that the then Government's decision to extend power category conversion was to anchor these companies in Hyderabad and ensure seamless operations which would generate employment and contribute to the State economy. Hence, their applications were not considered as separate units but treated as expansion of the same unit.

The reply was not acceptable as the IT policy intended to make available the IT benefits to all the citizens in the State, especially those in rural areas and living in poverty, whereas the Company had extended the concessional power tariff to multiple units of same firm located within 100 KMs radius in deviation of the ICT policy and ignoring its own financial interests, which resulted in loss of revenue of ₹18.07 crore.

3.3.2.5 Extension of undue benefit of ₹ 5.55 crore to HT consumers (due to sale) without a fresh CCITI certificate

As per the CCITI certificate, the concessional power tariff is granted to the Company subject to the condition that the service should be in the name mentioned in the certificate only. However, it was observed that in respect of two cases, the Company had recorded the change of the consumers' names, due to sale/ purchase of the respective premises/ firm, in its records, but had continued the billing at concessional power tariff without obtaining a fresh certificate from CCITI. The improper extension of concession resulted in undue benefit of ₹ 5.55 crore **(*Annexure 3.7*)** to the HT consumer**.**

The Management replied (October 2016) that the Company had changed the name of the consumers based on certificate from the Ministry of Company Affairs (MCA), Government of India.

The reply was not acceptable as the Company had not adhered to the ICT policy wherein concessional tariff was to be granted only to the firm named in the certificate. The Company without insisting for fresh certificate from CCITI extended the concessional tariff to the new occupants of the premises.

The ITE&C Department (October 2016) accepted the audit observation and stated that permission from CCITI should have been obtained by the new occupants.

3.3.2.6 Approval of concessional tariff of ₹ 1.98 crore before expiry of one year of operation

As per the ICT Policy, the CCITI is to consider the applications of all IT companies for concessional power tariff after one year from the date of commencement of commercial operations. However, it was observed that, in nine cases, the CCITI had approved and IT&CD had certified the conversion of category even before completion of one year of release of service. The certificate was accepted by the Company without making any reference to either CCITI or IT&CD. The Company thus incurred loss of revenue of ₹ 1.98 crore **(*Annexure 3.8*).**

The Management replied (October 2016) that the CCITI had got single window power to grant incentives. Hence, reference to either CCITI or IT&CD for conversion of category did not arise.

The IT&C Department replied (October 2016) that in view of job opportunities being created, the then Government might have considered extending all incentives/ subsidies to help these large MNCs to establish their operations and create technology ecosystem in the State.

The above replies were not acceptable as CCITI's power to extend incentives should not be in violation of ICT policy and against the financial interests of the Company.

3.3.2.7 Absence of monitoring mechanism

The Company, after receipt of eligibility certificate, normally conducts a preliminary inspection of the services, before conversion to concessional power tariff. However, it was observed that preliminary inspections were conducted in a routine manner and without specifying the extent of utilization of area for IT as well as non-IT activities in the premises. Once the certificate was issued, the service was converted to HT category I without any time limit[57] and without any periodical inspections to identify cases of change in occupancy, activity etc. Though the concessional power tariff was extended as per the Government policy, the burden of concessional power tariff was borne entirely by the Company without any subsidy from the Government. At

[57] Power subsidy of ₹ 1/- per unit given by the Maharashtra State to IT companies was restricted to three years period only in their IT policy

IT&CD level also there was no monitoring mechanism. Once the certificate for grant of concessional power tariff was issued, it was continued year after year without any periodical verification of the activities of the firm and other commitments such as employment generation etc., made by the IT firms.

The Management replied (October 2016) that the Company was concerned with the eligibility certificate issued by the CCITI of IT&C Department, based on which these firms were billed as per approved tariff. No periodical reports were required as tariff conversion was done on the basis of CCITI certificate.

However, while agreeing with the views of audit, the ITE&C Department (October 2016), stated that the Government, along with TSSPDCL, would set up an institutional mechanism to ensure usage of electricity in a manner balancing the growth of IT Industry and also check the mis-utilisation/ pilferage of electricity under concessional category.

Conclusion

The erstwhile GoAP, to attract the investments into IT sector in the State had announced concessional power supply under its ICT policy. However, audit observed that due to lack of coordination and failure to periodically inspect the establishments, some of the ineligible units continued to avail of the benefit of concessional power resulting in loss to the Company. The Company, without verification of relevant documents/ certificates, such as the firms' nature of operations, Annual reports etc., allowed the units to continue to avail of the concessional power. The Company allowed some of the units to avail of concessional power even after sale/ purchase of the unit without obtaining a fresh certificate from CCITI by the new unit, as required in the policy. The second and subsequent units of some of the firms, which were established within 100 KMs of the first unit, were also allowed to avail of concessional power in deviation to the ICT policy. In some cases, the conversion of category was done even before completion of one year of release of service, though as per the policy the same would be considered only after one year of commercial operation.

3.4 Extension of undue benefit to M/s Golden Jubilee Hotels Limited - Loss of revenue of ₹ 1.70 crore

Deferment of second phase supply of power to M/s Golden Jubilee Hotels Limited (consumer) beyond six months, against the Company's guidelines and without levying minimum charges as specified in the Tariff Order resulted in extension of an undue benefit of ₹ 1.70 crore to the consumer

Southern Power Distribution Company of Telangana Limited (Company) had sanctioned power supply under HT category II (Commercial Service) to M/s Golden Jubilee Hotels Limited, Hyderabad (consumer), with a Contracted Maximum Demand of 5,000 KVA (July 2011) to be issued in two phases, viz., 2,600 KVA to be released in the first phase while the remaining 2,400 KVA were to be released in December 2013 (second phase). The first phase was released upon conclusion of HT Agreement with the Company (February

2013) with a minimum period of Agreement of two years i.e., up to January 2015. On request of the consumer, the second phase was deferred and later released in December 2015, instead of December 2013.

Audit observed that the General Terms and Conditions of Supply (GTCS) (Clause 5.9.2.1 and 5.9.4.3), as approved by the AP Electricity Regulatory Commission (APERC), specified the procedure to be followed for the commencement of supply of power to the consumers and for release of power in a phased manner, respectively. According to Clause 5.9.2.1, after receipt of development and supervision charges etc. from the consumer and concluding HT agreement, the Company should make arrangements to supply electricity by issuing a notice indicating that it was ready to provide supply. If the consumer failed to avail of supply within the three months' notice period, he should pay monthly minimum charges and fixed charges as specified in Tariff Order from the date of expiry of the three months.

The scheduled second phase supply (December 2013) in this case was within the period of the agreement. As per GTCS Clause 5.9.2.1, as the consumer had failed to avail of second phase supply as per the agreement, the Company should have collected monthly minimum charges and/or fixed charges as per the Tariff Order for the period from January 2014 to November 2015 as the consumer availed of the supply from December 2015. The Company had issued guidelines (September 2009) indicating that in cases where initial supply was released, rescheduling of remaining phases can be considered for a period not exceeding six months for each phase. In the instant case, even considering the Company's guidelines, the Company should have collected monthly minimum charges from July 2014 to November 2015. Non-collection of minimum charges as per the provisions of GTCS had resulted in extension of undue benefit of ₹ 1.70 crore [58] to the consumer.

The Government replied (November 2016) that wherever representation was received for postponement of unreleased phase, the same was considered as per the internal circulars issued by the Company (September 2009).

The reply was not acceptable as the Company had not adhered to its own internal guidelines (September 2009), according to which deferment was allowed for a period not exceeding six months for each phase i.e. up to June 2014 in this case, whereas the extension was granted up to November 2015.

Thus, deferring the phased supply for a period exceeding six months from July 2014 had led to an extension of undue advantage to the consumer which resulted in loss of ₹ 1.70 crore to the Company (calculated as per Tariff Orders for the years 2014-15 and 2015-16 for a period from July 2014 to November 2015).

[58] Demand charges: 80% x 2400 KVA = 1920 x ₹ 350 (Tariff) x 9 months = ₹ 60.48 lakh + Energy charges: 48000 KVAH x ₹ 6.28 (Tariff) x 9 months (July 2014 to March 2015) = ₹ 27.13 lakh. Total (A): ₹ 87.61 lakh

Demand charges: 80% x 2400 KVA=1920 x ₹ 370 (Tariff) x 8 months= ₹ 56.83 lakh + Energy charges 48000 KVAH x ₹ 6.6 (Tariff) x 8 months (April 2015 to November 2015) = ₹ 25.34 lakh. Total (B): ₹ 82.17 lakh

(A)+(B)= ₹ 169.8 lakh i.e. ₹ 1.70 crore

The Singareni Collieries Company Limited

3.5 Unfruitful expenditure of ₹ 1.16 crore

The Company without ensuring the possibility of acquiring the private land, went ahead with the publication of Draft Notification and Draft Declaration for the proposed Indaram Opencast Mine and incurred an expenditure of ₹ 1.16 crore towards publication charges. However, the land acquisition was kept in abeyance due to stiff resistance from the villagers, resulting in avoidable expenditure.

