Chapter III

3 Power Sector- Transaction Audit Observations

Significant audit findings emerging from test check of transactions of State Government Companies of the power sector are included in this Chapter.

Uttar Haryana Bijli Vitran Nigam Limited

3.1 Procurement of Material and Inventory Management

The Company incurred extra expenditure of ₹ 5.34 crore on purchase of transformer oil by resorting to limited tender enquiry instead of open tenders. The Company could not utilise the inventory of ₹ 198.54 crore due to delay in receiving quality test reports from NABL[1] empanelled laboratories. As on 31 March 2018, shortages of ₹ 1.73 crore were pending investigation.

3.1.1 Introduction

Uttar Haryana Bijli Vitran Nigam Limited (Company) owns and maintains distribution system up to 33 kilovolt (kV) level for supply of electricity in northern parts of Haryana. For maintaining the distribution network, the Company procures and maintains various types of inventories. The Material Management (MM) Wing of the Company carries out the procurement of material and inventory management function.

An audit of the MM Wing of the Company was conducted to assess whether procurement was made in an economical, efficient and effective manner after realistic assessment of requirements and whether there exists a scientific and effective inventory management system in the Company.

The MM Wing of the Company placed 694 Purchase Orders (POs) valuing ₹ 1,228.79 crore during 2013-18. Major items of purchases of the Company were distribution transformers (₹ 523.22 crore), cables & conductors (₹ 312.78 crore), energy meters (₹ 135.01 crore) and precast cement poles (₹ 61.01 crore) which constituted 84 *per cent* of the total purchases. Audit selected 114 POs valuing ₹ 614.85 crore (16.43 *per cent* of POs and 50.04 *per cent* of value) on random[2] basis, all the three[3] central stores and 10 divisional stores of the Company for detailed examination.

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[1] National Accreditation Board for Testing and Calibration Laboratories.
[2] Selected on the basis of stratified sampling method.
[3] Dhulkote, Panipat and Rohtak.

3.1.2 Audit findings

A Procurement of material

i) Purchase of fresh transformer oil

Prior to December 2012, the Company was purchasing transformer oil through open tenders. To cut short the procurement time and to meet the requirements, the State Government approved (December 2012) the proposal of the Company to procure transformer oil by floating limited tenders from Public Sector Undertakings[4] (PSUs). The Company purchased 4,354 kilolitre (kl) transformer oil valuing ₹ 36.46 crore through six limited tenders during 2013-18.

We observed that the Company took 15 days in finalisation of one tender whereas in the remaining five tenders, it took between 35 and 85 days against advised timeline of 30 days for purchase through single part tenders. Thus, the aim of the Company to go in for limited tender for saving time was not achieved. Time was never an essence in procuring transformer oil as it is a readily available item and did not require manufacturing after placing order. The Company took 54 days in the open tender finalised (April 2012) just before switching to limited tender.

It was also seen that the Company did not explore the prevailing market price and also did not compare rates paid by other neighbouring States Power Utilities at any stage. The rates at which Power Utilities of neighbouring States procured transformer oil were lower[5] by ₹ 1,947 per kl to as much as ₹ 25,678 per kl (3 to 61 *per cent*) during 2013-18. Resultantly, the Company had incurred extra expenditure of ₹ 5.34 crore on purchase of 4,354 kl transformer oil through PSUs instead of through open competitive tenders.

On being pointed out by Audit, the High Power Purchase Committee of the Government decided (August 2018) to dispense with the procedure of procurement of transformer oil from PSUs through calling limited tender.

ii) Procurement of material in excess of requirements

The Procurement Manual of the Company provides that the indenting officers would ensure that over-indenting, which results in undue blockade of funds and heavy carrying cost of inventory, is scrupulously avoided. Whole Time Directors finalise the annual requirement of various items to be procured during the financial year keeping in view the physical targets set, budget provisions and physical balance available in the stores.

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4 Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited.

5 Rates of transformer oil paid by the Company for quantity of 4,354 kl have been compared with the rates of transformer oil in POs placed by power utilities of Punjab, Rajasthan, Himachal Pradesh and Northern Coalfields Limited updated up to actual receipt of transformer oil by the Company.

A few cases of over indenting and purchase in excess of annual requirement were noticed:

- The Company purchased 164 kilometre (km) of High Tension Aerial Bunched (HT AB) Cable in March 2012. During the course of processing of tender, the Company requested the High Power Purchase Committee to increase the quantity requirement to 164 km from initial tendered quantity of 113 km citing urgent field requirements.

