PREFACE

Government commercial enterprises, the accounts of which are subject to audit by the Comptroller and Auditor General of India (CAG), fall under the following categories:

- Government companies,
- Statutory corporations, and
- Departmentally managed commercial undertakings.

2. This Report deals with the results of audit of Government companies and Statutory corporations and has been prepared for submission to the Government of Himachal Pradesh under Section 19 A of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, as amended from time to time. The results of audit relating to departmentally managed commercial undertakings are included in the Report of the CAG (Civil) - Government of Himachal Pradesh.

3. Audit of accounts of Government companies is conducted by the Comptroller and Auditor General of India under the provisions of Section 619 of the Companies Act, 1956.

4. In respect of Himachal Road Transport Corporation which is a Statutory corporation, the Comptroller and Auditor General of India is the sole Auditor. In respect of Himachal Pradesh Financial Corporation, he has the right to conduct the audit of accounts in addition to the audit conducted by the Chartered Accountants appointed by the State Government in consultation with the CAG. In respect of Himachal Pradesh Electricity Regulatory Commission, CAG is the sole auditor. The Audit Reports on the annual accounts of all these corporations are forwarded separately to the State Government.

5. The cases mentioned in this Report are those, which came to notice in the course of audit during 2010-11 as well as those which came to notice in earlier years, but were not dealt with in the previous Reports. Matters relating to the period subsequent to 2010-11 have also been included, wherever necessary.

6. The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department by the Comptroller and Auditor General of India.

OVERVIEW

1 Overview of Government companies and Statutory corporations

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Himachal Pradesh had 19 working PSUs (17 companies and two Statutory corporations) and three non-working PSUs (all companies), which employed 36,580 employees. The working PSUs registered a turnover of ₹ 4,964.59 crore for 2010-11 as per their latest finalised accounts. This turnover was equal to 9.47 per cent of State GDP indicating an important role played by the State PSUs in the economy. However, the working PSUs incurred overall loss of ₹ 189.15 crore in 2010-11 and had accumulated losses of ₹1,199.80 crore.

Investment in PSUs

As on 31 March 2011, the investment (Capital and long term loans) in 22 PSUs was ₹5,737.15 crore which increased by over 28.46 per cent from ₹4,465.96 crore in 2005-06. Power sector accounted for over 80 per cent of the total investment in 2010-11. The Government contributed ₹685.40 crore towards equity, loans and grants/subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 20 working PSUs (including Himachal Pradesh State Electricity Board converted into Government Company in 2010-11), seven PSUs earned profit of ₹10.09 crore and eight PSUs incurred loss of ₹199.24 crore. Three working companies have not prepared their profit and loss accounts while one Company has not prepared its first accounts since incorporation. In case of one working PSU, excess of expenditure over income was reimbursable by the State Government. The major contributors to profit were Himachal Pradesh State Civil Supplies Corporation Limited (₹3.15 crore) and Himachal Pradesh Tourism Development Corporation Limited (₹3.08 crore). Heavy losses were incurred by Himachal Pradesh State Electricity Board (₹152.62 crore), Himachal Road Transport Corporation (₹23.07 crore) and Himachal Pradesh Financial Corporation (₹14.64 crore). The losses were attributable to various deficiencies in the functioning of PSUs. A review of three years Audit Reports of CAG shows that the state PSUs losses of ₹1,691.03 crore and infructuous investment of ₹3.69 crore were controllable with better management. Thus, there is tremendous scope to improve the functioning and minimise/eliminate losses. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Of the 18 accounts of working companies finalised during October 2010 to September 2011, thirteen accounts received qualified certificates and five accounts received adverse certificates. There were 68 instances of non-compliance with Accounting Standards. During the year audit of accounts of two Statutory corporations was completed and received qualified certificates. The Reports of the Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Ten working PSUs had arrears of 12 accounts as of September 2011. Two non-working companies had not finalised their accounts for the year 2010-11. There were three non-working PSUs. As no purpose may be served by keeping these PSUs in existence, Government need to expedite closing down of the non-working PSUs.

2 Performance audit relating to Government Company

Performance audit relating to 'Power Distribution Activities of Himachal Pradesh State Electricity Board Limited' was conducted. Executive summary of the Audit findings is given below:

The business of distribution of power in Himachal Pradesh is carried out by Himachal Pradesh State Electricity Board Ltd. (Company). The Company was incorporated on 03 December 2009 under the Companies Act, 1956.

The Company sold 5,555.71 MUs of energy in 2006-07 and enhanced to 7,098.35 MUs in 2009-10 (an increase of 27.77 per cent). As on 31 March 2011, the Company had a distribution network of 0.87 lakh Circuit Kilometers, 184 feeding sub-stations and 22,472 distribution sub-stations of various categories servicing 19.69 lakh consumers. The Company's turnover was ₹2,978.35 crore in 2009-10.

Financial Position and Working Results

The Company has not finalised its accounts for the year 2010-11. The total loss amounted to ₹144.01 crore during four years from 2006-07 to 2009-10 even after adjusting profit of ₹34.19 crore earned during 2006-07 and 2008-09. The realisation per unit, increased from ₹3.70 in 2006-07 to ₹4.29 in 2009-10 but the same was not sufficient to cover the cost per unit which ranged between ₹3.70 to ₹4.51 per unit during the corresponding period.

Distribution Network Planning

Against the planned additions of 5,709 distribution sub-stations over the review period, only 4,217 distribution sub-stations were actually added. Further, as compared to the growth of connected load (up to 33 KV) of 3,368.19 MW in 2006-07 to 4,402.80 MW (4,892 MVA) in 2010-11 (30.72 per cent), the increase in transformer capacity was from 1,007.98 MVA to 1,228.257 MVA only (21.85 per cent).

Implementation of Centrally Sponsored Schemes

Out of 98 villages identified under the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) launched in March 2005 by the GOI, only 26 villages were electrified up to March 2011. As such, the achievement was only 26.53 per cent though funds amounting to ₹192.68 crore (89 per cent) were utilised against ₹216.29 crore received. The main reasons for under utilisation of funds were delay in award and execution of works by the Company/contractors.

Accelerated Power Development Reforms Programme

GOI sanctioned the APDRP scheme for ₹322.77 crore in 12 operation circles during 2002-03. The scheme had been closed (February 2009) after spending an amount of ₹389.19 crore.

Aggregate Technical & Commercial Losses

One of the main objectives of APDRP Scheme was to strengthen the distribution system with focus on reduction of AT & C losses to around 15 per cent. However, against this the losses remained between 23.65 per cent to 26.28 per cent in 2006-11 despite spending ₹101.44 crore on re-conductoring of HT/LT lines, re-placement of meters, service wire and conversion of LT to HT lines. Due to non-achievement of targets of AT & C losses at 15 per cent, the utility suffered loss of ₹1,322.37 crore.

State Government delayed the release of funds aggregating to ₹246.48 crore to the Company by 7 to 638 days. Delay in release of funds hampered the progress

with consequential cost escalation in seven circles. Resultantly in the initial three years only ₹59.36 crore (31.74 per cent) could be spent against sanctioned amount of ₹187.04 crore. Thus, the work could not be executed equitably over the scheme period. The cost escalation had to be borne by the Company by loan component from M/s REC on which payment of interest of ₹20.99 crore was made.

Restructured Accelerated Power Development Reforms Programme

GOI launched the Restructured APDRP in July 2008. Out of total funds of ₹125.57 crore only ₹8.15 crore had been incurred so far and funds amounting to ₹117.42 crore (93.51 per cent) were still lying un-utilised till March 2011.

Purchase of Power

During 2006-08, the actual purchase of power was much higher than the purchases approved by the SERC. Consequently, the Company had to purchase 2,759.49 MUs at higher rates in the form of overdrawal from grid and short term power purchase.

Performance of Distribution Transformers

Failure rate of DTRs was in excess of the norms fixed by SERC. The repair cost of ₹45.06 crore incurred on the repair of 4,161 transformers exceeded even the cost of same number of new transformers by ₹7.91 crore mainly due to excess supervisory staff.

Billing and Revenue Collection Efficiency

As revenue from sale of energy is the main source of income, the efficiency lies in timely billing of energy sold to consumers and prompt collection of revenue in time. The balances include outstanding dues against private categories of consumers which increased from ₹140.14 crore in 2006-07 to ₹250.63 crore in 2010-11. The Company failed to take timely action against the defaulting consumers.

Subsidy Support and Cross Subsidisation

The percentage of subsidy to sales of power decreased from 7.64 per cent in 2006-07 to 4.70 per cent in 2009-10.

The domestic consumers are largely benefited from the cross subsidisation at the cost of other categories of consumers.

Conclusion and Recommendations

The Company was not able to recover its cost of operation and its accumulated losses increased by 61.49 per cent during 2006-10. There were deficiencies in formulation of schemes. Distribution capacity could not match with the pace of load growth. The Company had incurred huge expenditure on purchase of power by over drawal from grid and under un-scheduled Inter-change due to ill planning of purchase. Huge revenue is outstanding from private categories of consumers, Government Departments and Municipal Corporations. The domestic consumers are largely benefited from cross subsidisation at the cost of other categories of consumers.

We have made seven recommendations to improve distribution segments of the power sector in the State. The Company needs to review the progress of incomplete schemes, Plan its purchase of power under long term and short term agreements to avoid purchases at higher rates; curtail its aggregate technical and commercial losses.

3 Transaction Audit Observations

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

- Loss of ₹ 3.51 crore in five cases due to non-compliance of rules, directives, procedure and conditions of contracts.

(Paragraphs 3.1, 3.2, 3.7, 3.8 and 3.11)

- Loss of ₹ 2.29 crore in two cases due to injudicious decision.

(Paragraph 3.3 and 3.10)

- Loss of ₹ 4.45 crore in seven cases due to inadequate/deficient monitoring.

(Paragraphs 3.4, 3.5, 3.6, 3.9, 3.12, 3.13 and 3.14)

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

Himachal Pradesh State Forest Development Corporation Limited failed to deduct rebate/cash discount allowed for early payment on sale of timber before computation of TDS resulted in loss of ₹ 0.56 crore.

(Paragraph 3.6)

Himachal Pradesh State Electricity Board Limited suffered a generation loss of ₹ 1.99 crore due to delay in up-rating the capacity of the transformers required to evacuate the increased power generation of the associated Bassi Power House added after its up-gradation from 60 MW to 66 MW.

(Paragraph 3.10)

Himachal Pradesh State Electricity Board Limited failed to recover the Workers' Welfare Cess from the contractors resulted in non-recovery of ₹ 2.29 crore besides attracting penalty for non-payment of cess to the cess authorities.

(Paragraph 3.11)

Himachal Pradesh State Electricity Board Limited failed in estimating infrastructure cost correctly and not restricting the expenditure within the limit prescribed by the HPERC Regulations, 2005 which resulted in non-recovery of ₹ 2.54 crore from a consumer.

(Paragraph 3.14)

CHAPTER I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Himachal Pradesh, the State PSUs occupy an important place in the state economy. The working PSUs registered a turnover of ₹ 4,964.59 crore in 2010-11 as *per* their latest finalised accounts as of 30 September 2011. This turnover was equal to 9.47 *per cent* of State Gross Domestic Product (GDP) of ₹ 52,426 crore in 2010-11. Major activities of Himachal Pradesh State PSUs are concentrated in power sector. The working PSUs incurred a loss of ₹ 189.15 crore in the aggregate in 2010-11 as per their latest finalised accounts as of 30 September 2011. They had employed 0.37 lakh employees as on 31 March 2011.

1.2 As on 31 March 2011, there were 22 PSUs as *per* the details given below. Of these, one company *i.e.* Himachal Pradesh General Industries Corporation Limited was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs[Ψ]	Total
Government Companies[♦]	17	3	20
Statutory Corporations	2	-	2
Total	**19**	**3**	**22**

1.3 During the year 2010-11, one PSU *viz.* Himachal Pradesh State Small Industries and Export Corporation Limited was merged with the Himachal Pradesh State Industrial Development Corporation Limited and one PSU viz. Himachal Pradesh State Electricity Board was converted into Government Company with effect from 14 June 2010.

Ψ Non-working PSUs are those which have ceased to carry on their operations.

♦ Includes one 619-B company (Beas Valley Power Corporation Limited).

Audit Mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it was a Government company (deemed Government company) as *per* Section 619-B of the Companies Act, 1956.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as *per* the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as *per* the provisions of Section 619 of the Companies Act, 1956.

1.6 Audit of statutory corporations is governed by their respective legislations. Out of two Statutory corporations, CAG is the sole auditor for Himachal Road Transport Corporation. In respect of Himachal Pradesh Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

1.7 As on 31 March 2011, the investment (capital and long-term loans) in 22 PSUs (including 619-B company) was ₹ 5,737.15 crore as *per* details given below:

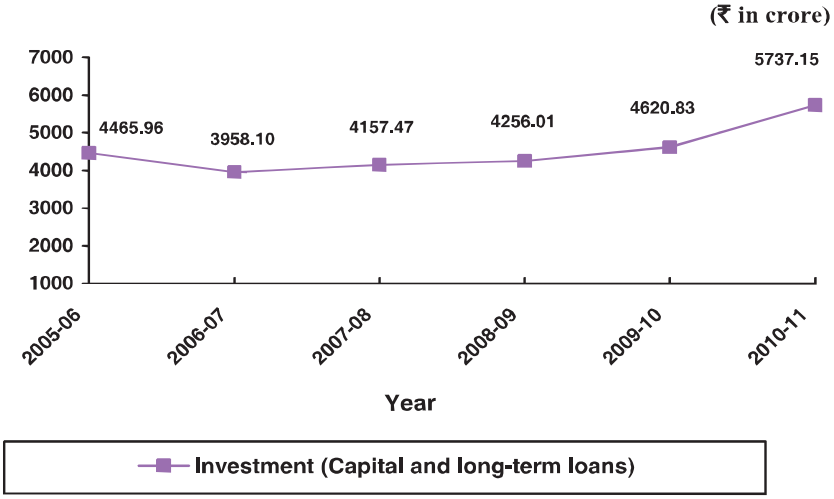
(Amount: ₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	2,126.05	2,825.79	4,951.84	513.27	227.77	741.04	5,692.88
Non-working PSUs	22.14	22.13	44.27	-	-	-	44.27
Total	**2,148.19**	**2,847.92**	**4,996.11**	**513.27**	**227.77**	**741.04**	**5,737.15**

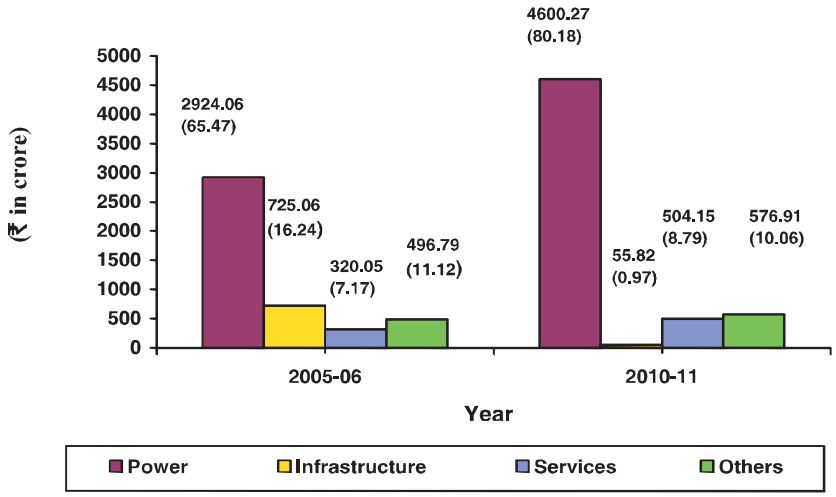
A summarised position of government investment in State PSUs is detailed in **Annexure 1**.

1.8 As on 31 March 2011, of the total investment in State PSUs, 99.23 *per cent* was in working PSUs and the remaining 0.77 *per cent* in non-working PSUs. This total investment consisted of 46.39 *per cent* towards capital and

53.61 *per cent* in long-term loans. The investment has increased by 28.46 *per cent* from ₹ 4,465.96 crore in 2005-06 to ₹ 5,737.15 crore in 2010-11 as shown in the graph below:



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart. During 2005-11, the major investment was in the power sector. The percentage of investment in power sector has increased from 65.47 in 2005-06 to 80.18 in 2010-11 of total investment due to incorporation of new companies.



(Figures in brackets show the Sector percentage to total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

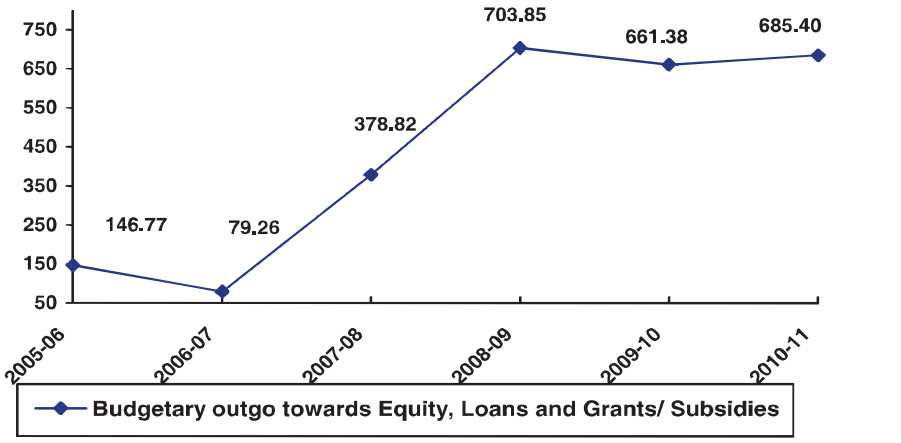
1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2010-11.