The Singareni Collieries Company Limited (SCCL) (Company) had proposed to take up Indaram Opencast Mine. The Feasibility Report for the Project was approved by SCCL Board on 23 February 2007 for a rated capacity of 1.2 Million Tonnes per annum at an initial capital investment of ₹ 91.20 crore. For this purpose, the total requirement of land was 798.08 Ha, out of which private land of 726.46 Ha, valued at ₹ 21.79 crore, was to be acquired. As a part of the land acquisition process, the Environmental Public Hearing was held on 3 September 2007 in which the villagers requested the Company to change the dump yard position of the proposed Opencast Mine and refrain from acquiring agricultural fields to the extent possible. The majority of the land owners also opposed setting up of Opencast Mine. The Company accepted (December 2007) their suggestions to shift the over burden dump yard to Company's own land. The Draft Notifications (DN) and Draft Declarations (DD) for the acquisition of land (Tekumatla, Indaram, Kanchanapalli villages) were issued (between 22 May 2008 and 29 May 2009). The Company incurred expenditure of ₹ 1.16 crore towards publication charges. However, the Company decided (December 2009) to keep the land acquisition in abeyance due to stiff resistance from the villagers against Opencast Mine.

It was observed in audit that the Company, without ensuring the possibility of acquiring the private land, went ahead with publishing the DN and DD. As per the Land Acquisition Act, the award of land should be made within a period of two years from the date of publication of declaration and if no award is made within that period, the entire proceedings for acquisition of land shall lapse. In this case, the land acquisition process could not be completed within the stipulated period of two years (ending May 2011). Thus, the decision of the Company to go for publication of DN and DD without ascertaining the possibility of acquiring land led to unfruitful expenditure of ₹ 1.16 crore.

The Government replied (December 2016) that the process of Publication of Draft Notification and Draft Declaration in local newspapers was initiated incurring an expenditure of ₹ 1.16 crore in anticipation of land acquisition and gaining time for early commencement of project. Repeated attempts made by the Company for land acquisition did not yield results and, subsequently, the entire Feasibility Report of Indaram project was redesigned (April 2016) and the land requirement brought down from 798.08 Ha to 617.58 Ha. It was further stated that the project was being scheduled to be grounded at the earliest.

However, the fact remained that the Company went ahead with the publication of DN and DD without ascertaining the possibility of acquiring land, thereby rendering the expenditure of ₹ 1.16 crore unfruitful.

3.6 Extra expenditure of ₹44.14 crore on diversion of NTR canal under Jalagam Vengala Rao Open Cast project, beyond its requirement.

Extra expenditure of ₹ 44.14 crore over the original estimates due to clubbing of NTR canal with Indirasagar-Rudramkota Lift Irrigation Canal, as against the diversion required by the Company for a length of 4.76 KM for its mining activities, which was unrelated and beyond the scope of the project

The Singareni Collieries Company Limited (SCCL) (Company) took up Sathupally Open Cast (OC) Project (December 2002) to meet the future demand of coal. A part of the NTR canal was passing over the proposed mining operations from Sathupally OC (renamed as Jalagam Vengala Rao Open Cast Project-I (JVR OCP-I and Extension Project)) from KM 8 to KM 12.76. Hence, the canal had to be diverted away from the coal bearing area for a length of 4.76 KM to facilitate an extraction of nearly 11.05 Million Tonnes of coal valued at ₹ 1502.80 crore. Based on the detailed estimate of ₹ 21.69 crore for diversion of the NTR canal, submitted by the Irrigation Department, Government of Andhra Pradesh (GoAP) had accorded administrative sanction for ₹ 21.69 crore (December 2005) for excavation of an alternative canal to NTR canal and requested SCCL to deposit the entire amount to commence the work.

The Government of Andhra Pradesh had subsequently decided (March 2008) to club the proposed alternative canal to NTR canal with Indirasagar–Rudramkota Lift Irrigation Canal (IRLIC) as they were running parallel to each other from KM 28 to KM 56. Considering merger of alternate canal with NTR canal and IRLIC, detailed designs and revision in Schedule of Standard Rates (SSR), the cost estimates were revised by the Irrigation Department several times from December 2005 (₹ 21.69 crore) to October 2013 (₹ 145.52 crore). Out of the estimated amount of ₹ 145.52 crore, SCCL's share was worked out at ₹ 65.83 crore and the same was paid by SCCL (upto March 2014). The Company at no stage contested the increase in cost of the project or obtained any concrete assurance regarding completion of the project.

The work of canal diversion was entrusted by Irrigation Department to a contractor (November 2007) for completion within 24 months and the work was completed in April 2016, after delay of more than six years.

It was observed in audit that:

➢ The estimated cost of diversion of NTR canal (KM 8 to KM 12.76) was revised several times during the period 2005 to 2013. The increase in cost of project/SCCL share was due to merging of the proposed alternate canal with IRLIC from KM 28 to KM 56. The length of diversion was thus for 28 KMs against the required 4.76 KMs. Further, since the clubbing of canals was totally unrelated to SCCL and had no bearing on the original work of diversion of NTR canal, payments made by the Company for the additional length was not justified.

➢ The Company also had made an interest free advance amounting to ₹ 48.95 crore (July 2010) to the Irrigation Department as directed by the Government, considering the urgency of the work connected to production of JVR OCP-I Expansion mine. The advance sought by the Irrigation Department was based on the assurance that the work would be completed by March 2011. However, the work was completed after almost six years (23 April 2016) which delayed the extraction of nearly 11.05 Million Tonnes of coal.

Thus, payments made by the Company over and above its requirements resulted in extra expenditure of ₹ 44.14 crore (₹ 65.83 crore - ₹ 21.69 crore).

The Management in reply stated (October 2016) that the work was delayed due to clubbing of canals which necessitated revision of estimates, design, scarcity of sand and delay in getting approval (R&B dept.) for designs for road over-bridge required in the works etc.

The reply of the Management is silent about release of payments by the Company for the extended lengths of the alternate canal which was unrelated to the Company. The NTR canal diversion would have been completed much earlier as per original schedule and well within the funds already paid, had it not been clubbed with other irrigation works. Thus, the Company incurred an avoidable extra expenditure of ₹ 44.14 crore, over and above the original estimate.

Telangana State Power Generation Corporation Limited

3.7 Extension of undue favour to a contractor of Balance of Plant (BOP) works resulted in avoidable additional expenditure of ₹ 2.12 crore

Action was not initiated on the contractor for the defect in the TG building (Stage I KTPP), as per the terms and conditions of the contract. The unintended favour to the contractor of BOP works resulted in avoidable additional expenditure to the tune of ₹ 2.12 crore for purchase of crane (Stage II KTPP)

The erstwhile Andhra Pradesh Power Generation Corporation Limited (Company) placed three Purchase Orders (POs) amounting to ₹ 694.86 crore in November 2006 on M/s BGR Energy Systems Limited (Contractor) for Supply (₹ 458.34 crore), Erection (₹ 18.39 crore) and Balance of Plant (BOP) (₹ 218.13 crore) for execution of Stage-I of Kakatiya Thermal Power Plant (KTPP), (1x500 MW), now under the purview of Telangana State Power Generation Corporation Limited.

On achieving Commercial Operation Date (14 September 2010), the Company took over (20 March 2013) the entire BOP package of Stage-I. As per Clause 14 of the PO for Warranty, the Bank Guarantee for ₹ 69.49 crore (10 *per cent* of the contract price) was obtained from the contractor, which had a validity of

12 months from the date of taking over of the entire BOP packages including a claim period of six months over and above the validity i.e. up to 20 September 2014.

In the meantime, for construction of Stage II of KTPP, adjacent to Stage I, i.e. capacity addition of 1x600 MW, orders were placed on M/s BHEL Limited (October 2008) for Boiler, Turbine and Generator and on M/s Tecpro Systems Limited (October 2010) for BOP works i.e. civil works, erection and installation.

While the Stage-II works were in progress (December 2011), in order to reduce the project cost of Stage-II, the Company planned to extend the Electronically Operated Travelling Type (EOT) crane of Stage I to Stage-II.

The civil drawings relating to the Turbine Generator (TG) building of Stage II were approved by M/s Tecpro from M/s Desein (Consulting Engineers). While taking up the Civil works, it was observed that there was a skew in the TG building axes of Stage-I. The Coordinates provided in the approved drawings (Stage II) and the "as built" Coordinates of Stage I TG building were not matching. The skew did not affect the movement of existing crane in Stage-I, but if extended to Stage-II would lead to a swing in the lifting of main equipments like Turbine, Generator plant etc. Due to this the Company decided and purchased (August 2012) a new EOT crane at a cost of ₹ 2.12 crore for TG Building of Stage II.

Audit observed that though the Company had identified (February 2012) the skew in Stage I, no action was initiated against the contractor as per the terms of the contract. However, the Company called for explanation from the officials and it was concluded that the skew was due to laxity in inspection and failure in monitoring the work in the TG building (KTPP/Stage I).

As per Clause 5 of the terms and conditions of contract of Stage I, balance 10 *per cent* of the contract price was to be made after ascertaining satisfactory performance of civil works and fulfilling all contractual obligations. Despite the defect in workmanship of the contractor, the Company did not invoke the Bank Guarantee (Clause 14), though this was available with it. This resulted in extension of undue benefit to the contractor of BOP works to the tune of ₹ 2.12 crore.