We observed that though enhanced quantity of cable was procured for use during 2012-13, yet its consumption during 2012-13 was only 18.88 km. Most of this cable was used in small quantities for replacement, repair and maintenance works and the annual consumption was in the range of 10.62 km to 34.09 km during 2013-14 to 2017-18[6]. The works/ purpose for which the cable was procured were met by awarding the works on turnkey basis and as such, 55.05 km cable valuing ₹ 3.52 crore was still lying (October 2018) in stores even after the lapse of more than six years from the date of receipt. These cables had a warranty period of 18 months from the date of supply which had lapsed without their even being put to use.

The excess procurement of cable resulted in blockade of funds of ₹ 3.52 crore with associated interest cost[7] of ₹ 2.58 crore.

The Government stated (October 2018) that efforts would be made to utilise this cable during the current financial year and no further procurement of this cable has been made.

- The Company procured 1,800 km of Aluminium Conductor Steel Reinforced (ACSR) in August 2014 and consumed only 409 km ACSR in one year. 1,491 km conductor was available in stores in August 2015. However, ignoring available stock level and the low consumption pattern, the Company placed repeat order (August 2016) for another 600 km ACSR valuing of ₹ 2.79 crore. 288 km of ACSR was still lying in the stores (April 2018). Thus, the Company placed repeat orders without assessing the actual requirement and blocked its funds.

The Management stated (February 2018) that ACSR was purchased on basis of demand intimated by field units and from 2017-18 onward, the procurement would be based on consumption pattern instead of demand intimated by field offices to control dead inventories.

- The Company purchased (June 2013) 481 km single core cable valuing ₹ 3.12 crore citing annual requirement though it had sufficient quantity of these cables (1,074 km in May 2013) in stores. This raised total available stock to 1,555 km. The Company consumed 519 km cable during 2013-14 to 2015-16 and another 554 km during 2016-18 *i.e.*, a total of 1,073 kms.

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[6] 34.09 km in 2013-14, 10.62 km in 2014-15, 15.60 km in 2015-16, 11.76 km in 2016-17 and 18.04 km in 2017-18.

[7] Worked out @ 12.25 *per cent* per annum – the Rural Electrification Corporation's rate of interest applicable between May 2011 and September 2012 on loans availed for material purchase by the Company, for the period April 2012 to March 2018.

The Company transferred (July 2016) 318 km cable valuing ₹ 1.66 crore to DHBVNL and had stock of 164 km of cable valuing ₹ 1.56 crore lying in the stores as on March 2018. As sufficient stock was lying in the stores while placing the PO in June 2013, the Company could have avoided this purchase altogether. This procurement of cable which was in excess of the requirements resulted in funds to the tune of ₹ 3.12 crore getting blocked. The Management stated (July 2017) that it would not procure this cable during 2017-18 and requirement would be met from available stock.

- The Company purchased 400 Pilot Advanced Transformers (PATs) for Agricultural Power feeders in October 2014 at ₹ 2.07 lakh per transformer. Despite slow consumption rate of these transformers and the fact that warranty period was only 12 months, the Company placed repeat order for 250 transformers in March 2015. The stock position as on 31 March 2017 was 109 transformers and the entire quantity of 650 transformers could be consumed only by March 2018. Thus, procurement of transformers without considering the pace of consumption and quantity held in store resulted in excessive purchase of transformers. Further, warranty period of half of the quantity of last PO expired in stores before their actual installation.

The Management stated (February 2018) that delay in consumption of these transformers was due to lack of technical know-how in respect of installation and operation. In view of the reply of the Management, repeat order in March 2015 was not justified. The Management could utilise PATs only after the lapse of warranty period. The Company should have ordered them only after proper training of concerned staff in respect of installation and operation.

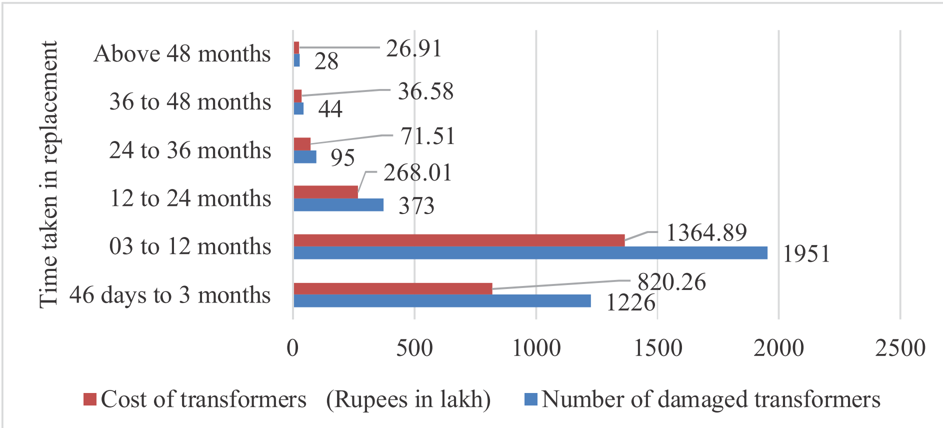
The Company needs to assess its requirements accurately for procurement of materials in future to avoid blockade of funds.