(Amount: ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	8	336.99	9	310.13	5	162.91
2.	Loans given from budget	2	76.56	2	20.28	1	175.01
3.	Grants/Subsidy received	6	290.30	9	330.97	5	347.48
4.	Total Outgo (1+2+3)	14[r]	703.85	14[r]	661.38	10[r]	685.40
5.	Loans converted into equity	-	-	1	17.46	-	-
6.	Guarantees issued	4	26.60	5	41.60	5	54.65
7.	Guarantee Commitment	7	1,795.42	7	1,537.58	6	1,272.16

1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in a graph below:

(₹ in crore)



The budgetary support in the form of equity, loans and grants/subsidies by the State Government during the years 2005-06 to 2010-11 showed a varying trend. The budgetary outgo which stood ₹ 79.26 crore in 2006-07 was lowest during the six years increased to ₹ 703.85 crore in 2008-09 mainly due to

[r] Represent actual number of companies/corporations which received budgetary support in the form of equity, loans, grants and subsidy from the State Government during respective years.

significant extension of equity/loans and grants/subsidy to power sector and decreased to ₹ 685.40 crore in 2010-11.

1.12 During 2010-11, the Government had guaranteed loan aggregating ₹ 54.65 crore obtained by five PSUs. At the end of 2010-11, guarantee commitment stood at ₹ 1,272.16 crore (six PSUs) as against ₹ 1,795.42 crore (seven PSUs) and ₹ 1,537.58 crore (seven PSUs) during 2008-09 and 2009-10 respectively.

Reconciliation with Finance Accounts

1.13 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 concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2011 is stated below:

(Amount: ₹ in crore)

Outstanding in respect of	Amount as *per* Finance Accounts	Amount as *per* records of PSUs	Difference
Equity	1,612.23	1,728.87	(-) 116.64
Loans	•	296.72	-
Guarantees	1,369.62	1,272.16	97.46

1.14 Audit observed that the differences occurred in respect of seven PSUs and the difference in respect of one company was pending reconciliation since 1995-96. The concerned administrative departments, PSUs and Finance Department were requested every quarter to take necessary action to reconcile the differences. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexure 2, 5 and 6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2005-06 to 2010-11.

(Amount: ₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover$^{\propto}$	2,641.63	3,029.68	3,476.06	4,629.88	4,642.23	4,964.59
State GDP	25,471	28,358	31,974	36,940	42,278	52,426
Percentage of Turnover to State GDP	10.37	10.68	10.87	12.53	10.98	9.47

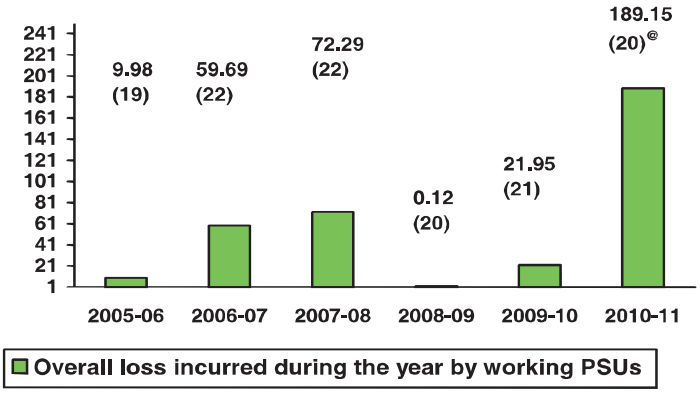
• Government companies and Statutory corporations wise statement of outstanding loans not included in the Finance Accounts for 2010-11.

$\propto$ Turnover as *per* the latest finalised accounts as of 30 September.

It can be noticed that there was an overall rise in turnover of PSUs during 2005-11 with growth in the State GDP. The percentage of turnover to the State GDP increased from 10.37 in 2005-06 to 12.53 in 2008-09 but declined to 9.47 in 2010-11.

1.16 Losses incurred by State working PSUs during 2005-06 to 2010-11 are given below in the bar chart.

(₹ in crore)



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

During 2005-11, the working PSUs incurred overall huge losses, which indicated poor functioning of PSUs except during 2005-06 and 2008-09, when the overall losses incurred by State PSUs were comparatively low.

During the year 2010-11, out of 20 working PSUs, seven PSUs earned profit of ₹ 10.09 crore and eight PSUs incurred loss of ₹ 199.24 crore. Three• working Government companies have not prepared their profit and loss accounts while one Company viz. Himachal Pradesh State Electricity Board Limited has not prepared its first accounts since incorporation. In case of one working Government company (Himachal Pradesh Road and Other Infrastructure Development Corporation Limited), excess of expenditure over income is reimbursable by the State Government. The major contributors to profit were Himachal Pradesh State Civil Supplies Corporation Limited (₹ 3.15 crore), Himachal Pradesh Tourism Development Corporation Limited (₹ 3.08 crore) and Himachal Pradesh State Forest Development Corporation Limited (₹ 1.98 crore). The heavy losses were incurred by Himachal Pradesh State Electricity Board (₹ 152.62 crore), Himachal Road Transport Corporation (₹ 23.07 crore) and Himachal Pradesh Financial Corporation (₹ 14.64 crore).

• Beas Valley Power Corporation Limited, Himachal Pradesh Power Corporation Limited and Himachal Pradesh Power Transmission Corporation Limited.

@ This includes the figures in respect of Himachal Pradesh State Electricity Board also which was converted into Government Company in 2010-11.

1.17 The losses of working PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses of ₹ 1,691.03 crore and infructuous investment of ₹ 3.69 crore which were controllable with better management. Year wise details from Audit Reports are stated below:

(Amount: ₹ in crore)

Particulars	2008-09	2009-10	2010-11	Total
Net loss	0.12	21.95	189.15	211.22
Controllable losses/avoidable expenditure as *per* CAG's Audit Report	34.12	953.38	703.53	1,691.03
Infructuous Investment	3.69	-	-	3.69

1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be minimised or eliminated or the profits can be enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to State PSUs are given below.

(Amount: ₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (*Per cent*)	2.97	2.74	3.93	5.54	4.16	0.48
Debt	3,704.40	3,136.86	2,918.66	2,841.21	2,672.18	3,075.69
Turnover[ɤ]	2,641.63	3,029.68	3,476.06	4,629.88	4,642.23	4,964.59
Debt/ Turnover Ratio	1.40:1	1.04:1	0.84:1	0.61:1	0.58:1	0.62:1
Interest Payments	160.55	166.55	210.64	201.39	207.20	207.13
Accumulated Profits/(losses)	(826.76)	(939.66)	(1,021.00)	(1,028.60)	(846.73)	(1,286.19)

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

1.20 The percentage of return on Capital Employed showed a rising trend from 2.97 *per cent* in 2005-06 to 5.54 *per cent* in 2008-09 and declined to 4.16 in 2009-10 and further declined to 0.48 *per cent* in 2010-11. The debt position also showed improvement as total debt declined from ₹ 3,704.40 crore in 2005-06 to ₹ 3,075.69 crore in 2010-11. The outgo of PSUs towards payment of interest ranged between ₹ 160.55 crore and ₹ 210.64 crore during the period from 2005-06 to 2010-11. The turnover position showed an improving trend from ₹ 2,641.63 crore in 2005-06 to ₹ 4,964.59 crore in 2010-11, correspondingly, the debt-turnover ratio improved from 1.40 in 2005-06 to 0.62 in 2010-11. The position of accumulated losses has, however, deteriorated with increase from ₹ 826.76 crore in 2005-06 to ₹ 1,286.19 crore in 2010-11 except in 2009-10 when it declined to ₹ 846.73 crore.

ɤ Turnover of working PSUs as *per* the latest finalised accounts as of 30 September.

1.21 The State Government had formulated (August 1982) a dividend policy under which all PSUs are required to pay a minimum return of three *per cent* on the paid up share capital contributed by the State Government. As *per* their latest finalised accounts, seven PSUs earned an aggregate profit of ₹ 10.09 crore and only one PSU[♣] declared a dividend of ₹ 0.53 crore, which was nearly 15 *per cent* of its paid up capital (₹ 3.51 crore).

Arrears in finalisation of accounts

1.22 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as *per* the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September of respective year.

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of working PSUs	22	22	20[*]	21	19
2.	Number of accounts finalised during the year	23	20	19	22	21
3.	Number of accounts in arrears	15	17	15	14	12
4.	Average arrears *per* PSU (3/1)	0.68	0.77	0.75	0.67	0.63
5.	Number of working PSUs with arrears in accounts	12	13	12	12	10
6.	Extent of arrears	1 to 3 years	1 to 3 years	1 to 3 years	1 to 2 years	1 to 2 years

1.23 The average number of accounts in arrears *per* working PSUs ranged between 0.77 in 2007-08 and 0.63 in 2010-11. The PSUs having arrears of accounts need to take effective measures for early clearance of backlog and make the accounts up-to-date.

1.24 Out of three non-working PSUs, one[†] had gone into liquidation process. The remaining two non-working PSUs had not finalised their accounts for the year 2010-11.

1.25 The State Government had invested ₹ 69.01 crore (Equity: ₹ 62.72 crore and grants: ₹ 6.29 crore) in six PSUs during the years for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it can not be ensured whether

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♣ Himachal Pradesh State Civil Supplies Corporation Limited.

* During 2008-09, two companies *viz.* Pabbar Valley Power Corporation Limited and Kinner Kailash Power Corporation Limited merged with the Himachal Pradesh Power Corporation Limited, one company (Agro Industrial Packaging India Limited) became non-working and one company (Himachal Pradesh Power Transmission Corporation Limited) was established but accounts were not due.

† Himachal Worsted Mills Limited.

the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.26 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 prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (July 2011) with the Chief Secretary/Finance Secretary to expedite clearance of backlog of arrears in accounts in a time bound manner.

Winding up of non-working PSUs

1.27 There were three non-working PSUs (all companies) as on 31 March 2011. Of these, one PSU[♣] has commenced liquidation process. The numbers of non-working companies at the end of each year during past five years are given below:

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
No. of non-working companies	2	2	3	3	3

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose.

1.28 The stages of closure in respect of non-working PSUs are given below:

Sl. No.	Particulars	Companies
1.	Total No. of non-working PSUs	3
2.	Of (1) above, the No. under:	
(a)	Liquidation by Court (liquidator appointed)	-
(b)	Voluntary winding up (liquidator appointed)	1
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started	2

1.29 During the year 2010-11, no company was finally wound up. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted/pursued vigorously. The Government may make a

♣ Himachal Worsted Mills Limited.

decision regarding winding up of two non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working companies.

Accounts Comments and Internal Audit

1.30 Sixteen working companies forwarded their 18 accounts to audit during the period from October 2010 to September 2011. Of these, 13 accounts of 13 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount: ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	2	1.31	1	0.33	6	45.20
2.	Increase in loss	4	15.59	6	42.60	3	17.18

It can be seen that average impact of audit comments *per* account causing 'increase in loss' or 'decrease in profit' increased from ₹ 2.82 crore (2008-09) to ₹ 6.93 crore (2010-11). The deterioration in the quality of maintenance of accounts by PSUs is thus, apparent and needs to be improved.

1.31 During the year, the statutory auditors had given qualified certificates for thirteen accounts and adverse certificates (which means that accounts do not reflect a true and fair position) for five accounts. The compliance of companies with the Accounting Standards remained poor as there were 68 instances of non-compliance in seventeen accounts during the year.

1.32 Some of the important comments in respect of the accounts of companies finalised during the year 2010-11 are stated below:

Himachal Pradesh Agro Industries Corporation Limited (2009-10)

- The Company did not make provisions for leave encashment (₹ 3.24 crore), additional gratuity (₹ 2.52 crore), interest payable on advance received on support price scheme for potato (₹ 0.98 crore), and doubtful debts/advances (₹ 0.42 crore). This resulted in understatement of current liabilities and provisions and loss for the year by ₹ 7.16 crore.

Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited (2009-10)

- Non-provision for liability towards leave encashment payable to employees resulted in understatement of current liabilities and provisions and loss by ₹ 6.43 crore.

Himachal Pradesh State Forest Development Corporation Limited (2008-09)

- The Company did not reconcile the provisions for income tax account since 1987-88 and provisions were continuing since then and these should have been adjusted/reversed in the next year in which the returns were filed. Non-reversal or adjustment of provisions for income tax up to 2001-02 resulted in understatement of profit and advances recoverable in cash or kind by ₹ 11.14 crore.

Himachal Pradesh Mahila Vikas Nigam (2009-10)

- Other current assets included subsidy claim of ₹ 0.49 crore for the period prior to 2000-01 which had not been acknowledged by the State Government as payable to the Company and was doubtful of recovery. This resulted in overstatement of profit and other current assets by ₹ 0.49 crore.

Himachal Pradesh Minorities Finance and Development Corporation (2009-10)

- The Company did not account for un-realised interest on loans and other income amounting to ₹ 0.96 crore which resulted in understatement of profit and understatement of loan and advances by that amount.

1.33 Similarly, three[♥] working statutory corporations forwarded their three accounts to audit during the period from October 2010 to September 2011. Of these, one account of one statutory corporation (Himachal Road Transport Corporation) pertained to sole audit by CAG which was under audit. The audit reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount: ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	1	141.55	-	-
2.	Increase in loss	1	0.20	2	14.03	2	157.62

The huge impact of audit comments during 2009-10 and 2010-11 mainly pertains to Himachal Pradesh State Electricity Board.

♥ Including one accounts of Himachal Pradesh State Electricity Board for 2009-10 which has now been converted into Govt. Company w.e.f. June 2010.

1.34 During the year, the audit of accounts of only two Statutory corporations, Himachal Pradesh State Electricity Board for the year 2009-10 and Himachal Pradesh Financial Corporation for the year 2010-11 was completed and received qualified certificates. Some of the important comments in respect of accounts of Statutory corporations are stated below:

Himachal Pradesh State Electricity Board (2009-10)

- Fixed assets and provision for depreciation included cost of nine power transformers valuing ₹ 5.21 crore installed at various EHV sub-stations damaged during 2007-09 and were beyond repair. This resulted in understatement of current year's deficit by ₹ 5.08 crore and overstatement of previous year's depreciation by ₹ 13.03 lakh.
- Capital expenditure in progress included ₹ 55.50 crore being the value of works completed and put to use during 2005-06 to 2008-09. This resulted in understatement of fixed assets and overstatement of capital expenditure in progress to the above extent and understatement of depreciation and deficit by ₹ 3.12 crore.
- Excess provisions for un-billed revenue amounting to ₹ 3.57 crore in respect of two consumers to whom energy bills were already issued up to 31 March 2010. This resulted in overstatement of receivables against supply of power and understatement of deficit by ₹ 3.57 crore.
- Other current liabilities was understated by ₹ 5.15 crore due to short provision on account of wheeling and other charges payable to Power Grid Corporation of India Limited during 2009-10. This resulted in understatement of deficit to the extent of ₹ 5.15 crore.
- Purchase of power did not include (i) ₹ 87.25 crore on account of bills for revised fixed charges of Baspa Hydro Electrical Projects (ii) difference of ₹ 13.04 crore in basic records and amount shown in balance sheet for purchase of power from M/s NTPC, NHPC, NPCIL and Tehri Hydro Electrical Projects and (iii) minus debit entries amounting to ₹ 33.23 crore passed in accounts of March 2010 without justified reasons. This resulted in understatement of purchase of power and deficit by ₹ 133.52 crore.

Himachal Pradesh Financial Corporation (2010-11)

- No provision had been made for liability of ₹ 0.89 crore on account of revision of pay scales arrears of employees. This resulted in understatement of other liabilities and loss for the year by ₹ 0.89 crore.

1.35 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the

internal audit/internal control system in respect of two companies[£] for the year 2008-09, seven companies [µ] for the year 2009-10 and seven companies[▽] for the year 2010-11 are given below:

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as *per* Annexure 2
1.	Non-existence of system of making short/long-term business plan	3	1,9 and 15
2.	Inadequate monitoring of outstanding dues from outside parties	4	1,2,3 and 9
3.	Non-existence of system of sending statement of accounts and obtaining confirmation from the debtors	9	1,2,3,5,9,11,15, 16 and 17
4.	Non-provision of retirement benefits as *per* AS-15	8	1,2,5,7,10,11,15 and 17
5.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	5	2, 10, 15, 16 and 17
6.	Non-fixation of minimum/ maximum limits of store and spares	6	1, 2, 9, 15, 16 and 17
7.	Absence of internal audit system commensurate with the nature and size of business of the company	7	1,2,5,9,10,15 and 17
8.	Non-preparation of internal audit manual/standards/guidelines	7	2,3,9,11, 13,15 and 17
9.	No approved IT strategy/plan	11	1, 2, 3 5, 7,9,10,13, 15, 16 and 17
10.	Non-formulation of Corporate Social Responsibility policy	4	7, 15, 16 and 17

Recoveries at the instance of audit

1.36 During the course of audit in 2010-11, recoveries of ₹ 32.11 crore were pointed out to the Management of various PSUs, which were admitted by PSUs. Against this, an amount of ₹ 16.49 crore was recovered during the year 2010-11.

£ Sr. No. 3 and 4 of Annexure 2.
µ Sr. No. 1,2, 5,6, 12 13, and 17 of Annexure 2.
▽ Sr. No. 7, 9, 10, 11, 14, 15 and 16 of Annexure 2.

Status of placement of Separate Audit Reports

1.37 Separate Audit Reports (SARs) issued by the CAG on the accounts of all the three* Statutory corporations for the period up to 2009-10 have been placed in the State Legislature by the State Government.

Disinvestment, Privatisation and Restructuring of PSUs

1.38 During the year 2010-11, there was no case of disinvestment and privatisation of Government companies and Statutory corporations. The State Government had not prepared any plan for disinvestment of State PSUs.

* Including one SAR of Himachal Pradesh State Electricity Board which has now been converted into Govt. Company w.e.f. June 2010.