The Management accepted (January 2016) the fact that there was a skew in center line of the TG building and indicated that it had called for explanation (November 2013) from the concerned officials of the Company and, after seeking explanations, imposed punishment of ‘Censure’ (January 2015). It was further stated that since the variation in the structure had not affected the operation of EOT crane and as the future expansion of KTPP Stage I and utilization of the crane for Stage II was not mentioned in the BOP contract, the contractor could not be held responsible.

However, no action was initiated against the contractor as per the terms and conditions of the contract despite the defect in the construction of Stage I. The reply was silent regarding the reasons for not invoking the BG which was available with the Company, when the defect in the TG building was observed.

STATUTORY CORPORATION

Telangana State Road Transport Corporation

3.8 Failure to conduct a periodical census of buses led to extension of undue benefit of ₹ 52.40 lakh to the agent by way of short recovery of license fee towards display of the advertisement on buses

Corporation had not conducted periodical census of buses as per the Agreement with the agent for display of advertisement on buses. Due to this, the agent reduced the number of buses for payment of license fee and the same was accepted by the Corporation. This had resulted in undue benefit of ₹ 52.40 lakh to the agent by way of short recovery of license fees

The Andhra Pradesh State Road Transport Corporation (Corporation) entered into an agreement (July 2012) with M/s Uni Ads Limited (agent) for display of advertisements on all buses, including hired buses (excluding buses purchased under JNNURM Scheme) held by the depots falling under the jurisdiction of Secunderabad Region for a period of five years commencing from 1st June 2012 (now under Telangana State Road Transport Corporation). At the time of the commencement of the agreement, the number of buses was mutually reckoned at 1,145. According to the terms and conditions of the agreement, the agent was to pay (i) license fee at the rate of ₹ 1,250 for 1st and 2nd years, ₹ 1,612 for 3rd year and ₹ 2,015 for 4th and 5th years per bus per month (ii) additional license fee at the agreed rates on the buses newly added after the commencement of the agreement period and (iii) the Corporation was to conduct a census of buses once in every four months and intimate the agent the number of buses and the amount of license fee payable for the next four months.

However, the Corporation did not conduct the periodical census of buses as per agreement. The agent intimated (December 2012) the Corporation of his intention to pay licence fee duly reckoning the number of buses held by depots of Secunderabad Region at 1,145 up to October 2012 and 1,050 buses for a further period, based on their survey. The Corporation, however, neither took any action on the agent's letter nor counted the total number of buses held and accepted payment of license fee on 1,050 buses from November 2012 to till date (March 2016).

Meanwhile, Audit had pointed out (February 2014) that the agent had reduced the number of buses for calculation and remittance of license fees owing to non-conducting of a census by the Corporation which was causing loss of revenue. The Corporation later conducted a census in February 2015 (for the period from June 2012 to February 2014) and in October 2015 (for the period from March 2014 to August 2015), i.e. after a delay of one year after being pointed out by Audit. Based on this census, the Corporation observed that the number of buses were actually more (ranging from 1,121 to 1,201 buses) than the buses for which the contractor had paid the license fee (***Annexure 3.9)***. The Corporation accordingly asked the agent to deposit the shortfall amount of ₹ 52.40 lakh (October 2015) but the same was yet to be received.

It was observed that the Corporation did not conduct periodical census as per the agreement. Though the agent had addressed the Corporation (December 2012) on the issue of reduction of buses, the Corporation accepted the license fee on the reduced number of buses without verification.

Thus, failure of the Corporation to conduct periodical census as per the terms of the agreement and acceptance of the licence fee paid by the agent on the lesser number of buses, led to an undue benefit of ₹ 52.40 lakh to the agent (up to March 2016) ***(Annexure 3.9)*** and corresponding loss to the Corporation.

The Government (January 2017), while confirming that reconciliation of buses had to be done at every four months to arrive at the monthly license fee payable for the next four months and communicate the same to the advertisement contractor to pay the revised license fee (Clause 5 of the agreement), stated that this was not done due to lack of awareness in the Regions where advertisement contracts were dealt with subsequent to decentralisation in 2011. It was further stated that now efforts were being made to realise the dues and in case the agent failed to pay the outstanding dues, the same would be adjusted from the Security Deposit available with the Corporation.

Hyderabad
The

(LATA MALLIKARJUNA)
Accountant General
(Economic & Revenue Sector Audit)
Andhra Pradesh and Telangana

Countersigned

New Delhi
The

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

ANNEXURES

Annexure 1.1(a)

Statement showing investments made by State Government in PSUs (exclusive to state only) whose accounts are in arrears

(Referred to in paragraph 1.11)

(Figures in Columns 4 & 6 to 8 are ₹ in crore)

Sl. No.	Sector and name of Company	Year upto which account finalised	Paid up Capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
1	2	3	4	5	6	7	8
	WORKING GOVERNMENT COMPANIES						
	AGRICULTURE AND ALLIED						
	INFRASTRUCTURE						
1	FAB City SPV (India) Private Limited (Subsidiary to APIIC w.e.f. 19-07-2007)	2013-14	0.01	2014-15	0.00	0.00	0.00
				2015-16	0.00	0.00	0.00
2	Pashamylaram Textiles Park	2008-09	0.05	2009-10	NA	NA	NA
				2010-11	NA	NA	NA
				2011-12	0.00	0.00	0.00
				2012-13	0.00	0.00	0.00
				2013-14	0.00	0.00	0.00
				2014-15	0.00	0.00	0.00
				2015-16	NA	NA	NA
3	eCity Manufacturing Cluster Limited	2013-14	0.01	2014-15	0.00	0.00	0.00
				2015-16	0.00	0.00	0.00
4	Maheshwaram Science Park Private Limited	2013-14	0.01	2014-15	0.00	0.00	0.00
				2015-16	0.00	0.00	0.00
5	Hyderabad Growth Corridor Limited	2010-11	0.15	2011-12	0.00	331.50	0.00
				2012-13	0.00	0.00	0.00
				2013-14	0.00	348.53	0.00
				2014-15	0.00	322.23	0.00
				2015-16	0.00	156.00	0.00
	Sub total		**0.23**		**0.00**	**1158.26**	**0.00**
	MANUFACTURING						
6	APMDC-SCCL Suliyari Coal Company Limited	First Accounts not submitted		2013-14	NA	NA	NA
				2014-15	NA	NA	NA
				2015-16	NA	NA	NA
7	Telangana Drinking Water Supply Corporation Limited	First Accounts not submitted	NA	2015-16	NA	NA	NA
8	Hyderabad Metro Rail Limited	2012-13	0.57	2013-14	0.00	0.00	2500.00
				2014-15	0.00	0.00	424.67
				2015-16	0.00	177.46	0.00
	Sub total		**0.57**		**0.00**	**177.46**	**2924.67**

Sl. No.	Sector and name of Company	Year upto which account finalised	Paid up Capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
1	2	3	4	5	6	7	8
	POWER						
9	Northern Power Distribution Company of Telangana Limited	2014-15	274.76	2015-16	0.00	0.00	0.00
	Sub total		**274.76**		**0.00**	**0.00**	**0.00**
	Grand Total		**275.56**		**0.00**	**1335.72**	**2924.67**

NA=Not Available;

Annexure 1.1(b)

Statement showing investments made by State Government in PSUs (under demerger) whose accounts are in arrears.

(Referred to in paragraph 1.11)

(Figures in Columns 4 & 6 to 8 are ₹ in crore)

Sl. No.	Sector and name of Company	Year upto which account finalised	Paid up Capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
1	2	3		5	6	7	8
	Working Government Companies						
	FINANCE						
1	Andhra Pradesh Film, Television and Theatre Development Corporation Limited	2014-15	6.22	2015-16	0.00	0.00	2.62
	INFRASTRUCTURE						
2	Andhra Pradesh Rajiv Swagruha Corporation Limited	2013-14	0.05*	2014-15 2015-16	0.00	0.00	0.00
3	Infrastructure Corporation of Andhra Pradesh Limited	2014-15	30.12	2015-16	0.00	0.00	0.00
	POWER						
4	Andhra Pradesh Tribal Power Company Limited	First Accounts not submitted	0.25	2002-03	0.00	0.00	0.87
				2003-04	0.00	0.00	0.00
				2004-05	0.00	0.00	1.00
				2005-06	0.00	0.00	0.00
				2006-07	0.00	0.00	0.75
				2007-08	0.00	0.00	2.91
				2008-09	0.00	0.00	2.44
				2009-10	0.00	0.00	1.57
				2010-11	0.00	0.00	0.23
				2011-12	0.00	0.00	0.89
				2012-13	0.00	0.00	0.98
				2013-14	0.00	0.00	0.52
				2014-15	0.00	0.00	0.67
				2015-16	0.00	0.00	1.31
	Total		**36.64**		**0.00**	**0.00**	**16.76**

*Does not include Share application money in view of Companies Act, 2013.