iii) Claims for replacement of DTs damaged within warranty period

The Company procures Distribution Transformers (DTs) with a warranty period of 78 months from date of receipt of material or 72 months from date of installation whichever is earlier. The terms of POs provided that the supplier would replace DTs damaged during warranty period within a reasonable time but not exceeding 45 days for which a prompt notice was to be given by the Company to the suppliers. In case of no response for replacement of defective material from the supplier, the Company could encash the bank guarantee of supplier towards recovery of damages. POs placed provided that the supplier shall pay interest at the rate of 12 *per cent* per annum of the value of material in case replacement is not carried out within 45 days. This interest clause was discontinued from August 2016 onwards.

The chart below indicates the time taken in replacement of 4,207 transformers (within warranty period) damaged during 2013-18 at Dhulkote central store:

Chart 3.1: Time taken in replacement of damaged transformers



Delay ranging from 46 days to 54 months in 590 cases was exclusively on the part of suppliers after lifting damaged DTs for which the Company did not charge interest of ₹ 0.22[8] crore recoverable from them. The delay in getting the replacement beyond 45 days was also attributable to time taken by field units in shifting these DTs to designated stores for further lifting by suppliers for replacement. The Company did not evolve any effective system for ensuring timely shifting of damaged transformers from the site to the designated stores and pursuance of the warranty claims with suppliers for getting replacements within stipulated time of 45 days. This resulted in inventory of ₹ 25.88 crore[9] remaining idle for periods ranging from 46 days to more than 48 months.

The Government stated (October 2018) that the delay occurred due to shortage of staff and transportation and assured taking effective steps in shifting the damaged transformers to designated stores. They also assured that steps would be taken to recover the penalty from the suppliers in cases where DTs were received after repair with delay. It is recommended that the Company may evolve an effective system for ensuring timely shifting of damaged transformers from site to the designated stores and pursue the warranty claims with suppliers for getting replacement within stipulated time.

iv) Inefficiencies in procurement process

The Government of Haryana (GoH) amended (October 2016) the policy for apportionment of ordered quantity to successful bidders and announced purchase preferences of up to 60 *per cent* of tendered quantity to be purchased from Micro, Small and Medium Enterprises (MSME) of the State along with other concessions in respect of earnest money deposit, performance security, requirement of turnover and past experience to promote these enterprises. GoH instructed (January 2015 and June 2016) the concerned indenting departments to assess reasonability of rates on the parameters of purchase rates for the last three years, rates in at least three adjoining States *etc*.

8 Calculated for all POs issued prior to August 2016.
9 Calculated at the average purchase rate of different capacities of transformers of five years.

Test check of 24 tenders[10] out of total 74 floated by the Company in 2016-18 revealed the following irregularities:

- In four tenders[11], no comparison was made with purchase rates of other States and in 12 tenders[12], rates of other States used for comparison were two to six years old.
- In two tenders[13], quantity apportioned to MSMEs was less than their entitlement as per the *ibid* policy for providing preference to them.

Thus, the Company failed to comply with GoH policy for providing preference to MSMEs without recorded justification.

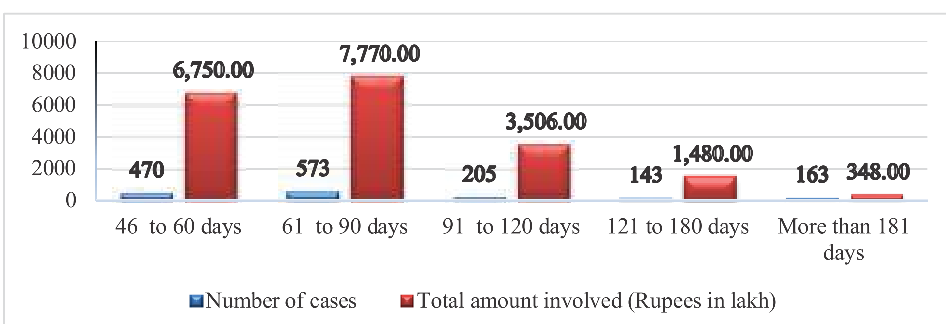
B Inventory Management

i) Non linking of release of payments with quality test

Materials received from suppliers are sent for quality check to 11 different NABL empanelled laboratories selected in May 2016 (8 Nos.) and October 2018 (3 Nos.). The Company takes into stock only such material which is passed in NABL laboratory tests and thereafter is ready for issue to field offices for utilisation. As per payment terms of POs, full payment is made to the suppliers on 30th/ 45thday from the date of receipt of the material without waiting for the receipt of test results conducted. The payments are made from loans arranged through Rural Electrification Corporation.