CHAPTER II

Performance audit relating to Government Company

Himachal Pradesh State Electricity Board Limited

2 Power Distribution Activities

Executive Summary

The business of distribution of power in Himachal Pradesh is carried out by Himachal Pradesh State Electricity Board Ltd. (Company). The Company was incorporated on 3 December 2009 under the Companies Act, 1956.

The Company sold 5,555.71 MUs of energy in 2006-07 and enhanced to 7,098.35 MUs in 2009-10 (an increase of 27.77 per cent). As on 31 March 2011, the Company had a distribution network of 0.87 lakh Circuit Kilometers, 184 feeding sub-stations and 22,472 distribution sub-stations of various categories servicing 19.69 lakh consumers. The Company's turnover was ₹2,978.35 crore in 2009-10.

Financial Position and Working Results

The Company has not finalised its accounts for the year 2010-11. The total loss amounted to ₹144.01 crore during four years from 2006-07 to 2009-10 even after adjusting profit of ₹34.19 crore earned during 2006-07 and 2008-09. The realisation per unit, increased from ₹3.70 in 2006-07 to ₹4.29 in 2009-10 but the same was not sufficient to cover the cost per unit which ranged between ₹3.70 to ₹4.51 per unit during the corresponding period.

Distribution Network Planning

Against the planned additions of 5,709 distribution sub-stations over the review period, only 4,217 distribution sub-stations were actually added. Further, as compared to the growth of connected load (up to 33 KV) of 3,368.19 MW in 2006-07 to 4,402.80 MW (4892 MVA) in 2010-11 (30.72 per cent), the increase in transformer capacity was from 1,007.98 MVA to 1,228.257 MVA only (21.85 per cent).

Implementation of Centrally Sponsored Schemes

Out of 98 villages identified under the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) launched in March 2005 by the GOI, only 26 villages were electrified up to March 2011. As such, the achievement was only 26.53 per cent though funds amounting to ₹192.68 crore (89 per cent) were utilised against ₹216.29 crore received. The main reasons for under utilisation of funds were delay in award and execution of works by the Company/contractors.

Accelerated Power Development Reforms Programme

GoI sanctioned the APDRP scheme for ₹322.77 crore in 12 operation circles during 2002-03. The scheme had been closed (February 2009) after spending an amount of ₹389.19 crore.

Aggregate Technical & Commercial Losses

One of the main objectives of APDRP Scheme was to strengthen the distribution system with focus on reduction of AT & C losses to around 15 per cent. However, against this the losses remained between 23.65 per cent to 26.28 per cent in 2006-11 despite spending ₹101.44 crore on re-conductoring of HT/LT lines,

re-placement of meters, service wire and conversion of LT to HT lines. Due to non-achievement of targets of AT & C losses of 15 per cent, the utility suffered loss of ₹1,322.37 crore.

State Government delayed the release of funds aggregating to ₹246.48 crore to the Company by 7 to 638 days. Delay in release of funds hampered the progress with consequential cost escalation in seven circles. Resultantly in the initial three years only ₹59.36 crore (31.74 per cent) could be spent against sanctioned amount of ₹187.04 crore. Thus, the work could not be executed equitably over the scheme period. The cost escalation had to be borne by the Company by loan component from M/s REC on which payment of interest of ₹20.99 crore was made.

Restructured Accelerated Power Development Reforms Programme

GoI launched the Restructured APDRP in July 2008. Out of total funds of ₹125.57 crore only ₹8.15 crore had been incurred so far and funds amounting to ₹117.42 crore (93.51 per cent) were still lying un-utilised till March 2011.

Purchase of Power

During 2006-08, the actual purchase of power was much higher than the purchases approved by the SERC. Consequently, the Company had to purchase 2,759.49 MUs at higher rates in the form of overdrawal from grid and short-term power purchase.

Performance of Distribution Transformers

Failure rate of DTRs was in excess of the norms fixed by SERC. The repair cost of ₹45.06 crore incurred on the repair of 4,161 transformers exceeded even the cost of same number of new transformers by ₹7.91 crore mainly due to excess supervisory staff.

Billing and Revenue Collection Efficiency

As revenue from sale of energy is the main source of income, the efficiency lies in timely billing of energy sold to consumers and prompt collection of revenue in time. The balances include outstanding dues against private categories of consumers which increased from ₹140.14 crore in 2006-07 to ₹250.63 crore in 2010-11. The Company failed to take timely action against the defaulting consumers.

Subsidy Support and Cross Subsidisation

The percentage of subsidy to sales of power decreased from 7.64 per cent in 2006-07 to 4.70 per cent in 2009-10.

The domestic consumers are largely benefited from the cross subsidisation at the cost of other categories of consumers.

Conclusion and Recommendations

The Company was not able to recover its cost of operation and its accumulated losses increased by 61.49 per cent during 2006-10. There were deficiencies in formulation of schemes. Distribution capacity could not match with the pace of load growth. The Company had incurred huge expenditure on purchase of power by over drawal from grid and under un-scheduled Inter-change due to ill planning of purchase. Huge revenue is outstanding from private categories of consumers, Government Departments and Municipal Corporations. The domestic consumers are largely benefited from cross subsidisation at the cost of other categories of consumers.

We have made seven recommendations to improve distribution segments of the power sector in the State. The Company needs to review the progress of incomplete schemes, Plan its purchase of power under long term and short term agreements to avoid purchases at higher rates; curtail its aggregate technical and commercial losses.

Introduction

2.1 The distribution system of the power sector constitutes the final link between the power sector and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. However, it constitutes the weakest part of the sector, which is incurring large losses. Therefore, the real challenge of reforms in the power sector lies in efficient management of the distribution system. The National Electricity Policy (NEP) has *inter-alia* emphasised on the adequate transition from financing support to aid restructuring of distribution utilities, efficiency improvements and recovery of cost of services provided to consumers to make power sector sustainable at reasonable and affordable prices besides others.

The business of distribution of power in Himachal Pradesh is carried out by Himachal Pradesh State Electricity Board Limited*(Company) which was incorporated on 3 December 2009 under the Companies Act, 1956 and is placed under the administrative control of Multi Purpose Projects & Power Department (MPP&P) of Government of Himachal Pradesh. The Company's management is vested with a Board of Directors comprising Chairman-*cum*-Managing Director (CMD) and six other Directors appointed by the State Government. The day-to-day operations are carried out by the CMD, who is the Chief Executive of the Company and is assisted by Director (F&A), Director (Project), Director (Technical) and Director (Operation). During 2006-07, 5,555.708 Million Units (MUs) of energy was sold by the Board which increased to 7098.349 MUs during 2009-10 *i.e.* an increase of 27.77 *per cent.*

As on 31 March 2011, the Company had a distribution network of 0.87 lakh Circuit Kilometers (CKM), 184 feeding sub-stations♠ and 2,2472 distribution sub stations of various categories servicing 19.69 lakh consumers. The Company's turnover was ₹ 2,978.35 crore in 2009-10π, which was equal to 64 *per cent* and 7.04 *per cent* of the State PSUs turnover and State Gross Domestic Product, respectively for the same year. It employed 20,276 employees as on 31 March 2011.

National Electricity Plan (NEP) aims to bring out reforms in the Power Distribution sector with focus on system up-gradation, controlling and reduction of Transmission and Distribution (T&D) losses and power thefts and making the sector commercially viable besides financing strategy to generate adequate resources. It further aims to bring out conservation strategy to

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* Earlier known as Himachal Pradesh Electricity Board.

♠ Sub-stations having output voltage at 33 KV and above.

π Accounts for the year 2010-11 are under compilation (September, 2011).

optimise utilisation of electricity with focus on demand side management and load management. The object of the performance audit on the working of the Power Distribution Utilities in the State Sector is to ascertain whether they were able to adhere to the aims and objectives stated in the NEP and Plan and how far the distribution reforms have been achieved.

A review on Tariff, Billing and Collection of Revenue of Himachal Pradesh State Electricity Board was included in the Report of the Comptroller and Auditor General of India, (Commercial) Government of Himachal Pradesh for the year ended 31 March 2007. The Report has not been discussed by COPU (September 2011).

Scope and Methodology of Audit

2.2 The present performance audit conducted during December 2010 to March 2011 covers the performance of the Company* during the period from 2006-07 to 2010-11. The audit involved scrutiny of records at the Head Office and 15♦ out of 63 Operational Circles/Divisions. These units were selected on the basis of simple random sampling method, without replacement. The audit objectives and audit criteria were explained to Company's management at an entry conference on 31 March 2011.

The methodology adopted for attaining the audit objectives consisted of explaining audit objectives to the top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft report to the Management for comments.

Audit Objectives

2.3 The objectives of the performance audit were to assess:

- Whether aims and objectives of National Electricity Policy, Plans were adhered to and distribution reforms achieved;
- The adequacy and effectiveness of network planning and its execution;
- The efficiency and effectiveness in implementation of central schemes such as, Restructured Accelerated Power Development & Reform Programme (RAPDRP) and Rajeev Gandhi Grameen Vidyutikaran Yojana (RGGVY);

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* The word Company also refers to the Board for the period prior to formation of the Company.

♦ Operation Circle Solan, Nahan, Una and Dalhausie, Electrical Division Parwanoo, Nalagarh, Nahan, Rampur, Reckong Peo, Mandi, Nadaun, Una, Dharamshala, Nurpur and Chamba.

- Operational Efficiency in meeting the power demand of consumers in the State;
- Billing and Collection efficiency of revenue from consumers;
- Whether financial management was effective and surplus funds, if any, were judiciously invested;
- Whether a system is in place to assess consumer satisfaction and redressal of grievances;
- That energy conservation measures were undertaken; and
- That a monitoring system is in place and the same is utilised in review of overall working of the Company.

Audit Criteria

2.4 The audit criteria adopted for assessing the achievement of the audit objectives were:

- Provisions of Electricity Act, 2003;
- National Electricity Plan, Plans and norms concerning distribution network of the Company and planning criteria fixed by the SERC;
- Standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- Terms and conditions contained in the Central Scheme Documents;
- Norms prescribed by various agencies with regard to operational activities;
- Norms of technical and non-technical losses;
- Guidelines/ instructions/ directions of State Government/SERC; and
- Comparison with best performers in the regions/all India averages.

Financial Position and Working Results

2.5 The financial position of the Company for the four years ending 2009-10 is as follows:

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10[ψ]
A. Liabilities				
Paid up Capital	282.11	334.00	372.23	971.77
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	1261.36	1333.86	1530.08	1775.69
Borrowings (Loan Funds)				
Secured	115.44	198.13	233.88	321.15
Unsecured	2002.99	2102.14	1706.51	1913.11
Current Liabilities & Provisions	2341.99	2423.12	3049.60	3391.70
Total	**6003.89**	**6391.25**	**6892.30**	**8373.42**
B. Assets				
Gross Block	3556.07	3564.76	4271.34	4644.54
Less: Depreciation	464.98	552.91	649.56	754.91
Net Fixed Assets	3091.09	3011.85	3621.78	3889.63
Capital works-in-progress	1108.16	1098.53	997.79	1040.28
Investments	857.25	966.74	1303.16	2082.87
Current Assets, Loans and Advances	710.11	1051.46	739.21	977.46
Accumulated losses	237.28	262.67	230.36	383.18
Total	**6003.89**	**6391.25**	**6892.30**	**8373.42**
Debt : Equity	**7.51:1**	**6.89:1**	**5.21:1**	**2.30:1**
Net Worth*	**1306.19**	**1405.19**	**1671.95**	**2364.28**

(Source: Annual Accounts of the Board/Company)

- It may be seen from the above that the accumulated losses of the Company increased by 61.49 *per cent* from ₹ 237.28 crore in 2006-07 to ₹ 383.18 crore in 2009-10. The reasons for the increase in losses could be attributed to non-recovery of cost of operations, increased borrowings on account of the working capital problems, poor billing and revenue collection efficiency, etc.
- The current liabilities and provisions increased from ₹ 2,341.99 crore in 2006-07 to ₹ 3,391.70 crore in 2009-10 due to increased interest burden and purchase of additional power to meet the increased demand in the State.
- Further, the debt-equity ratio of the Company improved from 7.51:1 in 2006-07 to 2.30:1 in 2009-10. The improvement in debt-equity ratio was mainly due to increase of equity from State Government in the year 2009-10.

ψ The accounts of the Company for the year ending 31 March 2011 have not been compiled (September, 2011).

* Net worth represents paid-up-capital plus reserves and surplus less intangible assets.

2.6 The particulars of cost of electricity *vis-à-vis* revenue realisation per unit is indicated below:

(₹ in crore)

Sl.No.	Description	2006-07	2007-08	2008-09	2009-10
1.	**Distribution (In MUs)**				
(i)	Own Generation	1385.83	1763.43	1967.01	1705.89
(ii)	Total power purchased	5056.95	5425.76	6047.50	6616.35
(iii)	Less: Transmission losses, if applicable	-	-	-	-
(iv)	Net Power available for Sale	6442.78	7189.19	8014.51	8322.24
(v)	Less: Sub-transmission & distribution losses	887.07	972.14	1055.79	1223.89
	Net power sold	**5555.71**	**6217.05**	**6958.72**	**7098.35**
2.	**Income**				
(i)	Revenue from Sale of Power	1771.23	2139.50	2813.37	2838.35
(ii)	Revenue subsidy	146.47	168.00	102.00	140.00
(ii)	Other income	140.57	44.98	50.69	70.39
	Total Income	**2058.27**	**2352.48**	**2966.06**	**3048.74**
3.	**Expenditure on Distribution of Electricity**				
(a)	**Fixed cost**				
(i)	Employees cost	471.69	547.96	612.77	729.64
(ii)	Administrative and General expenses	27.65	31.38	49.34	48.31
(iii)	Depreciation	57.14	87.99	96.96	105.53
(iv)	Interest and finance charges	138.21	177.47	172.25	176.21
(v)	Other Expenses	79.72	(-)21.95[£]	20.86	(-)60.17
	Total fixed cost	**774.41**	**822.85**	**952.18**	**999.52**
(b)	**Variable cost**				
(i)	Purchase of Power	1174.16	1404.99	1823.54	2014.84
(ii)	Electricity Duty[♣]	29.83	80.93	77.96	38.00
(iii)	Transmission/ Wheeling Charges	80.38	124.50	130.22	156.76
(iv)	Repairs & Maintenance	27.44	25.52	27.81	30.44
	Total variable cost	**1281.98**	**1555.01**	**1981.57**	**2202.04**
(c)	**Total cost 3(a) + (b)**	**2056.39**	**2377.86**	**2933.75**	**3201-56**
4	Net Profit/(Loss) (2-3)	1.88	(25.38)	32.31	(152.82)
5.	Realisation (₹ per unit) (including revenue subsidy)	3.70	3.78	4.26	4.29
6	Fixed cost (₹ per unit)	1.39	1.32	1.37	1.41
7	Variable cost (₹ per unit)	2.31	2.50	2.85	3.10
8	Total cost per unit (in ₹) (6+7)	3.70	3.82	4.22	4.51
9.	Contribution (5-7) (₹ per unit)	1.39	1.28	1.41	1.19
10	**Profit (+)/Loss(-) per unit (in ₹) (5-8)**	-	(-) 0.04	0.04	(-) 0.22

(Source: Annual Accounts of the Board/Company.)

It may be seen from the above that the realisation per unit, though, increased from ₹ 3.70 in 2006-07 to ₹ 4.29 in 2009-10, but the same was, however, not sufficient to cover the cost per unit during 2007-08 and 2009-10 which was ₹ 3.82 and ₹ 4.51 per unit against realisation per unit of ₹ 3.78 and ₹ 4.29 respectively.

It is also evident from the above table that purchase of power and employee cost constituted major elements of cost in 2009-10 which represented 62.93

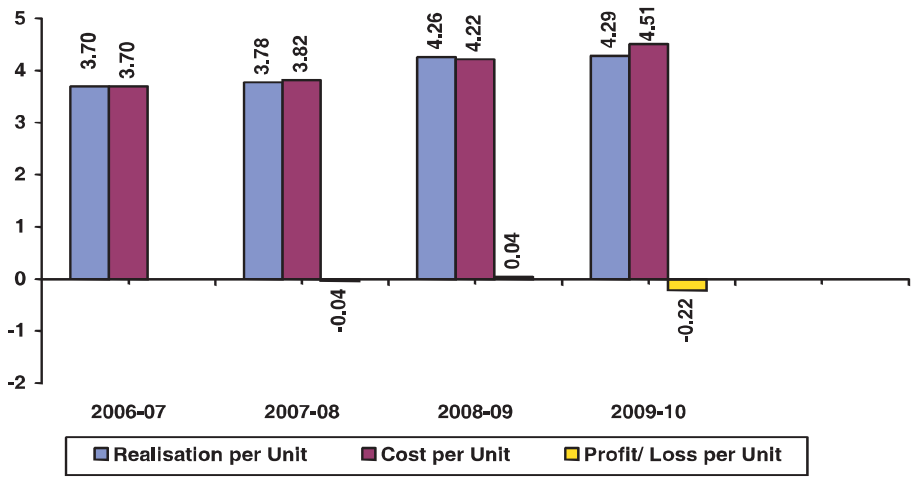
£ The figures are negative due to prior period adjustments.

♣ ED recovered from the consumers and remitted to the Govt. is neither a cost nor an income to the utility. Hence, kept out of the revenue account.

and 22.79 *per cent* of the total cost in that year. On the other hand sale of power constituted the major elements of revenue in 2009-10 which represented 97.69 *per cent* of the total revenue.

Recovery of cost of operations

2.7 The Company was not able to recover its cost of operations during the year 2007-08 and 2009-10. The revenue realisation per unit and cost per unit for four years ending 2009-10 is given in the graph below:



It may be seen from the working results that there remained a revenue gap of ₹ 25.38 crore in 2007-08 and ₹ 152.82 crore in 2009-10 (even after including revenue subsidies & grants). The total loss amounted to ₹ 144.01 crore during the four years from 2006-07 to 2009-10 even after adjusting profit of ₹ 34.19 crore earned during 2006-07 and 2008-09. The main reasons for high per unit cost as compared to revenue from sale of power are attributable to higher expenditure on inter state purchase of power, high T & D losses, high employee costs and interest and finance charges which needs immediate attention of the State Government for necessary remedial action.