Annexure 1.1 (c)

Statement showing investments made by State Government in PSUs (formed due to demerger) whose accounts are in arrears

(Referred to in paragraph 1.11)

(Figures in Columns 4 & 6 to 8 are ₹ in crore)

Sl. No.	Sector and name of Company	Year upto which account finalised	Paid up Capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
1	2	3	4	5	6	7	8
A.	**Working Government Companies**						
	AGRICULTURE AND ALLIED						
1	Telangana State Agro Industries Development Corporation Limited	First Accounts not submitted	0.05	2015-16	--	--	--
2	Telangana State Forest Development Corporation Limited	First Accounts not submitted	9.1	2015-16	0.01	0	0
3	Telangana State Irrigation Development Corporation Limited	First Accounts not submitted	0.05	2015-16	0.05	0	0.00
4	Telangana State Seeds Development Corporation Limited	First Accounts not submitted	0.05	2015-16	0.05	0	6.2
	Sub total		**9.25**		**0.11**	**0**	**6.2**
	FINANCE						
5	Telangana State Handicrafts Development Corporation Limited	First Accounts not submitted		2015-16			
6	Telangana State Minorities Finance Corporation Limited	First Accounts not submitted	0.05	2014-15	0.05	0	53.95
				2015-16	0	0	62.16
7	Telangana State Christian Minorities Finance Corporation Limited	First Accounts not submitted	0.05	2015-16	0.05	0	26.18
8	Telangana Power Finance Corporation Limited	2014-15	0.05	2015-16	0	0	0
	Sub total		**0.15**		**0.1**	**0**	**142.29**
	INFRASTRUCTURE						
9	Telangana State Police Housing Corporation Limited		0.75	2014-15	0.75	0.00	0.00
				2015-16	0.00	0.00	0.00
10	Telangana State Industrial Development Corporation Limited	First Accounts not submitted	NA	2015-16	NA	NA	NA
11	Telangana State Industrial Infrastructure Corporation Limited	First Accounts not submitted	6.82	2015-16	0.00	0.00	15.26

Sl. No.	Sector and name of Company	Year upto which account finalised	Paid up Capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
1	2	3	4	5	6	7	8
12	Telangana State Housing Corporation Limited	First Accounts not submitted		2015-16			
13	Telangana Urban Finance Industrial Infrastructure Corporation Limited	First Accounts not submitted	0.05	2014-15	0.05	0	206.52
				2015-16	0	0	2.75
14	Telangana Aviation Corporation Limited	First Accounts not submitted					
	Sub total		**7.62**		**0.8**	**0**	**224.53**
	MANUFACTURING						
15	Telangana State Beverages Corporation Limited	First Accounts not submitted	0.05	2014-15			
				2015-16	0.00	0.00	58.56
16	Telangana State Leather Industries Promotion Corporation Limited	First Accounts not submitted	1.63	2015-16	0.82	0.00	0.00
17	Telangana State Mineral Development Corporation Limited	First Accounts not submitted	0.05	2015-16	0.00	0.00	0.00
	Sub total		**1.73**		**0.82**	**0.00**	**58.56**
	SERVICES						
18	Telangana State Civil Supplies Corporation Limited	First Accounts not submitted	0.10	2015-16	0.00	0.00	0.00
19	Telangana State Trade Promotion Corporation Limited	First Accounts not submitted	0.01	2015-16	0.00	0.00	0.00
20	Telangana State Technology Services Limited	First Accounts not submitted	0.05	2015-16	0.05	0.00	0.00
21	Telangana State Tourism Development Corporation Limited	First Accounts not submitted	2.48	2014-15	1.57	0.00	1.46
				2015-16	1.00	0.00	16.24
	Sub total		**2.64**		**2.62**	**0.00**	**17.70**
	POWER						
22	Transmission Corporation of Telangana Limited	First Accounts not submitted		2014-15			
			0.05	2015-16	0.00	0.00	0.00

Sl. No.	Sector and name of Company	Year upto which account finalised	Paid up Capital	Period of accounts pending finalisation	Investment made by State Government during the year of which accounts are in arrears		
					Equity	Loans	Grants
1	2	3	4	5	6	7	8
23	Telangana State Power Generation Corporation Limited	First Accounts not submitted		2014-15			
			671.00	2015-16	523.59	0.00	0.00
24	Telangana New & Renewable Energy Development Corporation Limited	First Accounts not submitted	**0.05**	2014-15			
				2015-16	0.00	0.00	1.12
	Sub total		**671.10**		**523.59**	**0.00**	**1.12**
	MISCELLANEOUS						
25	Telangana Overseas Manpower Company Limited	First Accounts not submitted	0.00	2015-16	0.00	0.00	0.00
	STATUTORY CORPORATIONS						
	AGRICULTURE AND ALLIED						
26	Telangana State Warehousing Corporation	First Accounts not submitted	3.74	2015-16	0.00	0.00	0.00
	FINANCE						
27	Telangana State Financial Corporation	First Accounts not submitted		2015-16			
	SERVICE						
28	Telangana State Road Transport Corporation	First Accounts not submitted	83.89	2015-16	0.00	53.00	448.00
	Sub total		**87.63**		**0.00**	**53.00**	**448.00**
	Grand Total		**780.12**		**528.04**	**53.00**	**898.40**

NA=Not Available

Annexure 1.2 (a)

Summarised financial position and working results of PSUs (exclusive to state only) as per their latest finalised financial statements/accounts

(Referred to in paragraph 1.15)

(Figures in Columns 5 to 12 are ₹ in crore)

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+) / loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Man power
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
	Working Government Companies												
	INFRASTRUCTURE												
1	Fab City SPV (India) Private Limited.	2013-14	2016-17	0.01	0.00	-1.18	0.91	-1.07	0.00	-1.12	-1.07	95.54	0
2	Pashamylaram Textiles Park	2008-09	2014-15	0.05	0.00	0.12	0.00	0.06	0.00	0.17	0.06	35.29	2
3	E-City Manufacturing Cluster Limited	2013-14	2014-15	0.01	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0
4	Maheshwaram Science Park Limited	2013-14	2014-15	0.01	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0
5	Hyderabad Growth Corridor Limited	2010-11	2015-16	0.15	0.00	-3.73	0.39	-0.02		-3.58	-0.02	0.56	49
	Sub total			**0.23**	**0.00**	**-4.79**	**1.30**	**-1.03**	**0.00**	**-4.51**	**-1.03**		**51**
	MANUFACTURING												
6	APMDC-SCCL Suliyari Coal Company Limited	First Accounts not submitted											
7	Damodara Minerals Private Limited	2015-16	2016-17	0.04	0.00	-0.09	0.00	-0.01	0.00	-0.05	-0.01	20.00	0
8	The Singareni Collieries Company Limited	2015-16	2016-17	1733.20	3956.43	3049.75	12711.18	1066.13	-163.00	8739.38	1106.94	12.67	
	Sub total			**1733.24**	**3956.43**	**3049.66**	**12711.18**	**1066.12**	**-163.00**	**8739.33**	**1106.93**		**0**

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+) / loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Man power
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
	POWER												
9	Southern Power Distribution Company of Telangana Limited	2015-16	2016-17	728.47	7368.49	-10624.99	16466.76	-2369.43	-464.18	195.87	-1516.82	-774.40	9932
10	Northern Power Distribution Company of Telangana Limited	2014-15	2016-17	274.76	3830.52	-4882.84	5905.28	-1342.71	0.00	-27.38	-1039.00	3794.74	8249
	Sub total			**1003.23**	**11199.01**	**-15507.83**	**22372.04**	**-3712.14**	**-464.18**	**168.49**	**-2555.82**		**18181**
	SERVICES												
11	Telangana Drinking Water Supply Corporation Limited	First Accounts not submitted											
12	Hyderabad Metro Rail Limited	2012-13	2014-15	0.57	0.00	0.54	0.00	0.00	0.00	1.10	0.00	0.00	181
	Sub total			**0.57**	**0.00**	**0.54**	**0.00**	**0.00**	**0.00**	**1.10**	**0.00**	0.00	**181**
	Grand Total			**2737.27**	**15155.44**	**-12462.42**	**35084.52**	**-2647.05**	**-627.18**	**8904.41**	**-1449.92**		**18413**

Annexure 1.2 (b)

Summarised financial position and working results of PSUs (under demerger) as per their latest finalised financial statements/accounts

(Referred to in paragraph 1.15)

(Figures in Columns 5 to 12 are ₹ in crore)