Thus, payments are not contingent upon material passing the quality test. As a result, payments were released on schedule although material was not available for consumption for months due to delay of test results from laboratories. In 1,554 out of test checked 5,243 cases, relating to period November 2015[14] to April 2018, significant time gap[15] between date of receipt of material and date of material taken on stock was observed.

Chart 3.2: Time taken in taking the material on stock



10 For procurement of transformers, cables, transformer oil, LT fuse unit and GI wires.
11 Tender Enquiry no. 1957, 1965, 2491 and 1933.
12 Tender Enquiry no. 1947, 1950, 1951, 1952, 1969, 1970, 1971, 1935,1937, 1945, 1946 and 1930.
13 Tender Enquiry no. 1952 and 1965.
14 Online data was available from November 2015.
15 After allowing 45 days' time for testing and payment of material.

The Company could not utilise inventory worth ₹ 198.54 crore from 46 days to more than 180 days though the payment for the same was released within 45 days of its receipt. The Company had to bear interest burden of ₹ 1.89 crore since payment was made with arranged funds for material received but not utilised immediately.

The Government stated (October 2018) that the laboratories usually take more than one month in testing the material. It was further stated that the Company has amended (March 2016) the clause of testing of material in the new POs which states that only one sample from one of the lots would be taken at random for testing instead of one sample from all the lots and the non-sampled lots could be used immediately without testing**.** The Company may consider empanelment of a larger number of reputed laboratories for testing its samples for expediting test results by empanelled laboratories. Amendment to clause of testing of material does not address this concern. On the contrary, it may impact the level of quality assurance of material procured since number of sample for testing has been reduced.

ii) Non adherence of inventory levels

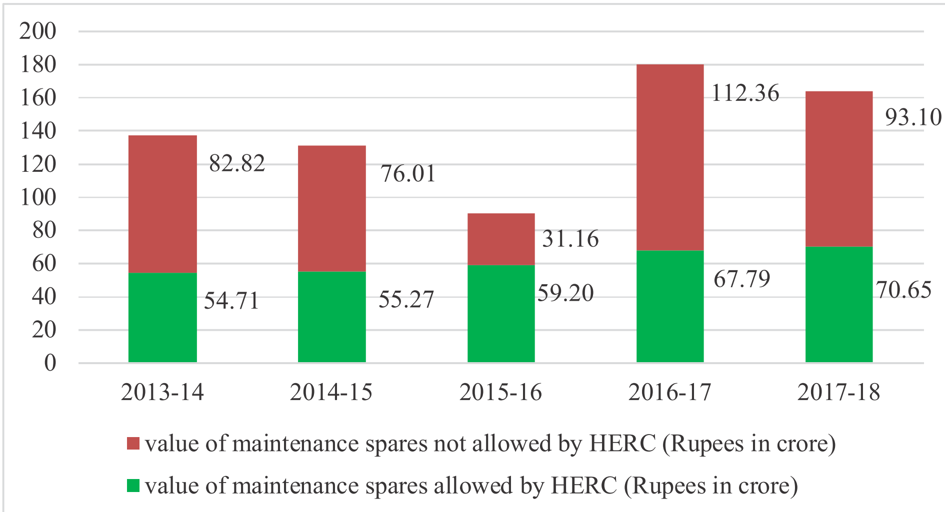
The Company had not fixed item-wise minimum, maximum and re-ordering levels up to 2016-17. The Company fixed (February 2017) the minimum and maximum levels of inventory equal to an average consumption of four and six months respectively for last three years for all items but no re-ordering level was fixed. It was however noticed that these levels were not being adhered to, *e.g.* the inventory level of DTs as on 31 March 2017 was 2,964 (value ₹ 34.60 crore). The Company accepted new supplies of DTs during 2017-18 and stock level reached 12,556 (₹ 107.79 crore) as on 31 March 2018 which was much in excess of maximum levels of 9,468. The quantity of transformers in stock in excess of maximum level was 22 to 200 *per cent* equivalent to ₹ 26.74 crore during 2017-18.