Audit Findings

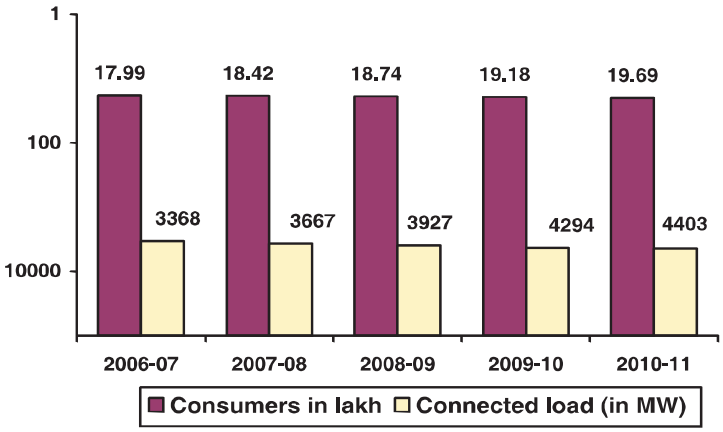
2.8 We explained the audit objectives to the Company at an 'Entry Conference' held on 31 March 2011. Subsequently, audit findings were reported to the Company and the State Government in August 2011 and discussed at an 'Exit Conference' held on 25 October 2011. The Exit Conference was attended by Director (Operation). The replies of the State Government/Company to the audit findings were awaited (October 2011). The views expressed by them during exit conference have been considered

while finalising this performance audit report. The resultant audit findings are as follows:

Distribution Network Planning

2.9 The Company is required to prepare long term/annual plan for creation and upkeep of infrastructural facilities for efficient distribution of electricity so as to cover maximum population in the State. Besides the upkeep of the existing network, additions in distribution network are planned keeping in view the demand/connected load, anticipated new connections and growth in demand based on Electric Power Survey. Considering physical parameters, Capital Investment Plans are submitted to the State Government/SERC. The major components of the outlay include normal development and system improvement besides rural electrification and strengthening of IT enabled systems. Audit noticed that no long term plan was prepared by the company up to March 2011.

The particulars of consumers and their connected load during five years ending 2010-11 is given in the following bar chart:



(Source: Administrative Reports)

The particulars of distribution network planned *vis-à-vis* achievement there against in the State as a whole is depicted in **Annexure 7**. It may be seen from the same that against the planned additions of 5,709 distribution sub-stations over the audit period, only 4,217 distribution sub-stations were actually added.

As compared to the growth of connected load (up to 33 KV) of 3,368.19 MW in 2006-07 to 4,402.80 MW (equivalent to 4,892 MVA) in 2010-11 (30.72 *per cent*) as depicted in the graph, the increase in transformers capacity was from 1,007.98 MVA to 1,228.26 MVA* only (21.85 *per cent*). The ideal ratio of transformation capacities to connected load is considered as 1:1. Thus, the increase in distribution capacity could not match the pace of growth in

* Excluding transformer capacity added by the industrial consumers at their own expenses.

consumer demand mainly due to non-completion of the construction of the sub-stations as planned.

Further, taking into account the connected load of 4,402.80 MW as at the end of March 2011, the requirement of transformers capacity would be 5,136.60 MVA[λ] after considering the requirement of spin reserve of 5 *per cent*. However, this capacity was only 1,228.26 MVA which was not adequate to meet the projected load demand as per the Electric Power survey. This led to overloading of network and consequential rotational cuts in distribution of electricity. After giving margin for maximum load at which transformers can function in normal manner, the transformers capacity requirement would work out to 4,447.27 MVA[•]. Though the Company increased its transformation capacity, the same was, however, not commensurate with the increase in connected load resulting in huge gap in transformation capacity. This was mainly due to non/short completion of the construction of the sub- stations as planned.

System Improvement Schemes

Avoidable loss due to late completion/non completion of schemes

2.9.1 System Improvement schemes (13 no.) with total project cost of ₹ 20.30 crore were sanctioned between April 1999 and September 2008. Out of ₹ 20.30 crore; the REC provided loan of ₹ 18.20 crore and the balance ₹ 2.10 crore was to be arranged by the Company. On completion of these schemes the Company had projected addition of 39.8 MVA capacity with consequential saving in losses of 30.69 MUs *per annum*.

Due to non/delayed completion of schemes the Company could not avail the benefit of saving in losses of ₹ 7.99 crore (58.04MUs)

Audit noticed that out of thirteen schemes, eight schemes were completed in time and three schemes scheduled for completion in March 2005 (1 scheme) and October 2009 (2 scheme) had not yet been completed (September 2011) due to which 8 MVA additions could not be made. Further, two schemes (6.4 MVA) were completed in October 2009 and June 2010 against scheduled completion of March 2004. The abnormal delays were mainly due to non-provision of sufficient budget and delayed procurement of material. Thus, due to non-completion/late completion of these five schemes the Company could not avail the envisaged benefit of saving in losses of ₹ 7.99 crore (58.04 MUs).

Implementation of Centrally Sponsored Schemes

Rural Electrification

2.10 The National Electricity Policy (NEP) states that the key objective of development of the power sector is to supply electricity to all areas including

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λ 4402.80 MW/0.9=4892 MVA*5%=244.60
4892 MVA+244.60 MVA=5136.60 MVA.

• 4402.80 MW/0.9=4892 MVA/110*100=4447.27 MVA (Overloading of 10 *per cent* has been considered).

rural areas for which the GoI and the State Governments would jointly endeavour to achieve this objective. Accordingly, the Rajiv Gandhi *Grameen Vidyutikaran Yojana* (RGGVY) was launched in March 2005, which aimed at providing access to electricity for all households in five years for which the Government provides 90 *per cent* capital subsidy and 10 *per cent* of the cost of project to be contributed by the Company.

Besides, the GoI notified the Rural Electrification Policy (REP) in August 2006. The REP *inter-alia* aims at providing access to electricity for all households by 2009 and minimum lifeline consumption of one unit per household per day as a merit good by the year 2012. The other Rural Electrification (RE) schemes viz., Accelerated Electrification of one lakh villages and one crore household, Minimum Needs Programme were merged into RGGVY. The features of the erstwhile '*Kutir Jyoti* Programme' were also suitably integrated into this scheme. Rural Electrification Corporation (REC) was notified as the nodal agency for implementation.

As per guidelines of RGGVY a village would be declared electrified if basic infrastructure (distribution transformer and distribution lines) is provided in the inhabited locality, electricity is provided to public places (Schools, Panchayat Office, Health Centres, Dispensaries, Community Centres etc.) and the number of households electrified should be at least 10 *per cent* of the total number of households in the village. As on 31 March 2006, out of 17,495 villages in the State (as per 2001 Census), 17,386 villages were electrified (99.37 *per cent*). The year-wise target *vis-à-vis* achievement of electrification under RGGVY scheme during the audit period is shown in the table below:

(No. of villages)

Year	Electrified in the beginning of the year	Targeted for electrification during the year	Electrified during the year	Electrified in the end of the year	Percentage of achievement against target during the year
2009-10	17386	3	3	17389	100
2010-11	17389	20	23	17412	115

(Source: Data supplied by the company)

Out of 98 villages identified under the scheme only 26 villages were electrified during the two years ending March 2011.

Audit observed that out of total 98 villages identified under the scheme only 26 villages were electrified during the two years ending March 2011. Thus, the remaining 72 villages were yet to be electrified though the scheme was proposed for closure in November 2011. As such, the achievement was only 26.53 *per cent.* The main reasons for this low achievement were failure to enable timely supply of material and deployment of inadequate man power by the contractors.

The position of the funds available *vis-à-vis* utilised under RGGVY during the five years ending 31 March 2011 is depicted in the table below:

(₹ in crore)

Year	Opening Balance	Funds received during the year	Total funds available	Funds Utilised	Unspent funds at the end of the year
2006-07	-	7.48	7.48	-	7.48
2007-08	7.48	-	7.48	2.26	5.22
2008-09	5.22	80.00	85.22	2.50	82.72
2009-10	82.72	122.46	205.18	89.78	115.40
2010-11	115.40	6.35	121.75	98.14	23.61
Total	**-**	**216.29**	**-**	**192.68**	**-**

(Source: Data supplied by the Company)

It is evident from the above table that funds amounting to ₹ 192.68 crore (89 *per cent* only) were utilised against ₹ 216.29 crore received during the audit period under this scheme thereby leaving an unspent balance of ₹ 23.61 crore. The reasons for under utilisation of funds were delay in award and execution of works by the company/contractors leading to shortfall in achievement of physical targets.

The component-wise scheme provisions *vis-a-vis* achievement there against ending March 2011 are tabulated below:

Sl.No.	Particulars	Quantity as per scheme	Actual physical achievement	Shortfall	Percentage shortfall
1	33/11 KV2x1.6 MVA Sub-Station	1	--	1	100
2	33 KV line (Km.)	64	13	51	79.69
3	Augmentation of sub-station	8	8	-	Nil
4	DTRs (no.)	2092	1555	537	25.67
5	HT line (Kms)	1934	1035	899	46.48
6	LT lines (Kms)	5905	3523	2382	40.34
7	BPL household electrification (in no.)	13569	4008	9561	70.46

(Source: Data supplied by the Company)

The above table indicated that there were shortfalls in achievement of various components ranging between 26 to 100 *per cent* though the scheme is due for closure by November 2011.

VAT amounting to ₹ 3.88 crore had been charged to grant in violation of the instructions resulting in excess availing of grant.

Irregular booking of VAT to RGGVY

2.10.1 Ministry of Power, Govt. of India clarified (February 2008) that state taxes on RGGVY works would not be reimbursed and had to be borne by the concerned State Government/State Utility. Audit, however, noticed that a sum of ₹ 3.88 crore on account of VAT had been charged to the RGGVY grant by eight units test checked in audit in violation of the *ibid* instructions. This had resulted in excess availing of grant to that extent.

Accelerated Power Development Reforms Programme (APDRP)

2.11 The Government of India (GoI) approved the Accelerated Power Development Reforms Programmes (APDRP) scheme in 2002-03 to leverage the reforms in power sector through the State Government. The scheme was implemented with the objective of up-gradation of sub-transmission and distribution system including energy accounting and metering, for which GoI provided 90 *per cent* grant and 10 *per cent* loan.

Under APDRP, twelve schemes were sanctioned for ₹ 322.77 crore in 12 operation circles.[α] The same had been completed (February 2009) after spending an amount of ₹ 389.19 crore (*grant-in-aid*: ₹ 290.48 crore, GoI loan: ₹ 16.39 crore and REC loan: ₹ 82.32 crore). The reasons for excess expenditure were non-execution of works equitably over the scheme period and non/short availability of material.

Shortfall in achievement

2.11.1 APDRP Schemes were implemented through 12 operation circles of the Company. While reviewing the closing data, audit noticed that out of 12 circles, physical achievement was very less as compared to scheme provisions in respect of operation circles Dalhousie and Solan. The detail thereof is given in the table below:

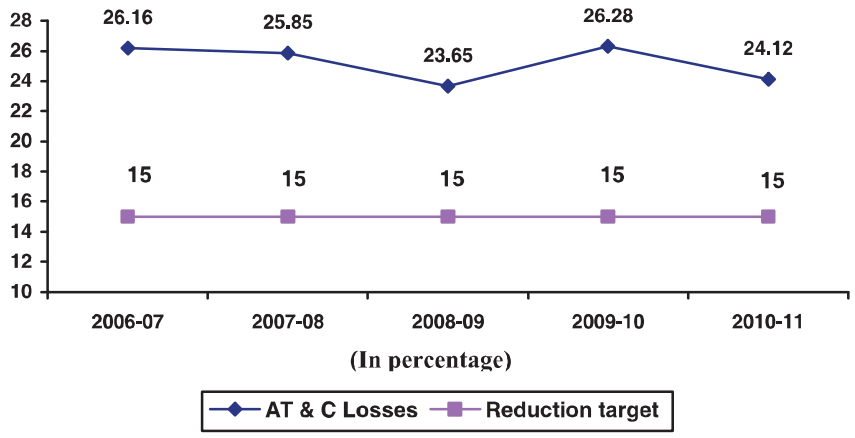
Sl. No.	Description of schemes	Provision as per DPR	Actual achievement	Shortfall	Percentage of shortfall
	Dalhousie Circle				
1.	33/11 KV S/Stns. (Job)	2	-	2	100
2.	DTR controls and protection (Job)	1	-	1	100
3.	New Service Wire (KM)	300	149.26	150.74	50.25
4.	New 33 KV line (KM)	18	8.174	9.826	54.59
5.	Re-conductoring of LT Lines (KM)	303.661	73.365	230.296	75.84
6.	LT to HT conversion (KM)	16	4.61	11.39	71.19
	Solan Circle				
1.	New Service Wire (KM)	340	27.415	312.585	91.94
2.	LT Capacitor (MVAR)	10.035	-	10.035	100
3.	New 33/11 KV S/Stn. (Nos.)	4	3	1	25
4.	22/11KV Line i/c cables (KM)	154.2	127.094	27.106	18
5.	Re-conductoring of HT line (KM)	245.2	138.909	106.291	43.35

The shortfall in achievement in respect of Dalhausie Circle ranged between 50 and 100 *per cent* under various components. Similarly the shortfall in Solan circle ranged between 18 and 100 *per cent*. Thus, the objective of the scheme could not be achieved in these two circles.

α Operation Circle, Bilaspur, Shimla, Solan, Nahan, Una, Rampur, Dalhausie, Kullu, Rohru, Mandi, Hamirpur and Kangra.

Aggregate Technical & Commercial Losses

2.11.2 One of the prime objectives of APDRP scheme was to strengthen the distribution system with the focus on reduction of Aggregate Technical & Commercial (AT&C) losses to around 15 *per cent*. The transmission and distribution losses linked to collection efficiency of the Company are termed as AT&C losses. The AT&C losses include theft, non billing, incorrect billing and inefficiency in collection besides transmission and distribution losses. The Company has not evolved any system for segregation of technical and commercial losses. The graph below depicts the AT&C losses over the audit period in the Company:



Due to non-achievement of AT&C losses reduction target of 15 *per cent*, the Company suffered loss of ₹ 1,322.37 crore.

It may be seen from the above figure that AT&C losses ranged between 23.65 and 26.28 *per cent* during the last five years ending 2010-11. The Company could not achieve the target of 15 *per cent* AT&C losses despite incurring of an expenditure of ₹ 101.44 crore on re-conductoring of HT/LT lines (4,028.615 Kms), replacement of meters (2,04,714 Nos.), service wire (2,189.219 KM) and conversion of LT to HT lines (107.518 Kms). Due to non-achievement of targets of 15 *per cent* of AT&C losses, the Company suffered loss to the extent of ₹ 1,322.37 crore[δ] during 2006-11.

The following deficiencies were noticed in execution of the scheme:

Loss due to delay in execution of scheme

2.11.3 Government of India, MoP sanctioned (August 2002 to May 2003) ₹ 322.77 crore (90 *per cent* grant and 10 *per cent* loan) under APDRP for all 12 circles of the Company with scheduled completion period of three years. Of this, GoI released of ₹ 306.88 crore (₹ 290.49 crore grant and ₹ 16.39 crore loan) through the State Government and remaining amount of ₹ 15.89 crore was arranged from M/s. REC Ltd. against loan component. Audit noticed that

δ Losses in excess of 15 *per cent* multiplied by average per unit sale rate of each year.

the State Government delayed the release of funds aggregating to ₹ 246.48 crore to the Company by 7 to 638 days. Delay in release of funds hampered the progress with consequential cost escalation of ₹ 73.56 crore in seven circles‡. Resultantly, in the initial three years ending March 2005 only ₹ 59.36 crore (31.74 *per cent*) could be spent against sanctioned amount of ₹ 187.04 crore and works could not be executed equitably over the scheme period. Though the cost escalation was approved (November 2006) by the GoI no financial assistance was provided. Therefore, the cost escalation had to be borne by the Company with loan component of ₹ 66.43 crore (January 2008 to May 2009) from M/s REC on which payment of interest of ₹ 20.99 crore was made up to March 2011.

Non-availing of grant

2.11.4 A provision of ₹ 1.14 crore was made for the construction of 2x1.6 MVA sub-station at Gangath (Dalhousie Circle) under APDRP scheme sanctioned in May 2003. Under the scheme 90 *per cent* cost of the project (₹ 1.03 crore) was to be financed out of grant and remaining 10 *per cent* (₹ 0.11crore) was to be arranged by the Company. The sub-station could not be constructed under APDRP due to non-finalisation of the mode of construction (manned/unmanned) by the Company. In the meanwhile, the said scheme was closed in February 2009. Audit noticed that Gangath sub-station has now (November 2010) been proposed for construction (unmanned mode) by obtaining loan from the REC under system improvement scheme. Thus, non-construction of sub-station under APDRP by availing grant, the Company deprived itself of ₹ 1.03 crore grant, besides non-achievement of reduction in losses as envisaged in the scheme.

Undue favour to the private party

2.11.5 As per Power Purchase Agreement (PPA) entered (October 2000) with Sai Engineering Foundation (Independent Power Producer), the party was to make its own arrangement for evacuation of power from its power house to inter-connecting point of the Company. However, the Company constructed (November 2007) line for evacuation of power from the power house to 22 KV sub-station, Pooh (inter-connection point) and booked an expenditure of ₹ 21.21 lakh under APDRP scheme instead of recovering it from the party. This had resulted in undue favour to a private party and diversion of APDRP funds to that extent.