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+)/ loss(-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Man power
1	2	3	4	5	6	7	8	9	10	11	12	13	14
A.	**WORKING GOVERNMENT COMPANIES**												
1	Andhra Pradesh Film, Television and Theatre Development Corporation Limited	2014-15	2015-16	6.22	0.10	2.10	5.63	0.20	1.01	8.42	0.02	0.28	25
2	Andhra Pradesh Rajiv Swagruha Corporation Limited	2013-14	2014-15	0.05	0.00	9.30	41.71	-45.78	Accounts under finalisation	9.35	-9.77	-104.49	166
3	The Nizam Sugars Limited	2015-16	2016-17	34.00	55.95	-241.24	0.00	0.24	0.00	-149.67	7.14	-4.77	
	Sub Total			40.27	56.05	-229.84	47.34	-45.34	1.01	-131.90	-2.61		191
	MISCELLANEOUS												
4	Andhra Pradesh Tribal Power Company Limited	First Accounts not submitted			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5
	Sub Total			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		5
	INFRASTRUCTURE												
5	Infrastructure Corporation of Andhra Pradesh Limited	2014-15	2015-16	30.12	0.00	-3.82	0.26	-1.55	0.00	26.30	-1.55	-5.89	60
	Sub Total			30.12	0.00	-3.82	0.26	-1.55	0.00	26.30	-1.55		60
	Grand Total A			**70.39**	**56.05**	**-233.66**	**47.60**	**-46.89**	**1.01**	**-105.60**	**-4.16**		**256**
B	**NON-WORKING COMPANIES**												
	AGRICULTURE AND ALLIED												
1	Andhra Pradesh Fisheries Corporation Limited	1-4-02 to 9-5-02		4.67	8.67	-21.75	0.00	0.00	0.00	-7.24	0.00	0.00	
2	Proddutur Milk Foods Limited	1983-84	1990-91	1.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	8

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+)/ loss(-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Man power
1	2	3	4	5	6	7	8	9	10	11	12	13	14
3	Andhra Pradesh Dairy Development Corporation Limited	2013-14 (14 M)	2014-15	15.00	0.00	-5.24	0.00	0.00	0.00	9.76	0.00	0.00	
	FINANCING												
4	A.P Small Scale Industrial Development Corporation Limited	2001-02	2003-04	9.62	13.92	-20.03	0.02	2.18	0.00	2.93	2.18	74.40	
5	Andhra Pradesh Tourism Finance Limited	2002-03	2004-05	2.00	0.00	0.07	0.11	0.11	0.00	2.05	0.11	5.37	
	MANUFACTURING												
6	Allwyn Auto Limited	1994-95		0.15	14.45	-13.54	0.00	-6.46	0.00	-2.97	-6.46	217.51	
7	Allwyn Watches Limited	1998-99	2002-03	0.15	64.93	-248.70	13.00	-70.69	0.00	95.75	-70.69	-73.83	
8	Andhra Pradesh Electronics Development Corporation Limited	2002-03	2006-07	12.72	0.68	-10.74	0.00	-0.75	0.00	3.68	-0.75	-20.38	
9	Andhra Pradesh Scooters Limited	1992-93	1993-94	11.11	11.19	-34.49	0.00	-3.70	0.00	-3.79	-3.70	97.63	
10	Andhra Pradesh Steels Limited (S)	1991-92	1993-94	2.03	2.12	-6.51	0.00	-2.09	0.00	-2.51	-2.09	83.27	
11	Aptronix Communications Limited (S)			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
12	Hyderabad Chemicals and Fertilizers Limited (S)	1984-85	1986-87	0.78	8.25	-0.63	0.00	0.62	0.00	-1.34	0.62	-46.27	
13	Marine and Communication Electronics (India) Limited (S)	1992-93	1994-95	1.89	4.77	-4.21	0.00	-4.70	0.00	7.23	-4.70	-65.01	
14	Republic Forge Company Limited	1991-92	1993-94	7.77	54.77	-23.41	0.00	-3.24	0.00	8.82	-3.24	-36.73	
15	Southern Transformers and Electricals Limited (S)	1993-94	1996-97	0.58	0.78	-5.78	0.00	-0.57	0.00	-1.45	-0.57	39.31	
16	Andhra Pradesh Automobile Tyres & Tubes Limited	1992-93	NA	0.75	0.00	-0.77	0.00	0.00	0.00	0.00	0.00	0.00	
17	Golkonda Abrasives Limited	1997-98	NA	0.55	0.00	-7.44	0.00	-0.01	0.00	0.00	-0.01	0.00	
18	Krishi Engineering Limited	1984-85	NA	0.52	0.00	-3.54	0.00	-0.52	0.00	0.00	-0.52	0.00	

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/ loss(-)	Turnover	Net profit (+)/ loss(-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Man power
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
19	PJ Chemicals Limited	1989-90	NA	0.38	0.00	-3.56	0.00	-0.51	0.00	0.00	-0.51	0.00	
20	Suganthy Alloy Castings Limited	1983-84	NA	0.20	0.00	-0.26	0.00	-0.16	0.00	0.00	-0.16	0.00	
21	Vidyut Steels Limited	1985-86	NA	0.88	0.00	-1.55	0.00	-0.40	0.00	0.00	-0.40	0.00	
	SERVICE												
22	Andhra Pradesh Essential Commodities Corporation Limited	2012-13	2015-16	1.13	0.00	9.49	0.00	-0.03	0.00	10.62	0.00	-0.03	0
	Grand Total B			**74.84**	**184.53**	**-402.59**	**13.13**	**-90.92**	**0.00**	**121.54**	**-90.89**		**8**
	TOTAL A+B			**145.23**	**240.58**	**-636.25**	**60.73**	**-137.81**	**1.01**	**15.94**	**-95.05**		**264**

Annexure 1.2 (c)

Summarised financial position and working results of PSUs (formed due to demerger) as per their latest finalised financial statements/accounts

(Referred to in paragraph 1.15)

(Figures in Columns 5 to 12 are ₹ in crore)

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	AGRICULTURE & ALLIED												
1	Telangana State Agro Industries Development Corporation Limited	First Accounts not submitted (2015-16)											
2	Telangana State Seeds Development Corporation Limited	First Accounts not submitted (2015-16)											
3	Telangana State Forest Development Corporation Limited	First Accounts not submitted (2015-16)											
4	Telangana State Irrigation Development Corporation Limited	First Accounts not submitted (2015-16)											
	Sub total												
	FINANCE												
5	Telangana State Handicrafts Development Corporation Limited	First Accounts not submitted (2015-16)											

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
1	2	3	4	5	6	7	8	9	10	11	12	13	14
6	Telangana State Minorities Finance Corporation Limited	First Accounts not submitted (2015-16)											
7	Telangana State Christian Minorities Finance Corporation Limited	First Accounts not submitted (2015-16)											
8	Telangana Power Finance Corporation Limited	2014-15	2016-17	0.05	3.67	0.00	0.099	0.00	0.00	3.71	0.00		
	Sub total			**0.05**	**3.67**	**0.00**	**0.099**	**0.00**	**0.00**	**3.71**	**0.00**		
	INFRASTRUCTURE												
9	Telangana State Police Housing Corporation Limited	First Accounts not submitted (2015-16)											
10	Telangana State Industrial Development Corporation Limited	First Accounts not submitted (2015-16)											
11	Telangana State Industrial Infrastructure Corporation Limited	First Accounts not submitted (2015-16)											
12	Telangana State Housing Corporation Limited	First Accounts not submitted (2015-16)											

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
1	2	3	4	5	6	7	8	9	10	11	12	13	14
13	Telangana Urban Finance Industrial Infrastructure Corporation Limited	First Accounts not submitted (2015-16)											
14	Telangana Aviation Corporation Limited	First Accounts not submitted (2015-16)											
	Sub total												
	MANUFACTURING												
15	Telangana State Beverages Corporation Limited	First Accounts not submitted (2015-16)											
16	Telangana State Leather Industries Promotion Corporation Limited	First Accounts not submitted (2015-16)											
17	Telangana State Mineral Development Corporation Limited	First Accounts not submitted (2015-16)											
	Sub total												
	POWER												
18	Transmission Corporation of Telangana Limited.	First Accounts not submitted (2015-16)											

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
1	2	3	4	5	6	7	8	9	10	11	12	13	14
19	Telangana Power Generation Corporation Limited.	First Accounts not submitted (2015-16)											
20	Telangana New & Renewable Energy Development Corporation Limited	First Accounts not submitted (2015-16)											
	Sub total												
	SERVICES												
21	Telangana State Civil Supplies Corporation Limited	First Accounts not submitted (2015-16)											
22	Telangana State Trade Promotion Corporation Limited	First Accounts not submitted (2015-16)											
23	Telangana State Technology Services Limited	First Accounts not submitted (2015-16)											
24	Telangana State Tourism Development Corporation Limited	First Accounts not submitted (2015-16)											
25	Telangana Overseas Manpower Company Limited.	First Accounts not submitted (2015-16)											

Sl. No.	Sector / name of the Company	Period of accounts	Year in which accounts finalised	Paid-up capital	Loans outstanding at the end of year	Accumulated profit(+)/loss (-)	Turnover	Net profit (+)/ loss (-)	Net impact of Audit comments	Capital employed	Return on capital employed	Percentage of return on capital employed	Manpower
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	STAUTORY CORPORATIONS												
	AGRICULTURE AND ALLIED												
26	Telangana State Warehousing Corporation	First Accounts not submitted (2015-16)											
	FINANCE												
27	Telangana State Financial Corporation	First Accounts not submitted (2015-16)											
	SERVICE												
28	Telangana State Road Transport Corporation	First Accounts not submitted (2015-16)											
	Sub Total												
	Grand Total			**0.05**	**3.67**	**0.00**	**0.099**	**0.00**	**0.00**	**3.71**	**0.00**		

Annexure-2.1
Statement showing the status of failed DTRs
(Referred to in paragraph 2.6.3.2)