The Government stated (October 2018) that minimum and maximum levels of inventory were fixed for the first time and they would be reviewed in the coming financial year to set levels that are realistic.

iii) Financial impact of high inventory level

As per Tariff Regulations, Haryana Electricity Regulatory Commission (HERC) permits one *per cent* of opening gross fixed assets as maintenance spares for allowing interest on working capital to be recovered through tariff. The chart below indicates the value of maintenance spares forming part of inventory and that allowed by HERC during the last five years:

Chart 3.3: Value of maintenance spares allowed by HERC



Due to not keeping maintenance spares levels within HERC norms, the Company had to bear extra burden of ₹ 43.84 crore[16] on account of finance charges not allowed by HERC during 2013-14 to 2017-18. Further, despite the decision (November 2016) of the Board of Directors (BoDs) to reduce the inventory by ₹ 50 crore from the existing inventory of ₹ 135.01 crore as on 30 September 2016, the Company did not take remedial action and instead the inventory level increased to ₹ 237.60 crore as on 31 March 2018**.** DTs were the major items whose value increased from ₹ 82.89 crore as on 31 March 2017 to ₹ 145.05 crore as on 31 March 2018. As on 31 March 2018, store items (cables, high capacity transformers and conductors) valuing ₹ 19.96 crore (about 8 *per cent* of total inventory) were part of inventory which were purchased more than three years back and their consumption rate was very slow (few cases referred to in paragraph no. 3.1.2 A (ii)). The Company should consider taking steps to fix the inventory levels subject to operational requirement. It may explore the possibility of taking up the matter with HERC for raising the allowed level of maintenance spares with justification based on operational requirements.

iv) Non-disposal of scrap

The scrap generated at the stores/ workshops includes scrap of aluminum, brass, cable, conductor, copper, meter, iron *etc*. Scrap of ₹ 73.37 crore was disposed off during 2015-18 through e-auctions. BoDs of the Company directed (September 2015) that junk material or scrap should not lie in store for more than 30 days and disposal of scrap should be quick. Scrap of HT AB cable of 195.71 Metric Tonne (MT) had accumulated (April 2016) and was occupying a large area. The Company instead of selling the scrap, decided to use the same as insulated conductor and accordingly gave directions. Field offices informed

[16] Worked out at year-wise rate of interest on value of maintenance spares beyond norms permitted by HERC in its tariff and true-up orders. The value of maintenance spares beyond HERC permitted norms during the period 2013-18 was ₹ 395.45 crore.

(February to June 2017) the non-usability of scrap being heavy in size and of low insulation resistance value. Despite the proposal (February 2017) of the Disposal Wing of the Company to auction this cable as scrap after retaining 50 MT for reuse, no action was taken by the Company. The Company used only 28 MT of the scrap during April 2016 to March 2018 and 385 MT scrap valuing ₹ 3.54 crore (value assessed by the Company) was lying as on 31 March 2018 occupying store space. The Company should consider taking steps to dispose off the scrap in time bound manner to generate additional funds and clear the storage space.

C Physical verification and use of Information Technology

i) Accounting and physical verification of stores

Following irregularities were noticed in this regard:

- The instructions for verification of stores provides for annual independent verification of all items of stores by a stock verifier. Materials at site of works should be physically verified at least once a year. Against the two sanctioned posts of Stock Verifiers, only one was manned and that too on re-employment basis. The Stock Verifier covered approximately 12 *per cent* of items in physical verification of stores during the period from January 2016 to March 2018. Further, there was no system in place for physical verification of material lying at work sites.

- As on 31 March 2018, shortages of ₹ 1.73 crore were pending investigation and out of this, ₹ 82.15 lakh was pertaining to period prior to March 2015. Further, amount recoverable on account of established shortages of material increased from ₹ 10.43 lakh to ₹ 2.13 crore during 2013-18. However, it could not be recovered due to non-fixation of responsibility of erring officials for such shortage. A committee constituted by Superintending Engineer (SE) Stores, Dhulkote conducted (June/ July 2017) physical verification of stock at Central Store Panipat along with its three[17] Divisional Stores and reported shortage of ₹ 1.02 crore for which no action had been initiated (May 2018).

The Government stated (October 2018) that separate arrangement is being made by constituting a committee for physical verification of store items. Further, action for fixation of responsibility of delinquent officials for shortages as pointed out by committee constituted by SE, has been initiated.

- The Company has not ensured timely submission of Material At Site[18] (MAS) accounts by works incharge and finalisation thereof within the stipulated time of one month of completion of work by the Accounts Wing. We observed

[17] Kaithal, Karnal and Pehowa.