Blockage of funds

2.11.6 The Company awarded construction of 2x6.3 MVA sub-station, Damtal in February 2008 and associated transmission line in March 2008 at a total cost of ₹ 4.08 core. The sub-station was completed in March 2009 after incurring an expenditure of ₹ 3.21 crore. It was noticed that the construction work of line could not be completed as the work was stopped by the Forest Department in June 2010 after incurring an expenditure of ₹ 0.22 crore due to the reason that the Company failed to obtain forest clearance which was

‡ Shimla, Solan, Kangra, Dalhausie, Una, Mandi and Kullu

mandatory before start of the work on forest land. The forest clearance has not been obtained so far and the work is held up (September 2011) for want of necessary clearance. Consequently, the sub-station completed in March 2009 could not be commissioned in absence of transmission line. This resulted in blocking of funds of ₹ 3.43 crore on sub-station and transmission line with consequential interest loss of ₹ 0.77 crore* besides depriving of saving in losses as envisaged in the scheme.

2.11.7 XLPE power cable measuring 35.871 Km. valued at ₹ 2.14 crore was procured (May 2005 & June 2006) for Kullu Circle under APDRP. The cable was to be provided in a line from Bhunter to Siubag area under the Circle but could not be utilised due to the reason that no bids were received (November 2006) for execution of this work. The Company thereafter did not take any action to utilise the same in the line for which the cable was purchased. The scheme however was closed in February 2009. This clearly indicated that the cable was procured without its actual requirement in the circle. The Company transferred 19.467 Km. cable (September 2006 to August 2010) to other units of the Company where only 15.410 Km have been used in works not covered in APDRP and the balance 20.461 Kms. valued at ₹ 1.22 crore was still lying unutilised. This had resulted in blockage of funds (₹ 1.22 crore) and diversion of APDRP funds (₹ 0.92 crore) to that extent with consequential interest loss of ₹ 63.75 lakh*.

Non-utilisation of AB Cable

2.11.8 The Company purchased (March 2005) AB Cable 95MM^2 for replacement of 20 Kms. conductor at Kumarsain local and Nogli-Rampur feeder under the APDRP. AB cable (10.058 Kms.) valued at ₹ 53.08 lakh and its related accessories (₹ 2.68 lakh) were received in the store during June/October 2005. It was noticed that the same could not be utilised due to non-deployment of skilled labour and closure of the scheme in February 2009. Thus, due to failure of the Company in deploying skilled labour, the conductor of above mentioned works could not be replaced with the cable. This not only resulted in blockage of ₹ 55.76 lakh and interest loss of ₹ 35.17 lakh* but also defeated the envisaged purpose of preventing illegal tapping, over-loading of DTRs and stable voltage supply.

Non-replacement of rotten service wires/re-conductoring of HT

2.11.9 Under the APDRP scheme, 650 Km. rotten service wires of different sizes was to be replaced at a cost of ₹ 1.24 crore in two# circles. It was noticed that only 196.17 Kms service wire was replaced against the provision of 650 Kms. Thus, the Company could not achieve reduction in T&D losses valuing ₹ 0.94 crore as envisaged in the scheme. The main reasons for non-achievement of the targets were failure to start the works immediately after sanction of the schemes and non-availability of material in field units.

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* Calculated at the rate of 11 *per cent per annum* at which overdraft facility being obtained by the Company.

\# Rampur & Dalhousie.

2.11.10 Similarly, under the APDRP scheme of Solan circle there was a provision of re-conductoring of 245.200 Kms. HT and replacement of 340 Kms. rotten service wire against which re-conductoring of 138.909 Kms. HT and replacement of 27.415 Kms. rotten service wire was done. Due to shortfall in achievement of targets, the Company could not avail benefit of reduction of T&D losses to the extent of ₹ 10.56 crore as envisaged in the sanctioned scheme.

Restructured Accelerated Power Development Reforms Programme

2.12 In order to carry forward the reforms further, the GoI launched the Restructured APDRP (R-APDRP) in July 2008 as a Central Sector Scheme for XI Plan (2007-12). The R-APDRP scheme comprises Part A and B. Part A was dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA♠/Distribution Management System. For this, 100 *per cent* loan was provided, and was convertible into grant on completion and verification of same by the Third Party independent evaluating agencies. The Part B of the scheme deals with strengthening of regular sub-transmission & distribution system and up-gradation of the projects. Power Finance Corporation (PFC) was the nodal agency for the implementation of this scheme.

Financial Performance

2.12.1 The details of the funds released by GoI, mobilised from other agencies (including REC/ PFC/ Commercial Banks) utilisation there against and balances are depicted below:

(₹ in crore)

Year	Funds released by		Funds available	Funds utilised	Balance	Percentage of balance to funds available
	GoI	Others				
2009-10	24.32	-	24.32	-	24.32	100
2010-11	101.25	-	125.57	8.15	117.42	93.51

(Source: Data supplied by the Company)

The above table showed that the major portion (93.51 *per cent*) of the funds was lying un-utilised (March 2011). Out of unspent balance of ₹ 117.42 crore the funds amounting to ₹ 64 crore were invested in FDRs with the banks and funds of ₹ 50 crore had been utilised by the Company towards its working capital requirement. The remaining unspent balance of ₹ 3.42 crore was lying in the current account of the Company (March 2011).

♠ **Supervisory Control And Data Acquisition** – It generally refers to computer systems that monitor and control industrial, infrastructure or facility-based processes.

Audit observed that the implementation of the scheme in the State was very slow and the targeted objective to achieve the entire implementation of the scheme in the State appears remote. As such, the conversion of loan to grant as envisaged in the Scheme may not be achievable.

Establishment of IT enabled system

2.12.2 Part – A of the R-APDRP scheme was dedicated to establishment of IT enabled system and SCADA/Distribution Management System. Fourteen towns of the State were found eligible (as per Census 2001 for special category state)• for funding as per DPRs submitted to PFC. Government of India, MoP sanctioned (September 2009) the Part-A of the scheme for ₹ 81.07 crore which was further revised to ₹ 96.40 crore in August 2010. The Company had so far (March 2011) incurred an expenditure of ₹ 8.15 crore on ring fencing and payment of advance to the M/s HCL Info system Limited which was appointed as IT implementing Agency in August 2010. The LOI for the works covered under Part-A was issued on 20 August 2010 and LOA on 30 August 2010 in favour of M/s HCL Infosytems Ltd. with completion period up to September 2011.

Audit observed that the IT enabled system was still (June 2011) incomplete.

Strengthening of sub-transmission and distribution system

2.12.3 In Part-B of the scheme focus was on reduction of Aggregate Technical & Commercial (AT&C) losses on sustainable basis. For implementation of the scheme 90 *per cent* of the sanctioned project cost was to be provided by GoI as loan for special category states and entire loan was to be converted into grant in five tranches depending upon the extent of maintaining AT&C loss level at 15 *per cent* for five years. The balance ten *per cent* was to be arranged by the Company. The schemes for fourteen towns have been sanctioned for ₹ 322.18 crore (₹ 289.97 crore: GoI loan & ₹ 32.21 crore: own funding) by Power Finance Corporation (PFC) Ltd. during August and December 2010. PFC released ₹ 96.65 crore towards first instalment (₹ 49.66 crore for four towns on 28 September 2010 and ₹ 46.99 crore for ten towns on 18 February 2011). Despite receipt of funds, the construction works were yet to be awarded (September 2011) by the Company.

Operational efficiency

2.13 The operational performance of the Company is judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, minimising line losses, detection of electricity theft, *etc.*

• Towns with population of 10,000 and above considered for special category States.

These aspects have been discussed below:

Purchase of Power

2.13.1 The demand for energy has been increasing year after year in the State due to economic and social development. Assessment of future demand and requirement of power is calculated on the basis of past consumption trends, present requirement, load growth trends and T & D losses and its trend. SERC approves the sources of purchase of power and the purchase cost based on the estimates made in the Annual Revenue Requirement (ARR).

The Company had projected its sale for the control period (2009-11) by applying four year compounding of annual growth rate. For non-domestic and non-commercial category of consumers, a growth rate of 10 *per cent* had been considered for projecting the sales.

The details of demand of power assessed on the basis of 17th Electric Power Survey (EPS), purchase of power approved by SERC and actual power purchased during the period 2006-07 to 2010-11 in respect of the State as a whole were as under:

(In Million Units)

Year	Demand assessed in EPS	Purchases approved by *SERC*	Actual Power purchased	Power Deficit	Excess/Shortfall in purchase against approved
(1)	(2)	(3)	(4)	(5) = (2 – 4)	(6) = (3 – 4)
2006-07	5585	4267.27	5056.95	528.05	789.68
2007-08	6212	4338.00	5425.76	786.24	1087.76
2008-09	6909	5884.81	6047.50	861.50	162.69
2009-10	7684	6863.79	6616.35	1067.65	(-)247.44
2010-11	8545	7995.73	7649.66	895.34	(-)346.07

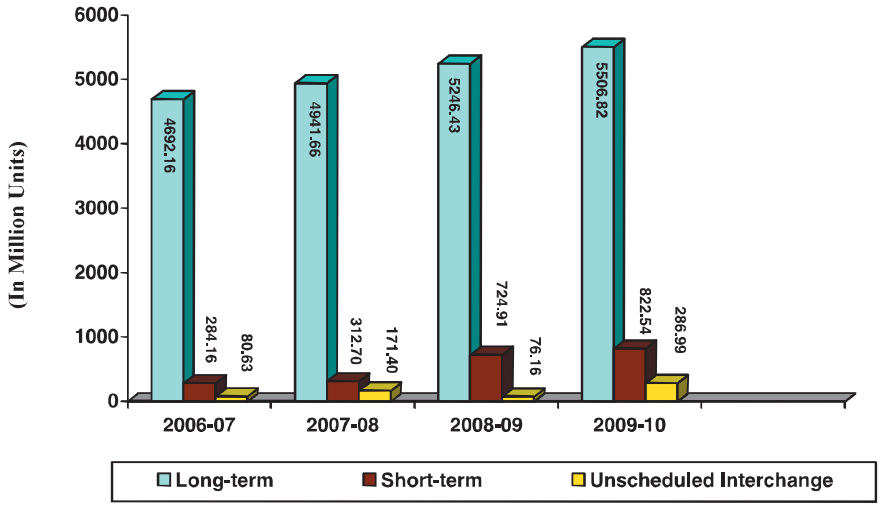
(Source: Electric Power Survey & Tariff orders issued by HPERC)

As may be seen from above table that during 2006-08, the actual purchase of power was much higher than the purchases approved by the SERC due to short generation of power from its own generating stations as compared to the projected generation. Further, the purchases were far below the purchases approved by the SERC during 2009-11 and consequently, the Company had to impose power cuts to the extent of 287.11 MUs.

2.13.2 For the above purchases, the Company entered into long/short-term PPA with various agencies viz., State/Central PSUs, IPPs, *etc.* besides unscheduled interchange (UI) purchases on need basis. The break-up of the

total power purchased (as mentioned in previous table) into these categories was as follows.

The source-wise purchase of power during audit period is given in the **Annexure 8.**



It may be seen from the above graph and annexure that out of 23,146.56 MUs power purchased during 2006-10, 2,759.49 MUs (11.92 *per cent*) was in the form of overdrawl from the grid and short-term power purchase. The overdrawal from grid and short term power purchases were made at ₹ 3.60 per unit* and ₹ 4.52 per unit* respectively as compared to long term sources at rate of ₹ 2.27 per unit*. Had the Board resorted to well planned long-term arrangements of power purchase, the overdrawal from grid and short-term purchase of power at high cost ₹ 564.29** crore incurred during 2006-10 could have been avoided.

Sub-transmission & Distribution Losses

2.13.3 The distribution system is an important and essential link between the power generation source and the ultimate consumer of electricity. For efficient functioning of the system, it must be ensured that there are minimum losses in sub-transmission and distributing the power. While energy is carried from the generation source to the consumer, some energy is lost in the network. The losses at 33 KV & 11 KV stage are termed as sub-transmission losses while those at 440/220 volts are termed as distribution losses. These are based on the difference between energy received by the Distribution Company and energy billed to consumers. The percentage of losses to available power indicates the effectiveness of Distribution System. The losses occur mainly

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* Average rate for four years period from 2006-07 to 2009-10.

** Short term purchases = 2,144.31 MUs x ₹ 2.25 = ₹ 482.47 crore.
Un-scheduled interchange charges = 615.18 MUs x ₹ 1.33 = ₹ 81.82 crore.

on two counts, *i.e.*, technical and commercial. Technical losses occur due to inherent character of equipment used for transmitting and distributing power and resistance in conductors through which the energy is transmitted from one place to another. On the other hand, commercial losses occur due to theft of energy, defective meters and drawl of un-metered supply, *etc.*

The table below indicates the energy losses for the power distribution company in the State as a whole for last five years up to 2010-11:

(In Million Units)

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11 (Provisional)
1.	Energy purchased/available for sale	6442.78	7189.20	8014.51	8322.24	9583.37
2.	Energy sold	5555.71	6217.06	6958.72	7098.35	8144.77
3.	Energy losses (1 – 2)	887.07	972.14	1055.79	1223.89	1438.60
4.	*Percentage* of energy losses {(3 / 1) x 100}	13.77	13.52	13.17	14.71	15.01
5.	*Percent*age of losses allowed by SERC	18.5	17.5	13.14	12.79	12.49
6.	Excess losses (in MUs)	-	-	2.40	159.75	241.52
7.	Average realisation rate per unit (in ₹)	3.70	3.78	4.26	4.29	4.35
8.	Value of excess losses (₹ in crore) (6 x 7)	-	-	1.02	68.53	105.06

(Source: Annual Accounts of the Company/Board)

It would be seen from the above table that losses ranged between 13.17 and 15.01 *per cent* during the last five years ending 31 March 2011. The actual losses were in excess of 403.67 MUs (valuing ₹ 174.61 crore) than the percentage of losses fixed (13.14, 12.79 & 12.49 *per cent*) by the SERC during 2008-09 to 2010-11. Reduction in these losses is the most significant step towards making the Company financially self-sustaining. The importance of reducing losses can be gauged from the fact that a one *per cent* reduction in losses would have reduced the losses annually by ₹ 41.69$^{\Delta}$ crore. The main reasons for such high energy losses were insufficient transformation capacity, lengthy feeders, over loaded system, defective and electro-mechanical meters and theft of electricity, *etc.*

Inadequate transformation capacity

2.13.4 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 is transformed to lower voltage (11 KV) at 33/11 KV sub-stations to make it usable 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

Δ Computed at one *per cent* of energy loss of 1438.60 MUs for 2010-11 *i.e.* 95.84 MUs x average realisation rate of ₹ 4.35 per unit.

details of transformation capacity at 33/11 KV sub-stations and connected load of the consumers in the State during the period 2006-11:

(In MVA)

Year	Transformation Capacity	Connected load	Gap in Transformation capacity	Ratio of Transformation capacity to connected load
2006-07	1048.37	3368	2319.63	0.31:1
2007-08	1101.79	3667	2565.21	0.30:1
2008-09	1146.63	3927	2780.37	0.29:1
2009-10	1182.41	4294	3111.59	0.28:1
2010-11	1228.26	4403	3174.74	0.28:1

(Source: Administrative Reports of the Company)

It can be seen from the table above that there was wide gap of transformation capacity which led to overloading of the system resulting in frequent trippings^ and adverse voltage regulation with consequential higher quantum of energy losses.

Performance of Distribution Transformers

2.13.5 The SERC fixed the norm of failure of Distribution Transformers (DTRs) in its Standards of Performance Regulations, 2005. The details of norms fixed, actual DTRs failed and the expenditure incurred on their repairs is depicted in the table below:

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Existing DTRs at the close of the year (in Number)	19181	19907	20572	21302	22472
2.	DTR Failures (in Number)	928	1312	822	675	941
3.	Percentage of failures	4.84	6.59	4.00	3.17	4.19
4.	Norm allowed by SERC (in percentage)	2.00	2.00	2.00	2.00	2.00
5.	Excess failure percentage over norms (3-4)	2.84	4.59	2.00	1.17	2.19
6.	Number of DTRs failed in excess of two *per cent* norms	544	914	411	249	492
7.	Estimated expenditure on repair of failed DTRs in excess of norms (₹ in crore)	4.47	5.05	4.64	3.51	5.90

(Source: Data supplied by the Company)

^ 1,32,695 trippings for 58,527 hours were reported during the audit period under Chief Engineer (Op) North Zone, Dharamshala and Central Zone, Mandi.

It may be seen from the above table that the failure rate of DTRs was in excess of the norms fixed by the SERC in all the five years from 2006-07 to 2010-11. During 2007-08 excess failure rate of transformers was as high as 6.59 *per cent*. Failure of DTRs could have been minimised by taking adequate steps for preventive maintenance and avoiding over-loading of the same. Cause-wise analysis of failure of DTRs could not be done due to the fact that in most of the cases the reasons for failure were recorded as "due to internal fault".

Higher repair cost of DTRs

2.13.6 The repair cost incurred by the Company on distribution transformers during the review period is tabulated below:

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-2011
1.	Number of transformers repaired	1032	694	869	720	846
2.	Direct Cost (₹ in crore)	4.31	3.69	4.69	3.95	5.78
3.	Indirect cost (cost of supervisory staff and administrative cost) (₹ in crore)	3.32	3.57	4.62	5.59	5.54
4.	Total repair cost (₹ in crore)	7.63	7.26	9.31	9.54	11.32
5.	Cost of new transformers (₹ in crore)	8.04	5.24	7.43	7.39	9.05
6.	Excess repair cost (₹ in crore)	(-) 0.41	2.02	1.88	2.15	2.27

(Source: Data supplied by the M&T wing)

Against the repair cost of ₹ 45.06 crore incurred on 4,161 transformers, the cost of same number of new transformers would have been ₹ 37.15 crore.