Sl. No.	Circle	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	**Existing DTRs at the end of the Year (in Numbers)**						
	Warangal	41767	43896	48350	55078	59258	248349
	Karimnagar	48643	51829	55439	57940	60747	274598
	Khammam	24700	25483	27990	30702	33256	142131
	Nizamabad	41264	42603	50721	54175	58114	246877
	Adilabad	22506	24133	25658	28552	31451	132300
	Total	178880	187944	208158	226447	242826	1044255
2	**DTR failures (in Numbers)**						
	Warangal	5773	6968	6910	6236	7720	33607
	Karimnagar	3757	5028	6414	6755	5255	27209
	Khammam	2741	3868	3982	3654	4014	18259
	Nizamabad	4047	5096	6177	5276	4407	25003
	Adilabad	3069	3398	4294	4210	4610	19581
	Total	19387	24358	27777	26131	26006	123659
3	**Percentage of failures to DTRs Existing**						
	Warangal	13.82	15.87	14.29	11.32	13.03	13.53
	Karimnagar	7.72	9.70	11.57	11.66	8.65	9.91
	Khammam	11.10	15.18	14.23	11.90	12.07	12.85
	Nizamabad	9.81	11.96	12.18	9.74	7.58	10.13
	Adilabad	13.64	14.08	16.74	14.75	14.66	14.80
	Total	10.84	12.96	13.34	11.54	10.71	11.84
4	**Excess failure percentage over norms**						
	Norms fixed	12	12	12	12	12	12
	Warangal	1.82	3.87	2.29	0	1.03	1.802
	Karimnagar	0	0	0	0	0	0
	Khammam	0	3.18	2.23	0	0.07	1.096
	Nizamabad	0	0	0.18	0	0	0.036
	Adilabad	1.64	2.08	4.74	2.75	2.66	2.774
5	**Expenditure on repair of failed DTRs (₹ in crore)**						
	Warangal	5.14	4.78	12.4	12.79	13.3	48.41
	Karimnagar	0	0	0.14	0.14	0.15	0.43
	Khammam	2.09	2.92	3.06	2.89	3.34	14.3
	Nizamabad	1.25	6.61	10.16	11.89	8.76	38.67
	Adilabad	0.35	0.81	0.94	1.06	0.06	3.22
	Total	8.83	15.12	26.7	28.77	25.61	105.03
6	**Expenditure on repair of failed DTRs over norms (₹ in crore)**						
	Warangal	0.68	1.17	1.99	0.00	1.05	4.88
	Karimnagar	0.00	0.00	0.00	0.00	0.00	0.00
	Khammam	0.00	0.61	0.48	0.00	0.02	1.11

	Nizamabad	0.00	0.00	0.15	0.00	0.00	0.15
	Adilabad	0.04	0.12	0.27	0.20	0.01	0.64
	Total	**0.72**	**1.90**	**2.88**	**0.20**	**1.08**	**6.78**

Source: Company records

Annexure-2.2

Statement showing capital work orders issued, closed during the year and pending closure for the period 2012-13 to 2015-16

(Referred to in paragraph 2.6.3.4)

Particulars	2012-13		2013-14		2014-15		2015-16	
	Nos.	₹ in lakh	Nos.	₹ in lakh	Nos.	₹ in lakh	Nos.	₹ in lakh
Opening balance	10859	23176	13008	31945	11363	30645	13730	27938
Released during the year	12904	37017	13585	34068	16989	36442	19990	67781
Closed to end of the year	10755	28248	15230	35367	14622	39149	15402	37717
Closing balance	**13008**	**31945**	**11363**	**30645**	**13730**	**27938**	**18318**	**58002**
Age-wise position of Work Orders pending closure								
<6 months	7721	10681	7509	13552	8414	12314	11346	26401
>6 and < 12 months	2402	6990	1060	2874	2695	4444	3107	12913
1 Year and above	2381	10450	2042	10630	2175	6215	3097	14097
2 Years and above	504	3824	752	3590	446	4965	768	4591
Total	**13008**	**31945**	**11363**	**30645**	**13730**	**27938**	**18318**	**58002**

Source: MIS reports of the Company

Annexure-2.3
Year-wise details of categories for which tariffs were higher than the maximum allowed as per norms and additional burden on those categories

(Referred to in paragraph 2.6.4.3)

Year	ACS (paise per unit)	120% of ACS	Average Revenue realised (paise per unit)	Beyond the ACS Norms (paise per unit)	Units sold (in MU)	Additional burden on this category of consumers (₹ in crore)
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (5) X (6)
Commercial						
2011-12	382	458	590	132	440.50	58.15
2012-13	471	565	701	136	433.94	59.02
2013-14	551	661	882	221	473.62	104.20
2014-15	551	661	871	210	502.62	105.55
					Sub-Total	**326.92**
Industrial						
2011-12	382	458	365	00	314.02	00
2012-13	471	565	711	146	278.85	40.71
2013-14	551	661	837	176	266.38	46.88
2014-15	551	661	796	135	268.40	36.23
					Sub-Total	**129.82**
Industrial segregated – Category – I (HT)						
2011-12	382	458	453	00	1127.84	00
2012-13	471	565	687	122	1108.04	135.18
2013-14	551	661	692	31	1183.10	36.68
2014-15	551	661	717	56	1235.44	69.18
					Sub-Total	**241.04**
Industrial Non-segregated – Category – II (HT)						
2011-12	382	458	656	198	84.67	16.76
2012-13	471	565	893	328	110.41	36.21
2013-14	551	661	1158	497	81.41	40.46
2014-15	551	661	993	332	98.87	32.82
					Sub-Total	**126.25**
Railway Traction Category – V (HT)						
2011-12	382	458	538	80	415.94	33.28
2012-13	471	565	679	114	426.42	48.61
2013-14	551	661	631	00	441.55	00
2014-15	551	661	645	00	441.95	00
					Sub-Total	**81.89**
Aviation Activities at Airports- Category – III (HT)						
2011-12	382	458	00	00	00	00
2012-13	471	565	00	00	00	00
2013-14	551	661	996	335	6.27	2.10
2014-15	551	661	839	178	7.59	1.35
					Sub-Total	**3.45**
Total						**909.37**

Source: Tariff Orders

Annexure - 3.1

Statement showing total investment of TSIIC Limited as on 31 March 2016

(Referred to in paragraph 3.1.2)

Sl. No.	Name of the entity in which investment is made by TSIIC	Amount invested (₹)			Year of investment	No. of years completed by 2015-16 after investment	Dividends received up to 2015-16 (₹)	% of Return on investment by way of dividend up to 2015-16	Status
1	2	3	4	5	6	7	8	9	10
		Cost of Land	**Cash**	**Total**					
JVs									
1	L&T Infocity Limited	1,98,00,000	0	1,98,00,000	1997	19	42,79,77,000	113.76	Working
2	K. Raheja IT Park (Hyderabad) Private Limited	54,68,00,000	2,35,05,410	57,03,05,410	2004	12	2,95,57,000	0.43	Working
SPVs									
1	Pattancheru Enviro-Tech Limited	25,00,000	0	25,00,000	1994	21	0	-	Working
2	Nano-Tech Silicon India Private Limited	0	47,08,000	47,08,000	2005	10	0		Defunct
3	Emmar Hills Township Private Limited	25,03,22,020	0	25,03,22,020	2006	9	0	-	Working
4	Boulder Hills Leisure Private Limited	19,74,96,980	0	19,74,96,980	2006	9	0	-	Working
5	Cyberabad Convention Centre Private Limited	38,48,00,000	0	38,48,00,000	2006	9	0	-	Working
6	FAB City SPV (India) Private Limited	17,55,54,000	89,000	17,56,43,000	2007	8			Working
7	Hyderabad Information Technology Venture Enterprises Limited	0	1,94,99,900	1,94,99,900	2007	8	0	-	Defunct
8	CBD Tower Private Limited -- Equity	20,94,92,240	0	20,94,92,240	2008	7	0	-	Incomplete
	Debentures (interest @12%)	1,59,05,07,760	0	1,59,05,07,760	2008	7	0	-	
	Balance land cost of CBD Towers	2,30,00,27,000	0	2,30,00,27,000	2008	7	0	-	
9	University of Hyderabad Knowledge & Innovation Park	0	11,000	11,000	2008	7	0	-	Defunct
10	Hyderabad Pharma Infrastructure & Technologies Limited	0	5,000	5,000	2008	7	0	-	Working
11	eCity Manufacturing Clusters Limited	0	1,00,000	1,00,000	2014		0	-	Incomplete
12	Maheshwaram Science Park Limited	0	1,00,000	1,00,000	2014	1	0		Incomplete
	Total	**5,67,73,00,000**	**4,80,18,310**	**5,72,53,18,310**					

Source: Company records

Annexure -3.2

Statement showing Investment of TSIIC Limited as on 31 March 2016 covered in audit

(Referred to in paragraph 3.1.3)