[18] MAS commonly known as material at site account is an account of a particular work, showing total material drawn from store and transferred from other works, material consumed and balance material. This account is an effective control tool for ensuring proper accounting of material for major works which may spread over more than one financial year.

that accounts of 348 works involving material worth ₹ 15.76 crore were yet to be submitted (March 2018) by 90 officials and their pendency was as under:

Table 3.1: Pendency of MAS accounts

Time period after completion of works	Number of MAS accounts pending as on 31 March 2018	Amount involved (₹ in crore)
More than one year	122	1.98
Six months to one year	77	3.37
Less than six months	149	10.41
Total	**348**	**15.76**

Non-submission of timely MAS has the risk of possible misappropriation of the material by the works incharge.

- 141 numbers of inter-store transactions valuing ₹ 1.98 crore were pending for adjustment as on 31 March 2018. Of these, transactions of ₹ 0.37 crore and ₹ 1.61 crore pertain to the years 2016-17 and 2017-18 respectively.

It is recommended that the Company may take steps to strengthen the system of physical verification of stores and ensure proper accounting of transactions of material.

ii) Inventory Management System

The Company introduced (September 2015) online Inventory Management System (IMS) developed in-house. IMS provides the platform for recording transactions from placement of PO to receipt of material and issue thereof to the field offices. It also generates various reports on receipt and issue of stock, inventory holdings, cost of inventory *etc*. We observed the following shortcomings in IMS:

- Age wise reports of inventories generated by the IMS were incorrect as these were not based on period from which they were lying at store. Rather these were based on the transaction (receipt/ issue) last entered. If entry of transaction is made in the system, the whole quantity of that item would be transferred to the most recent stock. As a consequence, monitoring of age of inventory was not possible through the system.

- Minimum and maximum levels of inventory as shown in the reports generated by the IMS differed from levels prefixed by the Management.

- There were differences in quantity of scrap list provided by store organisation and as shown by IMS since November 2016.The Disposal Wing of the Company noticed (November 2016) the difference and requested the Store Wing to correct the same. However, even after lapse of 16 months, there was a difference of ₹ 2.67 crore (March 2018). The Government stated that the difference in value of scrap was due to the fact that the auctioned material was reflected in IMS only when it was actually lifted. Thus, there is scope for improvement in the system. The Company may consider removing the shortcomings as pointed out for enabling effective monitoring of inventory through the system.

D Quality Assurance and Environment Protection

i) Quality Assurance Plan

The Company adopted (April 2014) Quality Assurance Plan (QAP) which required that the officers of the Company were to be nominated for pre delivery inspection of material up to ₹ 30 lakh and the third party inspection for the material valuing more than ₹ 30 lakh. We observed that third party inspection was done up to March 2015 and thereafter all inspections were being carried out by the officers of the Company for all the materials and no third party was empanelled.

The Procurement Regulations of the Company further required setting up a Quality Assurance Cell to carry out inspection of material. However, the Cell was disbanded within three months of formation. Government stated that this was done because the desired objective of quality control was not achieved.

The Government stated (October 2018) that appointment of third party for inspection could not mature due to less participation of bidders in 2016. The Company has not initiated bids after 2016.

ii) Environment protection

Different types of scrap, fresh as well as dirty transformer oil *etc.* which are not biodegradable and can be hazardous to environment are kept in stores. Transformer oil contains Polychlorinated Biphenyls, which is a synthetic chemical, categorised as health hazard and pollutes the environment. Condemned transformers are dismantled and washed before disposal through auctions as scrap. During this process, water mixed with dirty transformer oil was drained directly outside the store premises as evident from images below:


The Company has not installed Effluent Treatment Plant to protect the environment. Further, the Company has not conducted any impact assessment on environment of its activities of handling and disposal of stores and scrap.

The Government assured (October 2018) of essential remedial steps for environment protection.

Conclusion

The Company incurred extra expenditure of ₹ 5.34 crore on purchase of 4,354 kl transformer oil by resorting to limited tender enquiry instead of open tenders. Due to inept handling of warranty claims, usable inventory of ₹ 25.88 crore remained idle. The Company could not utilise the inventory of ₹ 198.54 crore for the period from 46 days to more than 180 days though the payment for the same was made within 45 days of its receipt due to delay in receipt of test reports of NABL empanelled laboratories. As on 31 March 2018, shortages of ₹ 1.73 crore were pending investigation and out of this, ₹ 82.15 lakh was pertaining to period prior to March 2015. The audit findings are based on test check of records. The Company may undertake similar checks in its other centres.

Haryana Power Purchase Centre

3.2 Avoidable burden of interest

HPPC failed to include any penal provision in MoU with IREDA for charging interest in case of delayed payment towards GBI claims leading to avoidable burden of interest of ₹ 2.72 crore on power distribution utilities.