It may be seen from the above table that the repair cost of damaged DTRs (25 KVA to 250 KVA) after including supervisory and administrative costs was very high. Against the repair cost of ₹ 45.06 crore incurred on the repair of 4,161 transformers the cost of same number of new transformers would have been ₹ 37.15 crore. The Company had not analysed the reasons for abnormally high repair cost so as to reduce the same. Audit noticed that the higher repair cost was due to excess supervisory staff and shortfall in repair of available DTRs during the last five years ending March 2011.

Capacitor Banks

2.13.7 Capacitor bank improves power factor by regulating the current flow and voltage regulation. In the event of voltage falling below normal, the situation can be set right by providing sufficient capacity of capacitor banks to the system as it improves the voltage profile and reduces dissipation of energy

to a great extent thereby saving loss of energy. The position as regards capacitor banks is shown in the **Annexure 9**.

Against the planned addition of 127 MVAR capacitor banks the Company had not installed any capacitor bank during the last five years ending March 2011. Therefore, the Company was deprived of the benefit of saving in losses of ₹ 1.13 crore. Further the Company had not fixed any target for addition of capacitor banks during the year 2006-07 to 2008-09.

Reactive Power

2.13.8 As per the Indian Electricity Grid Code (effective from April 2006), beneficiaries are expected to provide local Voltage Ampere Reactive (VAr) compensation so that they do not draw VArs from the EHV grid. To discourage VAr drawals by beneficiaries, VAr exchanges with Inter State Transmission System shall be priced as follow:

- The beneficiary pays for VAr drawal when voltage at the metering point is below 97 *per cent*.
- The beneficiary gets paid for VAr drawal when voltage is above 103 *per cent*.

Non-maintenance of required voltage limits resulted in avoidable payment of reactive energy charges of ₹ 2.76 crore.

In order to avoid payment of reactive energy charges, voltage was required to be maintained within the prescribed limit by installing and effectively operating shunt capacitors. Audit noticed that out of 805.53 MVAR capacitors installed in the system of the Company, 97.1 MVAR capacitors were lying defective (March 2011) due to which the voltage could not be maintained within the prescribed limit. Non-maintenance of required voltage limits resulted in avoidable payment of reactive energy charges of ₹ 2.76 crore between April 2006 and March 2011.

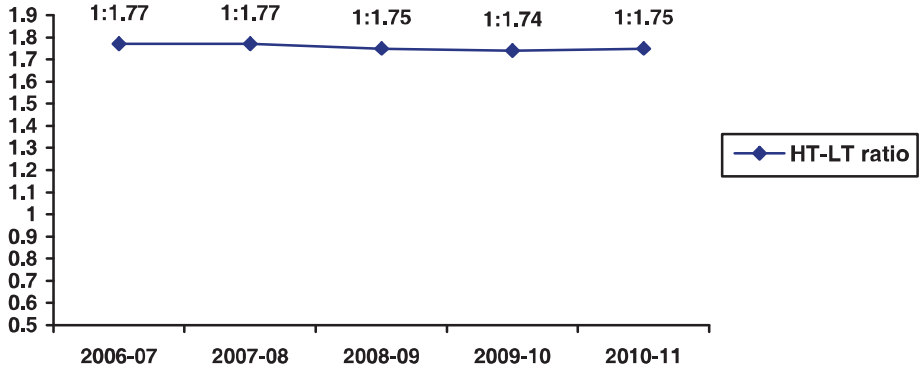
Commercial losses

2.13.9 The majority of commercial losses relate to consumer metering and billing besides pilferage of energy. The observations relating to commercial losses are discussed below:

Implementation of LT less system

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

The HT-LT ratio during the audit period is depicted in the graph below:



(Source: Data supplied by the Company)

It may be seen from the above graph that the HT/LT ratio ranged between 1:1.74 and 1:1.77 during the last five years ending March 2011 against the ideal ratio of 1:1.

High incidence of theft

2.13.11 Substantial commercial losses are caused due to theft of energy by tampering of meters by the consumers and unauthorised tapping/hooking by the non-consumers. As per Section 135 of Electricity Act, 2003, theft of energy **is** an offence and punishable under the Act. The number of checking, theft cases, assessed amount and amount realised there against are given in **Annexure–10,** which show that the number of checking of consumers premises is in decreasing trend (54.93 *per cent*) from 3,796 in 2006-07 to 1,711 in 2008-09 except 3,295 in 2009-10. As theft cases increased (86.39 *per cent*) to 1,027 in 2009-10 against 551 noticed during 2006-07, there is an imperative need for increasing the number of checking to curb the theft of energy.

Performance of flying squads

2.13.12 In order to minimise the cases of pilferage/loss of energy and to save the Company from sustaining heavy losses on this account, section 163 of Electricity Act, 2003, provides that the licensee may enter in the premises of a consumer for inspection and testing the apparatus. Accordingly, three flying squads under the control of CE (Commercial) have been formed (2001-2002) to check at least 3,600 connections of all categories of consumers in a year against the then total number of 15.25 lakh consumers (0.23 *per cent* of the total number of consumers). Though the number of consumers had increased to 19.18 lakh in March 2010, the Company did not consider suitable revision of the norms. Audit noticed that there was shortfall in the number of

consumers checked as compared to the norms during the four year period ending 31 March 2011 as per details given in the following table:

Sl. No.	Year	Total number of consumer	Number of consumers required to be checked£	Number of consumers checked	Percentage shortfall in checking	Assessed amount (₹ in crore)
1	2006-07	17,99,271	4,138	3,796	8.26	0.23
2	2007-08	18,41,695	4,236	3,074	27.43	0.94
3	2008-09	18,74,314	4,311	1,711	60.31	1.05
4	2009-10	19,17,689	4,411	3,295	25.30	0.96

(Source: Data supplied by the Company)

As may be seen from the above table, the percentage of shortfall in checking by the raid teams ranged between 8.26 *per cent* and 60.31 *per cent* during the last four years ending March 2010.

The HPERC in its tariff order for 2006-07 also directed to strengthen its existing flying squads network. However, the Company did not initiate any action to strengthen the flying squad network so far (June 2011).

Billing Efficiency

2.14 As per procedure prescribed in the Commercial and Revenue Manual, the Company is required to take the reading of energy consumption of each consumer at the end of the notified billing cycle. After obtaining the meter readings, the Company issues bills to the consumers for consumption of energy. Sale of energy to metered categories consists of two parts viz., metered and assessed units. The assessed units refer to the units billed to consumers in case meter reading is not available due to meter defects, door lock, *etc.* Billing of all the consumers is being done at sub-division/division/circle level. Domestic consumers are being billed on monthly, bi-monthly and tri-monthly basis, while other consumers billed on monthly basis.

The efficiency in billing of energy lies in distribution/sale of maximum energy by the Company to its consumers and realise the revenue in time.

£ Computed with reference to 0.23 *per cent* fixed for the year 2001-02.

Instances of undue favour to consumers in various forms noticed in audit are discussed hereunder:

Non-recovery of Lower Voltage Supply Surcharge

LVSS of ₹ 2.06 crore was not recovered from the consumers as per provisions of the tariff.

2.14.1 As per Schedule of Tariff, consumers availing electricity supply at voltage lower than the "Standard Supply Voltage," a Lower Voltage Supply Surcharge (LVSS) at a specific rate (ranging from five to two *per cent*) depending on supply voltage shall be charged. Test check of records of 47 units revealed that some industrial consumers had availed supply on lower voltage than the standard voltage fixed by the Company/SERC but LVSS of ₹ 2.06 crore was not recovered from the consumers as per provisions of the tariff.

Short levy of energy charges

2.14.2 According to clause 4.4.8 of Himachal Pradesh Electricity Supply Code, 2009 effective from May 2009, in case of defective meter, the consumer shall be billed for the period on the basis of average consumption of previous six months prior to the date of meter becoming defective and in the absence of consumption of previous six months, average of next six months should be considered.

It was observed that in six[f] Sub-divisions test checked, energy meter of ten consumers became defective from time to time. However, the sub-divisions billed the consumers either incorrectly or billed for lesser amount during the period (December 2006 to May 2011) the meters remained defective in contravention to the *ibid* instructions. This resulted in loss of revenue of ₹ 46.05 lakh.

Non-levy of initial/Additional Security

2.14.3 As per Security Regulations, 2005 and supply code, 2009, the consumer is required to deposit initial security before the release of connection. A security deposit to cover the estimated power consumption for a month/two months based on billing cycle was to be determined at the time of release of connection and to be reviewed every year. In case, the consumer fails to deposit the additional security, the supply of the defaulting consumers was to be disconnected.

Initial security of ₹ 1.76 crore and the additional security of ₹ 2.29 crore was not recovered from the consumers.

A test check of records of six operation circles[ψ] revealed that initial security was not recovered to the extent of ₹ 1.76 crore from 1,964 consumers of various categories. Further, the additional security amounting to ₹ 2.29 crore assessed during 2008-09 and 2009-10 (based on average monthly consumption) in respect of three units (Operation Circle Una, ED Nahan and Parwanoo) was not recovered from 46 consumers in compliance with the codal provisions *ibid*. Thus, failure of the concerned units in not following the regulations strictly as issued from time to time resulted in non-recovery of amount.

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f Dharmshala –II, Khalini, Dharampur, Panchrukhi, Sarahan and Kala Amb.

ψ Mandi, Bilaspur, Hamirpur, Kangra, Rohroo and Rampur.

Non-levy of electricity duty at revised rates

2.14.4 As per Electricity Duty Act, 2009, the electricity duty was leviable on energy charges at specific rate ranging between 3 and 13 *per cent* for different categories of consumers. The rates in respect of medium (up to 100 KW) and large supply (above 100 KW) consumers were revised (September 2009) from 13 to 15 *per cent* and for large supply consumers the rates were further revised (July 2010) from 15 to 20 *per cent*. It was noticed that in 45 sub-divisions electricity duty was not recovered/levied at revised rates. The main reasons for non-recovery of ED at the revised rates were attributed to delay in receipt/non-receipt of circulars by the field units. Further, there is no system in place to ensure timely communication of circulars to all the field units. This resulted in short recovery of ₹ 1.79 crore during the period from September 2009 to March 2011.

Non-loading of data through Meter reading instrument (MRI)

2.14.5 Schedule of tariff applicable from time to time provided for levy of energy charges at different rates for energy consumed during normal, night and peak hours, besides penalty on overdrawl of power during peak hours. In order to record all these parameters, time of day/electronic energy meters compatible for MRI to record half hourly energy consumption from 00 hours to 24.00 hours have been installed on the premises of the consumers. However, in two zones♠ the data in respect of 4,718 consumers (out of total 7,317, having connected load more than 20 KW, was not being downloaded through MRI. Consequently, the violation of contract demand could not be ascertained and penalty for the same, if any, remained un-recovered.

2.14.6 Further a test check in Electrical Division (Recong Peo) under South Zone, Shimla revealed that no MRI data was being downloaded in respect of consumers having connected load above 20 KW (92 consumers) owing to non-availability of MRI. Scrutiny of records (log sheets maintained at Nathpa Sub-station) of sub-division Tapri under the division revealed that one consumer had drawn load over and above the contract demand ranging between 619 KVA and 4,488 KVA during June 2007 to March 2010. After being pointed out (July 2010) by Audit, an amount of ₹ 1.26 crore was recovered (November 2010 & February 2011) from the consumer as per Company's revised calculation.

Under billing

2.14.7 In order to overcome the shortage of power due to damage (August 2009) of 220/66 KV, 80/100 KVA transformer installed in Katha sub-station, Barotiwala, the Company allowed five^ industrial consumers to inject power generated through D.G. sets installed at their premises to its system.

♠ Central zone, Mandi & North zone, Dharamshala.

^ M/s Vardhman, M/s Birla Textile, M/s Unichem-II, M/s Unichem-II and M/s GPI Textile.

As per tariff orders issued by the HPERC from time to time, the energy charges from the consumers having connected load of above 20 KW are to be billed on kVAh basis.

Issue of bills to five industrial consumers based on kWh instead of kVAh resulted in under billing of ₹ 1.09 crore.

Audit observed that the Company while issuing energy bills for 44.40 MUs generated through DG sets, issued bills based on kWh* instead of billing unit kVAh[@] to the consumers. As the units in kVAh works out to 49.33 MUs for 44.40 MUs generated in kWh, this resulted in under billing of 4.93 MUs (44.40 MUs/.90) valuing ₹ 1.09 crore.

Deficiency in Billing Software

2.14.8 Billing software introduced (August 2008) in 10 sub-divisions under (Operation) Circle Shimla had deficient provision for the recovery of demand charges from the consumers who had not declared the contract demand. In such cases, a provision for the recovery of demand charges should have been made as "Connected load (in KW)/0.90 x 80 *per cent*" as per schedule of Tariff. However, a provision was wrongly introduced in the software as "Connected load (in KW)/0.90/80 *per cent* x 90 *per cent*.

This had resulted in short recovery of demand charges of ₹ 0.75 crore during the period from August 2008 to April 2010.

Revenue collection efficiency

2.15 As revenue from sale of energy is the main source of income of company, prompt collection of revenue assumes greater significance. The salient features of the collection mechanism being followed by the company are as follows:

- Consumers may make payments of the bills by cash, cheques or by demand draft.
- Revenue billed in respect of HT services is collected at collection counters located at every sub-division office.
- In respect of LT services, electricity bills are generally collected by the revenue cashiers (RC) except in some areas where collection work is entrusted to certain private collection agencies.
- Industrial consumers are required to pay current charges within ten days from the date of delivery of the bills. The consumers of other categories are required to pay bills within 15 days, failing which the consumers are liable for payment of additional charges of one paisa per rupee per month of delay on the amount of the bill (excluding electricity duty/taxes) for the period of the delay.

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* Kilo-watt-hours.

@ Kilo-volt-ampere-hours (computed at 0.9 power factor).

The table below indicates the balance outstanding at the beginning of the year, revenue assessed during the year, revenue collected and the balance outstanding at the end of the year during last five years ending 2010-11:

(₹ In crore)

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Balance outstanding at the beginning of the year	189.00	189.59	225.35	256.11	322.18
2	Revenue assessed/Billed during the year	1369.75	1636.89	1960.11	2119.33	2525.29
3	Total amount due for realisation (1+2)	1558.75	1826.48	2185.46	2375.44	2847.47
4	Amount realised during the year	1369.16	1601.13	1929.35	2053.26	2495.41
5	Balance outstanding at the end of the year	189.59	225.35	256.11	322.18	352.06
6	Percentage of amount realised to total dues (4/3)	87.84	87.66	88.28	86.44	87.64
7	Arrears in terms of No. of months assessment	1.66	1.65	1.57	1.82	1.67

(Source: Data supplied by the Company)

We observed that:

As on 31 March 2011 an amount of ₹ 9.24 crore was due from disconnected services.

- The balance dues outstanding at the end of the year increased from ₹ 189 crore in the beginning of 2006-07 to ₹ 352.06 crore in 2010-11.
- Group-wise analysis of debts outstanding as on 31 March 2011 revealed that an amount of ₹ 9.24 crore was due from disconnected services.
- The balances outstanding include dues from private categories of consumers which increased from ₹ 140.14 crore in 2006-07 to ₹ 250.63 crore in 2010-11 and from Government/semi Government bodies it increased from ₹ 49.45 crore to ₹ 101.43 crore during the corresponding period.

Since the Company has means of disconnecting the services of defaulters, its collection efficiency of 88 *per cent* is not a good performance. We observed that the Company had not taken any action against the officers responsible for non-disconnection of the power supply of the defaulting consumers in time and non-filing of recovery suits against the defaulting consumers.

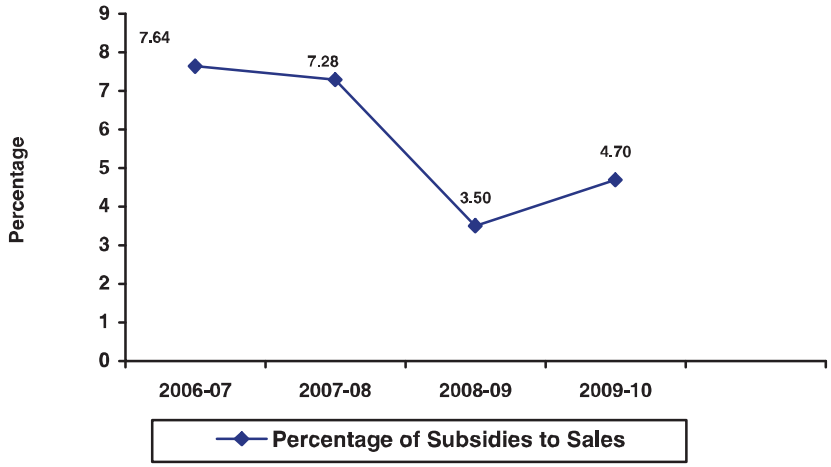
The Company needs to improve its collection efficiency by resorting to timely disconnection and should also take action against the officers who do not realise the dues in time.

Subsidy Support and Cross Subsidisation

2.16 There is an urgent need for ensuring recovery of cost of service from consumers to make the power sector sustainable. The State Government is providing subsidy with a view to ensure supply of power to specific category of consumers at concessional rates of tariff.

Subsidy Support

2.16.1 The graph below indicates revenue subsidy support from State Government (against concessional tariff) as a percentage of sales for the last four years ending 31 March 2010.