Sl. No.	Name of the entity in which investment is made by TSIIC	Amount invested (₹)			Year of investment	No of years completed by 2014-15 after investment	Dividends received up to 2014-15 (₹)	% of Return on investment by way of dividend up to 2014-15	Status
1	2	3	4	5	6	7	8	9	10
		Cost of Land	**Cash**	**Total**					
JVs									
1	L&T Infocity Limited	1,98,00,000	0	1,98,00,000	1997	18	39,59,01,000	111.08	Working
2	K. Raheja IT Park (Hyderabad) Private Limited	54,68,00,000	2,35,05,410	57,03,05,410	2004	11	273,57,000	0.44	Working
	Sub-Total	**56,66,00,000**	**2,35,05,410**	**59,01,05,410**					
SPVs									
1	Patancheru Enviro Tech Limited	25,00,000	0	25,00,000	1994	21	0	-	Working
2	Nano-Tech Silicon India Private Limited	0	47,08,000	47,08,000	2005	10	0		Defunct
3	FAB City SPV (India) Private Limited	17,55,54,000	89,000	17,56,43,000	2007	8			Working
4	Hyderabad Information Technology Venture Enterprises Limited	0	1,94,99,900	1,94,99,900	2007	8	0	-	Defunct
5	University of Hyderabad Knowledge & Innovation Park	0	11,000	11,000	2008	7	0	-	Defunct
6	Hyderabad Pharma Infrastructure & Technologies Limited	0	5,000	5,000	2008	7	0	-	Working
7	eCity Manufacturing Clusters Limited	0	1,00,000	1,00,000	2014		0	-	Incomplete
8	Maheshwaram Science Park Limited	0	1,00,000	1,00,000	2014	1	0	-	Incomplete
	Sub-Total	**17,80,54,000**	**2,45,12,900**	**20,25,66,900**					
	GRAND TOTAL	**74,46,54,000**	**4,80,18,310**	**79,26,72,310**					

Source: Company records

Annexure - 3.3(a)

Irregular extension of power Concession to Commercial units established in IT infrastructure companies

(Referred to in paragraph 3.3.2.1)

(₹ in crore)

Sl. No.	Service No.	Name of consumer	Nature of Commercial establishment	Date of conversion	Period during which concessional tariff extended	Loss of Revenue due to billing under HT-I
1	HDN-1353	Intime Properties Private Limited	Kidde India Ltd. (UTC Fire & safety), a manufacturer of fire protection systems and a food court (Melting Point), Amazon, State Bank of Hyderabad, Cross word	29-09-2012	29-10-2012 to 31-03-2016	3.35
2	HDN-842	L&T Info city Ascendas Limited	Banks (Karur Vysya Bank, HDFC Bank, Axis Bank, City Bank), Health club, hotels, restaurants, recreation club	21-07-2004	21-07-2004 to 31-03-2016	3.36
3	HDN-1765	Salarpuria Properties Private Limited	Building containing three floors for parking, badminton and cricket courts, basket ball, table tennis, billiards, gym with showers, cafeteria with LCD TVs, Bank ATMs	07-03-2014	07-03-2014 to 31-03-2016	0.4
4	HDN-693	Vanenburg IT Park Private Limited	Multi brand food courts (Dominos, Roti &More, Dietcetera Yummy and wangs), Retail store (Euro Fashions, Grocers), Continental Hospitals, Health 'n' Glow, gymnasium	24-01-2001	04-04-2002 to 31-03-2016	11.56
5	HDN-717	L&T Info city Limited, Cyber Gateway-2A	Foods, Bakers, Banks, coffee bar, Juice centre, educational centres, Banks and ATMs (Vysya, ICICI Bank, Andhra Bank and OBC)	09-10-2001	04-04-2002 to 31-03-2016	6.47
6	HDN-763	L&T Info city Limited, Cyber Gateway-2B	Banks, coffee bar, Mobile Stores (Airtel, Vodafone)	11-10-2002	11-10-2002 to 31-03-2016	4.89

Sl. No.	Service No.	Name of consumer	Nature of Commercial establishment	Date of conversion	Period during which concessional tariff extended	Loss of Revenue due to billing under HT-I
7	HDN-1016	K. Raheja IT Park (Hyderabad) Private Limited	Premier Kinder Care service, Sowedane Developer, cafeteria (Red chilli), Value added Knowledge Service, Vaishnavi Corporation Private Limited, CBRE South Asia Private Limited (consultants)	14-12-2007	14-12-2007 to 31-03-2016	3.36
8	HDN-974	K. Raheja IT Park (Hyderabad) Private Limited	ICICI Bank, Coffee Day, Broad Mind Properties Private Limited	03-07-2006	03-07-2006 to 31-03-2016	4.82
					Total	**38.21**

Source: Company records / website and respective IT company website

Annexure - 3.3(b)

Extension of power concession to IT/ITES firms without assessing the load of other than IT/ITES activities in the premises

(Referred to in paragraph 3.3.2.1)

(₹ in crore)

Sl. No.	Service No.	Name of consumer	Nature of commercial establishment	Date of conversion	Period during which concessional tariff extended	Loss of Revenue due to billing under HT-I
1	HDN-965	Dell International Services India Private Limited	Restaurant, Barista Lavazza Espresso	07-02-2007	07-02-2007 to 31-03-2016	3.17
2	HDN-922	iLabs Hyderabad Technology Centre Private Limited	Restaurant, Regus Centre, Ernst & Young Service Private Limited, ATMs, Mobile Stores, Property Management Consultant	13-04-2008	13-04-2008 to 31-03-2016	3.68
3	HDN-958	VNS Macro Technologies Private Limited	Marco Foundation organization	01-10-2008	01-10-2008 to 31-03-2016	0.12
4	RRN-1817	TSI Business Parks (HYD) Private Limited	Multi-cuisine food courts (Color restaurant, Dominos, Udipis etc), Gym, Continental Hospital, ATMs & Mobile Stores	18-08-2010	18-08-2010 to 31-03-2016	3.35
5	RRN-1613	Mack Soft Tech Private Limited	Restaurant, Multi-cuisine food court and café, ATMs	07-03-2014	07-03-2014 to 31-03-2016	0.97
6	HDN-860	NCR Corporation India Private Limited	Citibank, Radio Mirchi and Restaurant	03-07-2006	03-07-2006 to 31-03-2016	0.85
					Total	**12.14**

Source: Company records / website and respective IT company website

Annexure - 3.4

Conversion of category to non- IT/ non-ITES Companies

(Referred to in paragraph 3.3.2.2)

(₹ in crore)

Sl. No.	Service No.	Name of the consumer	Date of conversion	Nature of Commercial activities	Period during which concessional tariff extended	Loss of Revenue due to billing under HT-I
1	HDN-990	Satyam Computer Services Limited	01-04-2008	Registered office	01-04-2008 to 31-03-2016	6.15
2	RRN-1119	Capital IQ Information Systems (India) Private Limited	18-08-2010	Finance investment, Advisory Services, Capital IQ Company etc.	18-08-2010 to 31-03-2016	4.81
					Total	**10.96**

Source: Company records / website and respective IT company websites

Annexure - 3.5
Conversion of category of services without obtaining relevant documents
(Referred to in paragraph 3.3.2.3)

(₹ in crore)

Sl. No.	Service No.	Name of the Consumer	CMD	Date of release	Date of conversion	Date of inspection	Loss of revenue
1	HDN 693	Vanenburg IT Park Private Limited	9000	24-04-1998	24-01-2001	07-12-2011	10.33
2	HDN 923	Paliwal Infrastructure Private Limited	1515	16-07-2005	23-09-2006	05-12-2011	1.37
3	HDN 978	L&T Infocity Limited	1800	28-02-2006	03-07-2006	06-12-2011	2.26
4	HDN 974	K. Raheja IT Park Limited, Building No.10, Madhapur	3250	04-02-2006	03-07-2006	06-12-2011	5.67
5	HDN 1069	K. Raheja IT Park Limited, Building 2A, Madhapur	2650	17-03-2007	14-12-2007	06-12-2011	4.57
6	HDN 842	L&T Infocity Ascendas Limited	3500	31-03-2004	21-07-2004	07-12-2011	3.37
7	RRN1992	Wipro Limited, SEZ	4000	27-10-2010	09-05-2011	05-12-2011	2.60
						Total	**30.17**

Source: Company records / website

Annexure - 3.6
Conversion of category of second and subsequent units established within 100 KMs
(Referred to in paragraph 3.3.2.4)

(₹ in crore)

Sl. No.	Service No.	Name of the firm	Address	Date of release	Date of conversion	Loss of revenue (₹)
1	HDN807 (1st Unit)	Tata Consultancy Services Limited	Plot No.1, Sy. No.64/2, Madhapur, Hyderabad	17-10-2003	eligible	
2	RRN1366	Tata Consultancy Services Limited	Premises No. 2-56/1/36,SY.NO. 26, Gachibowli, Serilingampally (M), R.R. District	18-05-2007	18-11-2008	7.23
3	HDN874 (1st Unit)	Paliwal Infrastructure (Private) Limited	Block "A" Plot No. 14 & 15, Hi-tech City layout Sy. No. 64 (P), Madhapur, Hyderabad	24-10-2004	eligible	
4	HDN893 (2nd Unit)	Paliwal Infrastructure (Private) Limited	Block "B" Plot No. 14 & 15, Hi-tech City layout Sy No. 64 (P), Madhapur, Hyderabad	15-02-2005	23-09-2006	3.35
5	HDN923 (3rd Unit)	Paliwal Infrastructure (Private) Limited	Block "C" Plot No. 14 & 15, Hi-tech City layout Sy. No. 64 (P), Madhapur, Hyderabad	16-07-2005	23-09-2006	3.12
6	HDN906	M/s. K. Raheja IT Park (Private) Limited.	Bldg No.1B, Sy No.64, (Part) Hi-Tech City, Mindspace, Madhapur, Hyderabad.	12-04-2005	eligible	
7	HDN988	M/s. K. Raheja IT Park (Private) Limited.	Bldg No.1(A),Sy.No.64(P), Near VSNL Layout, Madhapur, Hyderabad	18-04-2006	14-12-2007	4.37
					Total	**18.07**