The Government of India (GoI), Ministry of New and Renewable Energy (MNRE), issued (June 2010) guidelines for providing impetus to rooftop photovoltaic and other small power plants. In furtherance of this objective, it launched a programme on Generation Based Incentive[19] (GBI). The Indian Renewable Energy Development Agency (IREDA) was designated as the 'Programme Administrator' for this programme by MNRE. To implement the programme, the local power distribution utility was to sign a Power Purchase Agreement (PPA) with a solar power producer at a tariff rate determined by the appropriate State Electricity Regulatory Commission. The GBI was payable to power distribution utilities for a period of 25 years from the date of commissioning of the Solar power project.

The guidelines, *inter-alia*, provided that power distribution utilities would enter into a Memorandum of Understanding (MoU) with IREDA for availing GBI and MNRE would provide funds to IREDA for making timely payments to the local power distribution utility. Further, in case of delay in receipt of funds from the MNRE, IREDA would ensure access to an alternative funding source such as commercial banks so as to ensure timely payment of GBI to the distribution utilities. The MNRE was to reimburse such additional cost incurred by IREDA for arranging alternate funding source.

[19] The GBI for Haryana Power Purchase Centre was ₹ 12.24 per unit *i.e.*, difference between ₹ 17.91 per unit (tariff rate determined by Central Electricity Regulatory Commission) and ₹ 5.67 per kWh (base rate of ₹ 5.50 per kWh escalated by three *per cent* for the power plants commissioned during 2011-12).

Haryana Power Purchase Centre (HPPC) which procures power on behalf of power Distribution Companies[20] (DISCOMs) entered (August 2010) into PPAs with eight[21] solar power producers on behalf of DISCOMs. As per PPAs, if the payments were not made by HPPC within 30 days of receipt of invoice, it was liable to pay interest @1.25 *per cent* per month for the actual period of delay. HPPC also signed (26 April 2011) MoU with IREDA for availing GBI benefits under the programme. As per the MoU, HPPC was to raise claim for GBI on monthly basis by 15th day of next month. IREDA, in turn, was to disburse the claim of HPPC on monthly basis within 15 days from the date of receipt of claim. However, the MoU did not include any clause for payment of interest by IREDA in case of delay in settling GBI claims.

The DISCOMs were dependent on interest bearing borrowed funds/ cash credit for running their regular operations. HPPC used these interest bearing funds and paid interest of ₹ 2.72[22] crore for making timely payment to solar power producers. It was therefore imperative that HPPC should have protected its financial interest by incorporating a clause in the MoU making it incumbent on IREDA to pay interest in case of delay in settlement of GBI claims.

Audit observed (April 2018) that IREDA released HPPC's GBI claims with delays of up to 352 days.

Table 3.2: Delay in receipt of GBI claims

(₹ in crore)

Delay in days	Number of cases	GBI claim amount which was received with delay	Interest burden
1-100	295	35.95	0.54
100-200	145	18.45	0.84
200-300	119	14.52	1.11
More than 300	17	2.17	0.23
Total	**576**	**71.09**	**2.72**

During 2012-18, out of total GBI claim of ₹ 72.68 crore, ₹ 71.09 crore was released by IREDA with delay[23] ranging up to 352 days whereas the remaining amount of ₹ 1.59 crore for the period from February to April 2018 has not been released by IREDA so far (July 2018).

Thus, failure of HPPC to safeguard the financial interest of DISCOMs by not including any provision in its MoU with IREDA, to claim interest in case of

[20] Uttar Haryana Bijli Vitran Nigam Limited and Dakshin Haryana Bijli Vitran Nigam Limited.

[21] M/s VKG Energy Private Limited, M/s SDS Solar Private Limited, M/s Chandraleela Energy Private Limited, M/s C&S Electric Limited, M/s Sukhbir Solar Energy Private Limited, M/s Zamil Industries Private Limited, M/s HR Minerals and Alloys Private Limited and M/s Tayal & Company Private Limited.

[22] Calculated at interest rates of working capital approved by HERC for DISCOMs for the year 2011-12 (12.25 *per cent*), 2012-13, 2013-14 and 2014-15 (12 *per cent*), 2015-16 (12.5 *per cent*), 2016-17 (11.30 *per cent*) and 2017-18 (8.74 *per cent*).

[23] Delay has been calculated by giving a margin of 30 days from the date of payment made by DISCOMs to solar power producers to date of receipt of GBI claim from IREDA or 1 August 2018 (the date of Audit) where payment is yet to be received.

delayed settlement of GBI claims resulted in avoidable interest burden of ₹ 2.72 crore on DISCOMs.

The Management stated (April 2019) that MoU between IREDA and HPPC was a standard document and no deviation was allowed. Monthly claims of HPPC were reimbursed by IREDA after receipt of funds from Central Government, while payment to solar developers was made on due dates to avail one *per cent* rebate for timely payment. However, the bills are now being released after getting reimbursement from IREDA from February 2018 onwards.