It is evident from the above that percentage of subsidy support from the Government decreased from 7.64 in 2006-07 to 3.50 in 2008-09. However, it increased to 4.70 *per cent* in 2009-10. Further, against the subsidy claim of ₹ 567.07 crore in respect of four years ending March 2010, only ₹ 556.47 crore was actually paid by the State Government as detailed below:

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10
Opening balance	46.46	1.34	(-) 34.73	4.87
Add: Due from State Government during the year	101.35	131.93	141.60	145.73
Less: Received during the year	146.47	168.00	102.00	140.00
Closing balance	1.34	(-) 34.73	4.87	10.60

(Source: Data supplied by the Company)

It may be seen from the table above that the closing balance of subsidy receivable has increased over the last three years period (except 2007-08) indicating that the State Government has not been fully reimbursing the subsidy due in each year. The subsidy receivable from the State Government at the end of 2009-10 was ₹ 10.60 crore. This would not only adversely affect the financial health of the Company but also infringes the provisions of Section 65 of the Electricity Act, 2003 requiring the State Governments to pay the subsidy in advance.

Cross subsidisation

2.16.2 Section 61 of Electricity Act, 2003 stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and also reduce cross subsidy in a phased manner as specified by the Commission. National Tariff Policy envisaged that the tariff of all categories of consumers should range within plus or minus 20 *per cent* of the ACOS by the year 2010-2011. The position as regards cross-subsidisation in respect of various categories of consumers is depicted in the table below:

Particulars	**2006-07**		**2007-08**		**2008-09**		**2009-10**	
Average cost of supply (ACOS)- (paisa per unit)	370		382		422		451	
Average Revenue from:	**Paise per unit**	**Per cent - age of ACOS**	**Paise per unit**	**Percen- tage of ACOS**	**Paise per unit**	**Percen- tage of ACOS**	**Paise per unit**	**Percen- tage of ACOS**
Domestic	229	61.89	235	61.52	261	61.85	262	58.09
Commercial	497	134.32	486	127.22	501	118.72	502	111.31
Industrial♠	299	80.81	314	82.20	342	81.04	344	76.27
Irrigation/Agriculture	634	171.35	639	167.28	555	131.52	530	117.52
Others•	432	116.76	414	108.38	480	113.74	499	110.64

(Source: Compiled from balance sheet and tariff orders)

It may be seen from the above table that the cross subsidies to the domestic consumers were more than 20 *per cent* of the ACOS during the audit period. This category was cross subsidised by the commercial, irrigation/agriculture and other categories of consumers. Thus, the domestic consumers are largely benefited from the cross subsidisation at the cost of others.

There is a need to correct this imbalance by progressively and gradually reducing the existing cross subsidies limits.

♠ Including Public Water Works.

• Including NDNC, Govt. Irrigation exceeding 20 KW, Public lighting, Bulk and Temporary connections, *etc.*

Consumer Satisfaction

2.17 One of the key elements of the Power Sector Reforms was to protect the interest of the consumers and to ensure better quality of service to them. The consumers often face problems relating to supply of power such as non-availability of the distribution system for the release of new connections or extension of connected load, frequent tripping on lines and/or transformers and improper metering and billing. The Company was required to introduce consumer friendly actions like introduction of computerised billing, online bill payment, establishment of customer care centers, *etc.* to enhance satisfaction of consumers and reduce the advent of grievances among them.

Audit observed that out of 51 divisions, computerised billing was being done only in 10 sub-divisions under two divisions. Further, the Company has not so far introduced the system of online bill payments. However, customers' care centre is functioning at head office Shimla since September 2008.

Redressal of Grievances

2.17.1 The HPERC specified the mode and time frame for redressal of grievance in Standards of Performance Regulations, 2005 in pursuance of the Electricity Act, 2003. The Commission had also prescribed the Standards of Performance for Company in which the time limit for rendering services to the consumers and compensation payable for not adhering to the same. The nature of services contained in the Standards *inter-alia* include line breakdowns, Distribution Transformer failures, period of load shedding/scheduled outages, voltage variations, meter complaints, installation of new meters/ connections or shifting thereof, etc.

During the years 2008-09 and 2009-10, 15.75 lakh complaints were received by the Company which were redressed within the time frame by the commission.

Energy Conservation

2.18 Recognising the fact that efficient use of energy and its conservation is the least-cost option to mitigate the gap between demand and supply, the GoI enacted the Energy Conservation Act, 2001. The conservation of energy being a multi-faceted activity, the Act provides both promotional and regulatory roles on the part of various organisations. The promotional role includes awareness campaigns, education and training, demonstration projects, R & D and feasibility studies. The regulatory role includes framing rules for mandatory audits for large energy consumers, devising norms of energy consumption for various sectors, implementation of standards and provision of fiscal and financial incentives.

Atal Bijlee Bachat Yojna (ABBY)

2.18.1 . The Government of Himachal Pradesh launched a scheme through Company titled "*Atal Bijlee Bachat Yojna*" to utilise the electricity so saved for the development of State besides claiming Carbon Credits♠ under Clean Development Mechanism (CDM). Under the *yojna*, a pack containing four Nos. CFLs (2x15 Watts & 2x20 Watts) was to be distributed to each domestic consumer for replacement of equal number of conventional incandescent bulbs. In order to assess the quantum of saving in energy, separate electrical wiring for four points of CFLs was to be provided in the consumers premises for sub-metering the consumption of these four points by selecting a minimum of four/five consumers per sub-division (in all 1,000 consumers). We noticed that the CFLs were distributed to the consumers free of cost yet no assessment of saving in energy has been done despite incurring an expenditure of ₹ 65.12 crore. The Company had also not initiated any action to claim the benefit of CDM accrued on this account so far (June 2011).

Further, 64,363 packets valued at ₹ 2.68 crore could not be distributed to the consumers in seven units test checked in audit, as the Company had disallowed the same to defaulted consumers and also as a few consumers did not come forward to collect the CFLs. This had not only resulted in blocking of funds to that extent but the very objective of the scheme was defeated.

Energy Audit

2.19 A concept of comprehensive energy audit was put in place with the objective to identify the areas of energy losses and take steps to reduce the same through system improvements besides accurately accounting for the units purchased/sold and losses at each level. The main objectives of energy audit are as follows:

- better and more accurate monitoring of the consumption of electricity by consumers;
- elimination of wastages;
- reduction of downtime of equipment; and
- massive savings in operational costs and increase in revenue, *etc.*

A review of the energy audit reports/ returns during the audit period revealed that the main objective of energy audit was to identify the pockets having higher losses by installing energy meters on distribution feeders and DTRs. Test check in seven units revealed that out of total 4,259 DTRs, meters on 4,220 DTRs were installed. Out of 4,220 meters, 769 meters were defective, resultantly energy audit in respect of energy being supplied from 808 DTRs (39 un-metered and 769 defective) was not being done accurately.

♠ Under CDM mechanism, emission reduction projects in developing countries can earn certified emission reduction credits. These saleable credits can be used by industrialised countries to meet a part of their emission reduction targets under Kyoto Protocol.

Failure in achieving energy losses reduction targets contributed ₹ 68.67 crore to financial loss of the Company.

In four* units test checked, the energy losses on 11 KV feeders were ranging between 4.30 *per cent* and 34.66 *per cent* during the year 2009-10 against the ideal losses of four *per cent* fixed by the CEA. Further losses on DTRs (Distribution Losses) were ranging between 7.74 and 78.62 *per cent* during 2009-10 against the ideal losses of 7.50 *per cent* prescribed by CEA. This contributed ₹ 68.67♣ crore to overall financial loss of the Company during the period of audit.

Monitoring by top Management

2.20 The Power Distribution Company plays an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, there has to be a Management Information System (MIS) for monitoring by top management. While reviewing the existing MIS for monitoring by top management, we observed that:

- The company sets the targets for addition in the infrastructure but the basis for the same were not available on record.
- The company while setting targets for addition in HT and LT lines, failed to visualise the achievement of ideal ratio of 1:1.
- The company had not developed programme for online access to its inventory in whole of the state to minimise the blockage therein.
- The company did not develop centralised system to monitor the loading position of individual sub-station/feeder.
- There exists no mechanism to review the division-wise physical progress of various schemes from time to time at Management level so as to initiate timely action to gear-up the progress.

Conclusion

Performance audit of distribution of power by the Company disclosed the following:

- **The Company failed to recover its cost of operation in 2007-08 and 2009-10 as per unit revenue earned by the Company was not sufficient to cover per unit cost. The accumulated losses of the Company increased by 61.49 *per cent* during 2006-10.**
- **Distribution capacity could not match with the pace of load growth.**

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* Operational Circles Dalhousie, Solan, Nahan and Electrical Division, Reckong Peo.

♣ Losses in excess of prescribed limit of 4 and 7.5 *per cent* multiplied by average per unit sale rate.

- **The Company had incurred huge expenditure on purchase of power under unscheduled interchange and short-term agreements due to ill planning of purchase under long-term agreements.**
- **The Company was not able to derive full benefits of the schemes introduced for strengthening of distribution system and failed to implement them economically, efficiently and effectively.**
- **The Company failed consistently to achieve the performance parameters regarding damage rate of distribution transformers and addition of capacitor banks.**
- **The Company failed to take action for non-disconnection of power supply to defaulting consumers and non-filing of recovery suits against them.**
- **The domestic consumers are largely benefited from cross subsidisation at the cost of other categories of consumers.**

Recommendations

The company needs to:

- **make the plans to bring out the system upgradation, reduction of T&D losses and power thefts to generate sources of additional revenue to make the power distribution commercially viable;**
- **review physical and financial progress of incomplete schemes periodically for remedial action and to add appropriate/planned capacity;**
- **explore the sources of availability of power at concessional rates and consider the desirability to enter into long-term power purchase agreements to meet shortages of power in the State;**
- **strive to achieve performance parameters and targets set by HPERC, failing which accountability should be fixed against officials at fault;**
- **percentage of vigilance/flying squad checks should be improved;**
- **ensure downloading of energy data of all consumers having load in excess of 20 KW through MRI for proper implementation of two part tariff; and**
- **take adequate and effective steps for recovery of dues from the defaulting consumers.**

The matter was reported to the Government/Company in August 2011; their reply is awaited (October 2011).

CHAPTER III

3 Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government companies/corporations are included in this Chapter.

Government companies

Himachal Pradesh State Industrial Development Corporation Limited

3.1 Payment of Gratuity in excess of the prescribed limit

Failure of the Company to restrict the payment of gratuity to the prescribed limit resulted in excess payment of gratuity of ₹ 22.82 lakh to the retired officers.

Chapter 17 of the Himachal Pradesh State Industrial Development Corporation Limited Employees Service by-laws provides that the Gratuity to the employees shall be payable in accordance with the rules and rates as applicable to the Government employees from time to time.

The Government of Himachal Pradesh notified (August 2009) the Himachal Pradesh Civil Services (Revised Pay) Rules, 2009 in which the pay scales of the employees were revised with effect from 1 January 2006. Consequent upon the revision of the pay scales the Government of Himachal Pradesh also increased the maximum limit of Gratuity from the existing limit of ₹ 3.50 lakh to ₹ 10.00 lakh in October 2009 with effect from 1 January 2006. As the Company follows the pay structure of the State Government for its employees, the Board of Directors (BOD) approved (30 September 2009) the adoption of the revised pay scale for its employees by a notification issued by the Government.

Audit scrutiny revealed that the Company while paying the retirement gratuity to its officers/employees did not restrict the payment to the maximum prescribed limit of ₹ 3.50/10.00 lakh. This resulted in excess payment of ₹ 22.82 lakh to its seven officers[#] retired up to May 2011.

[#] Two officers were paid in excess of the ₹ 3.50 lakh limit and five officers in excess of the ₹ 10 lakh limit.

The Management stated (June 2011) that in view of the audit observation the matter has now been referred to the State Government for approval/ratification. It further stated that the Government has also been requested that in case any limit on gratuity is now to be desired, it may be from the prospective date for the employees to be appointed on or after such date. The fact however remained that payment of gratuity in excess of limit prescribed by the Government was not only irregular but the approval/ratification thereof was also unlikely as it infringes the service rules and might lead to similar claim from other State PSUs/Organisations.

The Company should strictly restrict the payments of gratuity and other allowance in accordance with the rules and rates as applicable to the state Government employees as provided in the service bye laws approved by the Government.

The matter was referred to Government in May 2011; their reply is awaited (September 2011).

Himachal Pradesh Power Corporation Limited

3.2 Excess EPF contribution

Failure to limit employer's contribution towards Employees' Provident Fund as prescribed in the Employees' Provident Funds Scheme, 1952 resulted in excess contribution of ₹ 32.40 lakh.

Para 29 (1) of the Employees' Provident Funds Scheme, 1952 (Scheme) provides that the contribution payable by an employer under the scheme shall be twelve *per cent* of the basic wages, dearness allowance and retaining allowance (if any) payable to each employee to whom the Scheme applies. Para 26 A (2) of the Scheme further provides that where the monthly pay of an employee exceeds ₹ 6,500, the contribution payable by the employer shall be limited to the amount payable on a monthly pay of ₹ 6,500. Para 29 (2) of the Scheme also provides that the contribution payable by an employee to whom the Scheme applies, if he so desires, could be an amount exceeding the above limit subject to the condition that employer shall not be under an obligation to pay any contribution over and above his contribution payable under the Scheme. Accordingly, all Public Sector Undertakings covered under the Scheme were required to restrict their contribution to the prescribed limit.

Audit noticed that the Himachal Pradesh Power Corporation Limited (Company) contributed employer's share at the rate of twelve *per cent* of the pay without applying the prescribed limit of ₹ 6,500 in contravention of the *ibid* provisions of the Scheme. This resulted in excess contribution of ₹ 32.40 lakh during September 2008 to March 2011 by the Company in contravention to the provisions of the Scheme.

The Management stated (May 2011) that para 26 A (2) of the Employees Provident Funds Scheme, 1952 has to be read with para 26 (6) which provides for the Assistant Provident Fund Commissioner to permit any employee to contribute 12 *per cent* of his pay, without applying ₹ 6,500 ceiling of pay, if his employer undertakes to comply with the statutory provisions in respect of such employee which includes contributing a matching amount as employer's contribution and paying the administrative charges. All employees of the Company have opted to contribute twelve *per cent* of pay without applying the ceiling of ₹ 6,500. Board of Directors of the Company has agreed to comply with all statutory provisions keeping in view the option exercised by the employees as stated above. Contributions made in accordance thereof have been accepted by the Provident Fund Authorities.

The reply is not acceptable as para 26 (6) and para 26 A (2) of the Scheme do not empower the employer to contribute over and above the limit fixed under para 29 and as such, the excess contribution was in violation of the Employees Provident Funds Scheme, 1952.

The Company needs to review this practice to avoid such excess payment in future and also strengthen internal control mechanism to avoid such lapse.

The matter was referred to the Government in April 2011; their reply is awaited (September 2011).

Himachal Pradesh State Civil Supplies Corporation Limited

3.3 Avoidable expenditure on the purchase of excess refined oil

The Company incurred an avoidable expenditure of ₹ 29.80 lakh on procurement of excess refined oil under Public Distribution System.

Himachal Pradesh State Civil Supplies Corporation Limited (Company) is procuring refined oil on monthly basis for the distribution amongst ration card holders in the State. The average monthly requirement of the State for refined oil was about 14.50 lakh litres. The Company finalised tenders on 6 January 2009 for the procurement of Soya Refined Oil for the month of February 2009. Since there was single tender for supply of Soya Refined Oil, the Purchase Committee♦ recommended purchase of 15 lakh litres of Soya Refined Oil from M/s Gujarat Ambuja Export Limited at their quoted rates of ₹ 53.11 per litre after obtaining approval of the State Government before placing the purchase order. In addition to above the Purchase Committee in its

♦ Purchase committee comprises the Managing Director of the Company, Registrar Co-operative Societies, Director Food, Civil Supplies and Consumers Affairs and Dy. Controller (Finance), Directorate, Food, Civil Supplies and Consumers Affairs.

meeting held on 19 January 2009 again processed second tender for the procurement of 10 lakh litres additional quota for the month of February 2009. The purchase order on M/s Ruchi Soya Industries, Indore at the rate of ₹ 50.94 per litre was also placed on same day. The purchase order was placed by the purchase committee without considering the closing stock of previous month and without any justification for purchase of additional quantity in February 2009.

Audit scrutiny revealed that there was no necessity to place second purchase order for the month of February 2009 for additional quantity of 10 lakh litres as the Company's requirement of 16.13 lakh litres could have been met from first order of 15 lakh litres and closing stock of 13.80 lakh litres for January 2009. Further, there was decreasing trend in the market contrary to the position of increasing trend of prices as brought out to the notice of the purchase committee. This was evident from the fact that per litre rates of Soya Refined Oil decreased from ₹ 53.11 in January 2009 to ₹ 47.96 per litre on which 12 lakh litres Soya Refined oil was procured on 6 February 2009 for the month of March 2009. Thus, the rates of ₹ 47.96 per litre obtained in February 2009 for the supply to be distributed in March 2009 were cheaper by ₹ 2.98 per litre as compared to the second purchase order placed on 19 January 2009 at ₹ 50.94 per litre. Due to procurement of 25 lakh litres of soya Refined Oil for the month of February 2009 the inventory for the month of February 2009 also increased to 20.09 lakh litres which otherwise had ranged between 5.21 lakh to 13.80 lakh litres during the period between April 2008 to January 2009. Thus, the Company incurred an avoidable expenditure of ₹ 29.80 lakh on procurement of additional quantity of 10 lakh litres for the month of February 2009.

The State Government/Management stated (August 2011) that second tender invited on 19 January 2009 for the procurement of 10 lakh litre Soya Refined Oil was not the requirement of February 2009 but in fact was backlog of the previous months *i.e.* September 2008 to November 2008 merged with the regular supply of February 2009.

The reply is an after thought as the committee in fact recommended acceptance of single tender in its meeting held on 6 January 2009 to make purchases of 15 lakh litres for the month of February 2009 after considering the backlog. Further, it was noticed from the supply and the stock details that there was neither any backlog nor any such additional allocations were made to consumers. On the contrary, lesser purchases (12 lakh litres) made during March 2009 proved that there was sufficient stock of oil available due to purchase of excess quantity during the month of February 2009.