Source: Company records/ website

Annexure - 3.7

Extension of power concession to HT consumer (due to sale) without fresh CCITI Certificate

(Referred to in paragraph 3.3.2.5)

(₹ in crore)

Sl. No.	Service No.	Old consumer	New consumer	Date of conversion	Period of loss	Loss of Revenue
1	RRN 1493	L&T Phoenix Info Park Private Limited	Maybrie Traders Private Limited	04-07-2008	04-10-2010 to 31-03-2016	3.2
2	RRN 1492	L&T Phoenix Info Park Private Limited	Phoenix Infocity Limited	04-07-2008	07-10-2010 to 31-03-2016	2.35
					Total	**5.55**

Source: Company records/ website

Annexure - 3.8

Conversion of category of IT/ITES units before expiry of one year

(Referred to in paragraph 3.3.2.6)

(₹ in crore)

Sl. No.	Service No.	Name of the Consumer	Date of release of service	CMD	Date of conversion	No. of months before prescribed date for conversion	Loss of Revenue
1	HDN 1069	K. Raheja IT Park	17-03-2007	2000	14-12-2007	3 Months	0.19
2	HDN 923	RMZ Corp Holdings Private Limited	16-07-2005	1515	27-02-2006	5 Months	0.12
3	HDN 974	K. Raheja IT Park Limited	14-02-2006	3250	03-07-2006	7 Months	0.51
4	HDN 842	L&T Info City Ascendas Limited	31-03-2004	3500	21-07-2004	8 Months	0.25
5	RRN1492	L&T Phoenix Info Park	05-02-2008	2500	04-07-2008	7 Months	0.17
6	RRN1119	Capital IQ Information Systems (India) Private Limited	10-02-2010	2500	18-08-2010	6 Months	0.29
7	RRN11178	Polaris Software Lab Limited	19-08-2005	1000	17-11-2005	9 Months	0.17
8	RRN1493	L&T Phoenix Info Park	08-02-2008	2000	04-07-2008	7 Months	0.21
9	RRN1365	CA (India) Technology Private Limited	09-05-2007	2600	13-04-2008	1 Month	0.07
						Total	**1.98**

Source: Company records/ website

Annexure - 3.9

Statement showing the short realisation of license fee from the contractor owing to non-conducting of census of buses

(Referred to in paragraph 3.8)

Month/ Year	No. of buses as per census worked out by the Corporation and communicated to the agent	No. of buses actually reckoned by the agent	Shortfall	License fee payable per bus per month (₹)	Short fall amount (₹)
1	**2**	**3**	**4=2-3**	**5**	**6=4X5**
June 2012	1145	1145	0	1250	0
July 2012	1145	1145	0	1250	0
August 2012	1145	1145	0	1250	0
September 2012	1145	1145	0	1250	0
October 2012	1027	1145	-118	1250	-147500
November 2012	1028	1050	-22	1250	-27500
December 2012	1028	1050	-22	1250	-27500
January 2013	1031	1050	-19	1250	-23750
February 2013	1019	1050	-31	1250	-38750
March 2013	1019	1050	-31	1250	-38750
April 2013	1022	1050	-28	1250	-35000
May 2013	1150	1050	100	1250	125000
June 2013	1175	1050	125	1250	156250
July 2013	1201	1050	151	1250	188750
August 2013	1196	1050	146	1250	182500
September 2013	1191	1050	141	1250	176250
October 2013	1178	1050	128	1250	160000
November 2013	1196	1050	146	1250	182500
December 2013	1188	1050	138	1250	172500
January 2014	1190	1050	140	1250	175000
February 2014	1193	1050	143	1250	178750
March 2014	1191	1050	141	1250	176250
April 2014	1175	1050	125	1250	156250

Month/ Year	No. of buses as per census worked out by the Corporation and communicated to the agent	No. of buses actually reckoned by the agent	Shortfall	License fee payable per bus per month (₹)	Short fall amount (₹)
1	**2**	**3**	**4=2-3**	**5**	**6=4X5**
May 2014	1173	1050	123	1250	153750
June 2014	1167	1050	117	1250	146250
July 2014	1165	1050	115	1612	185380
August 2014	1161	1050	111	1612	178932
September 2014	1153	1050	103	1612	166036
October 2014	1141	1050	91	1612	146692
November 2014	1140	1050	90	1612	145080
December 2014	1138	1050	88	1612	141856
January 2015	1133	1050	83	1612	133796
February 2015	1140	1050	90	1612	145080
March 2015	1150	1050	100	1612	161200
April 2015	1160	1050	110	1612	177320
May 2015	1157	1050	107	1612	172484
June 2015	1153	1050	103	2015	207545
July 2015	1121	1050	71	2015	143065
August 2015	1121	1050	71	2015	143065
September 2015	1121	1050	71	2015	143065
October 2015	1121	1050	71	2015	143065
November-2015	1121	1050	71	2015	143065
December 2015	1121	1050	71	2015	143065
January 2016	1121	1050	71	2015	143065
February 2016	1121	1050	71	2015	143065
March 2016	1121	1050	71	2015	143065
				Total	**5240236**

Source: Census report of the Corporation

GLOSSARY

Glossary

ACS	Average Cost of Supply
APCPDCL	Andhra Pradesh Central Power Distribution Company Limited
APIDC	Andhra Pradesh Industrial Development Corporation Limited
APIIC	Andhra Pradesh Industrial Infrastructure Corporation Limited
ARR	Aggregate Revenue Requirement
BIS	Bureau of Indian Standards
BOD	Board of Directors
BOO	Build Own and Operate
BOP	Balance of Plant
CCITI	Consultative Committee on Information Technology Industry
CEA	Central Electricity Authority
CETP	Common Effluent Treatment Plan
CKM	Circuit Kilo Metre
CLMC	Central Level Monitoring Committee
CVC	Central Vigilance Commission
DDG	Decentralized Distributed Generation
DPE	Detection of Pilferage of Energy
DSM	Demand Side Management
DTR	Distribution Transformer
EBS	Energy Billing System
EOT	Extension of Time, Electronically Operating Travelling
ERC	Electricity Regulatory Commission
ERP	Enterprise Resource Planning
FRP	Financial Restructuring Plan
GoAP	Government of Andhra Pradesh
GoI	Government of India
GoTS	Government of Telangana State
GTCS	General Terms and Conditions of Supply
HITVEL	Hyderabad Information Technology Venture Enterprises Limited
HT	High Tension
HVDS	High Voltage Distribution System
ICT	Information & Communications Technology
ILFS	Infrastructure Leasing and Financial Services
IT	Information Technology
IT&CD	Information Technology & Communication Department
ITE&C	Information Technology Electronics and Communication Department
ITES	Information Technology Enabled Services
JVs	Joint Ventures
KTPP	Kakatiya Thermal Power Plant

KV	Kilo Volt
KVA	Kilo Volt Ampere
LT	Low Tension
LVDS	Low Voltage Distribution System
MBC	Metering, Billing and Collection
MCA	Ministry of Company Affairs
MLD	Million Litres Per day
MNCs	Multi National Companies
MoA	Memorandum of Agreement
MoP	Ministry of Power
MoU	Memorandum of Understanding
MU	Million Units
MVA	Mega Volt Ampere
MW	Mega Watt
MYT	Multi Year Tariff
NEF	National Electricity Fund Scheme
NTP	National Tariff Policy
NTSI	Nano Tech Silicon India
PETL	Patancheru Enviro Tech Limited
PFC	Price Fixation Committee
PPP	Public Private Partnership
PTR	Power Transformers
R-APDRP	Restructured Accelerated Power Development & Reforms Programme
REC	Rural Electrification Corporation
RGGVY	Rajeev Gandhi GrameenVidyutikaran Yojna
SAP	System Applications Products
SBH	State Bank of Hyderabad
SE	Superintending Engineer
SERC	State Electricity Regulatory Commission
SEZ	Special Economic Zone
SIDBI	Small Industries Development Bank of India
SPVs	Special Purpose Vehicles
STL	Short Term Liability
STU	State Transmission Utility
TFM	Transitional Finance Mechanism
TSNPDCL	Northern Power Distribution Company of Telangana Limited
TSSPDCL	Southern Power Distribution Company of Telangana Limited
UDAY	Ujwal Discom Assurance Yojana
VC&MD	Vice Chairman & Managing Director

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