The Company should have taken up with the MNRE for revision of MoU for watching its own financial interest. It should also have tried to impress upon IREDA to release funds within specified timeframe in terms of MNRE guidelines which, *inter-alia,* provided that in the eventuality of delay in receipt of funds from MNRE, IREDA shall ensure access to alternative funding source, the additional cost of which would be reimbursed to IREDA on actuals. Amount of avoidable interest burden was worked out after adjusting one *per cent* rebate for timely payment.

The matter was referred (May 2018) to the Government; their replies were awaited (May 2019).

Dakshin Haryana Bijli Vitran Nigam Limited

3.3 Short recovery from consumers while replacing stolen transformers

The Company issued sales circulars which were in contravention of Electricity Supply Code Regulations, 2014, resulting in short recovery of ₹ 99.48 lakh.

HERC notified Electricity Supply Code Regulations, 2014 on 8 January 2014. Regulation 4.4.2(2) provides that in case of Low Tension connections (other than domestic supply connections), where a transformer has been installed for exclusive power supply to a consumer, if required to be replaced, for any reason including theft, the cost of the replacement will be shared equally between the consumer and the licensee. Accordingly, Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) circulated (12 February 2014) the Electricity Supply Code Regulations, 2014 to its field offices for compliance. Prior to this Regulation, DHBVNL had been replacing stolen transformers after recovering 20 *per cent* of the cost.

Audit observed that DHBVNL, immediately after issuing (12 February 2014) the *ibid* regulations to its field offices for compliance, issued (21 February 2014) orders holding its operation in abeyance. The Company revived (18 April 2014) the revised Sales circular envisaging recovery of 50 *per cent* of the cost from the consumer. It again retracted (21 April 2014) the orders and continued to recover 20 *per cent* cost of stolen transformers from the consumers till August 2015. DHBVNL instructed (24 September 2015) its field offices to recover 50 *per cent* cost of transformer only if the transformer was under warranty and 20 *per cent* of cost for those transformers which had expired their warranty period.

The aforesaid instructions of the Company were in contravention of Regulation 4.4.2(2) of Electricity Supply Code Regulations, 2014.

DHBVNL replaced (January 2014 to November 2017) 623 transformers in five circles[24] due to theft after recovering 20 *per cent,* instead of 50 *per cent* of the cost as per the Electricity Supply Code Regulations, 2014. Non-adherence to the notified Regulations resulted in Company's failure to recover ₹ 99.48 lakh from the consumers in the test checked circles. Non-adherence to the Regulation continues (August 2018).

It is recommended that the Company should undertake similar exercise in other circles and take immediate action to implement *ibid* HERC Regulation and ensure its compliance.

The matter was referred (April 2018) to the Government and the Company; their replies were awaited (May 2019).

Haryana Vidyut Prasaran Nigam Limited

3.4 Under recovery of worker welfare cess

The Company did not recover worker welfare cess from the contractors' bills on the supply portion which resulted in under recovery of ₹ 45.97 lakh.

Section 3 of the Building and Other Construction Workers' Welfare Cess Act, 1996 (BOCW Act) provides for levy and collection of cess at a rate, as notified by Central Government, on the cost of construction incurred by any organisation. Accordingly, Government of India notified (September 1996) levy of cess at the rate of one *per cent* of the cost of construction incurred by employer. Further, as per Clause 3 of the Building and Other Construction Workers' Welfare Cess Rules 1998, the cost of construction includes all expenditure incurred by the employer in connection with building or other construction work excluding cost of land and any compensation paid or payable under Workmen's Compensation Act, 1923.

Haryana Vidyut Prasaran Nigam Limited (HVPNL) issued (November 2012 and August 2014) two Notice Inviting Tenders[25] (NITs) for construction of 132 kV & 66 kV Sub Stations and lines on turnkey basis and issued (August 2013 and May 2015) two separate work orders[26] (one for supply of materials and other for erection) against each NIT to the L_1 bidders. The work order for supply portion provided that prices quoted by the bidders were inclusive of all applicable taxes, duties and levies and no claim on this behalf was to be entertained by the employer.

Audit observed (February 2018) that the Company deducted worker welfare cess from the running bills of the contractors at the rate of one *per cent* on the

24 Faridabad, Gurugram, Rewari, Palwal and Narnaul.
25 NIT No.- 629 and 688.
26 NIT No.- 629 (Supply portion - ₹ 21.23 crore and Erection portion - ₹ 5.07 crore) and NIT No.- 688 (Supply portion - ₹ 30.79 crore and Erection portion - ₹ 9.98 crore).