Himachal Pradesh State Handicrafts and Handloom Corporation Limited

3.4 Avoidable payment of idle wages

Failure of the Company to retrench workers of its closed footwear factory, Chamba resulted in payment of idle wages of ₹ 15.68 lakh.

The Company was running a footwear factory at Chamba, (Factory) to manufacture shoes for Class-IV employees of the State Government. The supply was discontinued by the State Government in September 2002 after which there was no demand for its products. Consequently, the operation of this factory was rendered unviable. The Board of Directors (BOD) approved (28 June 2003) the proposal for retrenchment of workers by paying "Goodwill Gesture" Package to them and decided that before offering the schemes to workers, such proposal be got approved from the State Government. The Finance Department of the State Government, however, did not approve the proposal of the Company. After this the management decided (September 2003) to revive the factory by diversifying its activities by installing new machinery so that marketable product could be manufactured. The workers, however, showed their inability to produce any other design except livery shoes.

Accordingly, the BOD decided (23 June 2004) to retrench all the 14 workers deployed in the factory under the Industrial Disputes Act, 1947. A proposal was submitted (October 2004) to the State Government to close down the factory and to retrench the workers. The issue was again raised after two years during review meeting held (December 2006) under the Chairmanship of Hon'ble Chief Minister and it was decided to retrench the workers after payment of one time package. The State Government released (May 2007) *grant-in-aid* of ₹ 20.18 lakh to pay retrenchment compensation to the workers. The Company could, however, retrench only five workers during 2007 by utilising *grants-in-aid* amounting to ₹ 9.43 lakh. The remaining nine workers were neither retrenched nor transferred to other units of the Company and balance *grants-in-aid* amounting to ₹ 10.75 lakh was utilised by the Company. These nine workers of the factory were, however, not retrenched and being paid their pay and allowances without any work (March 2011).

Thus, failure of the Company to retrench the idle workers immediately after receipt of *grants-in-aid* in May 2007 resulted in avoidable payment of idle wages of ₹ 15.68 lakh (May 2007 to March 2011).

The Management stated (June 2011) that efforts were being made to utilise these workers in the project sanctioned by the Government of India, Ministry of Textile after upgrading their skill in new products of modern design. After skill upgradation of these workers efforts shall be made to put them on actual production by diversifying the production and if the results are not encouraging then some of the workers shall be considered for deployment in other Government Departments. However, the fact remains that the Company failed to take any action either to revive the factory or to utilise the services of these idle workers elsewhere.

The Management should take immediate action to either retrench or utilise their services in other units of the Company so as to avoid payment of idle wages.

The matter was referred to Government in May 2011; their reply is awaited (September 2011).

Himachal Pradesh State Forest Development Corporation Limited

3.5 Extra payment to contractors

Failure of the Company in adjusting the actual weight of *Sakki* from the bills of the LSMs as per the terms and conditions of the agreements resulted in avoidable payment of ₹ 20.21 lakh.

The Himachal Pradesh State Forest Development Corporation Limited (Company) extracts resin from pine trees for further processing into rosin in its two Rosin and Turpentine (R&T) factories at Nahan and Bilaspur. The extraction work is got done through various contractors, known as Labour Supply Mates (LSMs). As per clause 29 of the agreement executed with the LSMs the payments were to be made to them only for pure and neat resin. The quantity of pure and neat resin for the purpose of payments shall be determined by deducting s*akki*[*]. The weight of s*akki* is being determined on the basis of resin sampling (conventionally done for two *per cent* of stock) done by the Company. The actual weight of s*akki* is known to the Company only after processing of resin at R&T factories.

Audit noticed that the actual weight of s*akki* found after processing was higher as compared to the weight determined on the basis of sampling. R&T Factory, Nahan was intimating the actual weight of s*akki* to the respective Forest Working Divisions (FWD) from where the supply of resin was received at the end of each year so as to enable them to make final adjustment from the bills of LSMs. However, no such figures of actual weight of s*akki* were being intimated by the R&T factory, Bilaspur and the final payments were being released by the respective FWDs by determining the weight of s*akki* on the basis of random sampling only. Against the deduction of 6,456.15 quintals of

[*] Impurities such as clay, sand, *etc*.

s*akki* made from the bills of LSMs as determined on the basis of random sampling, actual *sakki* after processing was 8,457.02 quintals during the last four years ending 2009-10. The R&T factory, Bilaspur at a very belated stage proposed (May 2010) to the Managing Director of the Company to allow it to make the final payment after adjusting the actual s*akki* and sought the approval to change the accounting system in future.

Thus, the failure of the Company in regulating the extraction charges by deducting the actual weight of s*akki* in respect of resin extracted in its R&T factory, Bilaspur resulted in avoidable payment of ₹ 20.21 lakh* to LSMs on 2,000.87 quintals of s*akki*.

The Company should adopt uniform procedure for both its R&T factories and release the extraction charges to the LSMs only for the pure and neat resin supplied by them after adjusting the actual weight of s*akki* determined after processing.

The matter was referred to the Government/Company in April 2011; their reply is awaited (September 2011).

3.6 Loss due to avoidable payment of Tax Deducted at Source

Failure of the Company to deduct rebate/cash discount allowed for early payment on sale of timber before computation of TDS resulted in loss of ₹ 0.56 crore.

The Himachal Pradesh State Forest Development Corporation Limited (Company) sells timber through its *Himkashtha* Sale Depots (HSDs) in open auction. As per the terms and conditions of sale/auction, the bid by the bidders shall be inclusive of Value Added Tax (VAT) and Tax Deducted at Source (TDS) (except surcharge and education cess thereon). The purchase price *i.e.*, bid amount as reduced by the element of VAT, Market Fee and TDS shall constitute the consideration of the sale. The bidders shall also be allowed a rebate of five, four and three *per cent* for payment within 15, 30 and 45 days respectively from the effective date of issue of auction letters.

Audit observed that the Company allowed rebate/cash discount of ₹ 22.57 crore for payment received within 15, 30 and 45 days from the bidders during the last six years ended March 2011. The Company, however, failed to deduct the amount of rebate/cash discount of ₹ 22.57 crore from the gross sale amount while working out the amount of TDS under section 206C of the Income Tax Act, 1961. This resulted in excess deduction of TDS amounting to ₹ 56.44 lakh on the total cash rebate/discount of ₹ 22.57 crore allowed to the buyers with consequential undue credit of TDS to the buyers on the cash rebate/discount element which were neither received by the Company nor paid by the buyers. Thus, failure of the Company to deduct the element of rebate

* Excess sakki for 2006-07: 144.97 Qtls (₹ 1.29 lakh), 2007-08: 14.27 Qtls (₹ 0.15 lakh), 2008-09: 931.08 Qtls (₹ 8.34 lakh) and 2009-10: 910.55 Qtls (₹ 10.43 lakh).

before arriving at net sale for computation of TDS resulted in avoidable payment of tax to the tune of ₹ 56.44 lakh.

The Management, while accepting the audit observation stated (June 2011) that the existing system of rebate/cash discount on sale of timber has been changed and modified system has been implemented in all the Sale Depots with effect from April 2011.

The Company ought to streamline the internal control mechanism to avoid such omissions in future and also fix responsibility for the lapse.

The matter was referred to the Government in April 2011; their reply is awaited (September 2011).

Himachal Pradesh State Electricity Board Limited

3.7 Unjustified drawal of loan

Drawal of loan without initiating a process for acquisition of required land for the construction of sub-station resulted in a loss of interest of ₹ 32.65 lakh.

Rural Electrification Corporation Limited (REC) accorded approval (January 2008) to finance the construction of two electrical sub-stations of 132/33 KV, 1x25/31.5 MVA capacity for Himachal Pradesh State Electricity Board Limited (Company)♦ at Maliana, Shimla at a cost of ₹ 21.44 crore. Ninety *per cent* (₹ 19.30 crore) of the construction cost was to be financed by REC at an interest rate of 10.90 *per cent per annum* and balance 10 *per cent* (₹ 2.14 crore) by the Company. Condition No. 2 (i) of the sanction stipulates that if the Company has to provide advance to contractors, REC would consider providing equivalent advance towards first instalment, subject to ceiling of 15 *per cent* of loan amount of ₹ 19.30 crore *i.e.* ₹ 2.89 crore and on completion of loan documentation, acquisition of land, *etc.* A loan agreement to this effect was entered (June 2008) into with REC.

Audit observed (April 2010) that the REC released first instalment of ₹ 2.89 crore in July 2008. The funds were, however, drawn by the Company even though acquisition of land and award of construction work were still pending. As the funds were not required immediately, the Company deposited (July 2008) ₹ 1.42 crore in Vijaya Bank against overdraft being availed at an interest rate of 8.65 *per cent*. Similarly, the remaining amount of ₹ one crore and ₹ 47.46 lakh were deposited (July 2008) by the Company in Canara and Syndicate Bank against their overdrafts drawn at an interest rate of 5.83 and 7.15 *per cent* respectively. The Company also blocked ₹ 33.61 lakh in Default

♦ The erstwhile Board was registered as a Company under the Companies Act, 1956 in December 2009.

Escrow account by incurring an interest loss of ₹ 7.26 lakh up to January 2011 as no interest was payable on this account.

Thus, the drawal of first instalment of loan bearing interest at 10.90 *per cent* without acquisition of land and subsequent utilisation of same against overdrafts having lower rate of interest ranging between 5.83 and 8.65 *per cent* resulted in avoidable interest loss of ₹ 32.65 lakh (calculated on differential rate of interest up to January 2011). The loss would increase further as the acquisition of land would take more time as various clearances for the diversion of forest land, *etc.* were yet to be obtained (September 2011).

The Management stated (January 2011) that on scrutiny of availability of Government/private land at Mehli and its surrounding area, it was found that no suitable land for the construction of sub-station was available. Due to non-availability of sufficient land necessity to acquire the additional land adjoining the Company's land at Maliana was felt. The Management further stated that although all out efforts are being made it is not clear when the final out come of the case will arrive to its conclusion to commence with the designated job.

The reply confirms audit contention that there was no justification to draw the loan from REC for construction of sub-station at a stage when the process for acquisition of required land was yet to be initiated by the Company.

The Company should investigate the reasons for this delay in acquisition of land and drawal of loan much ahead of its requirement and ensure in future that financial interest of the Company are kept in view while taking such decisions.

The matter was referred to the Government/Company in April 2011; their reply is awaited (September 2011).

3.8 Short recovery of cost of independent bay

The Company extended undue favour to two consumers amounting to ₹ 33.72 lakh by recovering cost of works at lower rates.

Regulation 4 (b) of the Himachal Pradesh Electricity Regulatory Commission Regulations, 2005 envisaged that in the case of applications where there is a need to erect a new power transformer or augment the capacity of existing power transformer for extending supply to the applicant, the distribution licensee shall estimate and recover the cost of works involved in the manner mentioned in clause (b) of sub-section 1 of Regulation 3. The Regulation *inter-alia* further provides that in the case of application where there is a need to erect new electrical plant such as distribution transformer alongwith switch gear, *etc.* for extending supply to the applicant for low tension connection, the licensee shall estimate and recover the cost of electrical plant. The erstwhile Himachal Pradesh State Electricity Board (now Company) issued the sanction

orders in September 2005 in favour of two consumers♦ for a connected load of 2,799 KW and 3600 KW respectively which also stipulated that in addition, the cost of 33 KV dedicated independent/joint feeder or augmentation of existing feeder along with bay and associated equipment at both ends, if required will have to be borne by the firms. The cost of all these components would be intimated to them by Superintending Engineer (OP) Circle, Nahan.

The power supply to both the consumers were released from existing 33 KV sub-station, Kala Amb combined feeder during September 2006 and March 2007. Additional Superintending Engineer, Transmission Division, Nahan prepared an estimate for ₹ 46.11 lakh (July 2007) for providing 33 KV bay (New) on the rates of cost data applicable for Extra High Voltage (EHV) transmission lines and sub-stations. The cost estimate was submitted (August 2007) for approval of the competent authority (Chief Engineer Transmission, Hamirpur). The Superintending Engineer, Operation Circle, Nahan, however, without awaiting for the approval and confirming the actual cost of construction from the Transmission Wing (which was the executing authority for EHV related works) allotted spare bay in August 2007 to the above said consumers and asked them to deposit ₹ 12.39 lakh only for 33 KV dedicated feeder. The connections released to these consumers earlier (September 2006 and March 2007) were shifted to an independent 132/33 KV bay during August 2007 on receipt of above amount. The Operation Wing was given permission to connect the supply in the system after obtaining undertaking from them that any difference between the cost so deposited and the cost estimate approved by the competent authority shall be recovered from the consumers after the approval of the estimate. However, the cost estimate submitted in August 2007 has neither been approved by the competent authority nor any difference in cost intimated/recovered from the consumers so far (April 2011).

Audit observed that the cost of ₹ 12.39 lakh was recovered by the concerned circle on the basis of rates applicable for 33/11 KV sub-station which was lower as compared to actual cost of ₹ 46.11 lakh recoverable on the basis of rates applicable for bay emanating from132/33 KV sub-station from which the connections were actually released to both the consumers. This resulted in short recovery of ₹ 33.72 lakh from these consumers.

The Company should investigate the reasons for this and fix the responsibility for the loss, besides expediting recovery from the consumer as per the terms and conditions of the HPERC Regulations.

The matter was referred to the Government/Company in May 2011; their reply is awaited (September 2011).

♦ M/s Shree Parawati Steel Alloys and M/s Hi-Tech. Industries.

3.9 Avoidable loss due to non-commissioning of SCADA system

Due to delay in commissioning of the SCADA system in the sub-station, the Company had to run the unmanned sub-station on manned mode by incurring an avoidable expenditure of ₹ 28.70 lakh on pay and allowances of staff deployed to run sub-station.

The erstwhile Himachal Pradesh State Electricity Board (now Company) awarded (December 2006) the work relating to design, engineering, manufacturing, testing of equipment and commissioning of unmanned 132/33/11 KV sub-station, Gagret at a cost of ₹ 8.60 crore to M/s UB Engineering Ltd., New Delhi (contractor) on turn key basis. The work was to be completed within a period of 12 months from the date of award.

The sub-station was commissioned (December 2009) on "manned" mode by deploying staff on temporary basis till commissioning of Supervisory Control and Data Acquisition (SCADA). SCADA is a computerised system that was to monitor and control the running and operation of sub-station on unmanned mode which was one of the essential components in the scope of work of the contractor. As the contractor failed to supply the fiber optic cables required under the scope of work, the SCADA could not be installed.

Audit noticed that complete material (except fiber optic cables) required for the commissioning of SCADA system costing ₹ 19.50 lakh had already been received at the concerned division in December 2009. In the absence of fiber optic cables the SCADA could not be commissioned and the Company has not initiated any action to install the same. The Company decided (December 2009) to make the SCADA functional departmentally at the risk and cost of the contractor. Accordingly, regular staff to run the sub-station on manned mode was also sanctioned during June 2010.

Thus, due to non-commissioning of SCADA system, the Company had to incur an avoidable expenditure of ₹ 28.70 lakh on the pay and allowances of staff deployed for this purpose till February 2011 besides blockage of the fund of ₹ 19.50 lakh on the procurement of material required for installation of SCADA system. The Company however, has not initiated any action to recover the expenditure from the contractor in accordance with the decision to undertake the work at the risk and cost of contractor taken in the CE's meeting. The expenditure will increase further till the system is actually commissioned and the sub-station is put on unmanned mode as planned.

The State Government/Management stated (August 2011) that after discussion, the firm had commissioned the SCADA through Power Line Carrier Communication (PLCC) on 12 March 2011 but the same was not put to use due to non-availability of skilled staff.

The Company should take immediate action to commission SCADA system to avoid further avoidable expenditure on pay and allowances and also to recover the amount from contractor.

3.10 Power generation loss due to delay in up-rating the capacity of the Generator Transformer

The Board suffered generation loss of ₹ 1.99 crore due to delay in up-rating the capacity of the transformers required to evacuate the increased power generation of the associated Bassi Power House.

The work for Renovation, Modernisation, up-grading and Life Extension (RMU&LE) of all the four units (15 MW each) of 60 MW Bassi Power House was awarded (March 2007) to M/s V.A. Tech in two parts *i.e* supply of material and erection/service at a total cost of ₹ 70 crore. The revised cost of the scheme increased to ₹ 109.98 crore for which the sanction was accorded by the Board in September 2007. The scheme had provisions for the renovation and up-gradation of generating units from existing 60 MW to 66 MW but no provision for up-rating the capacity of 11/132 KV single phase 5.667 MVA generator transformers was made. This was required to transmit the additional generation of 6 MW up-rated capacity as the existing transformers were capable of evacuating only up to 60 MW of the power generated.

Audit noticed that contractor supplied the required material for the up-gradation on of all the four units but could re-commission only one unit (No. IV) which was synchronised with the grid in March 2010 after incurring total expenditure of ₹ 103.98 crore. Audit further observed that re-commissioned unit could not be operated to its maximum upgraded capacity of 16.5 MW as the power evacuation capacity of existing generator transformers was 17 MVA against the required capacity of 18.33 MVA. A supplementary scheme to up-rate the capacity of these existing transformers was prepared in September 2008 and the work was actually awarded in January 2010 to M/s Aditya Vidyut Appliances for ₹ 4.19 crore after a delay of 33 months from the award (March 2007) of up-gradation work of generating units. The delay in award of work was due to delay in preparation of scheme (17 months) and award of work after preparation of scheme (16 months) mainly due to non-finalisation of rates. The firm completed the up-rating work in October 2010 and after this the capacity utilisation of the up graded unit to its maximum designed level of 16.5 MW could be achieved.

Thus, failure of the Board to prepare the scheme to synchronise the up-rating of transformers along with the up gradation of generating capacity resulted in generation loss of 6.76 MUs valued at ₹ 1.99 crore during the period

(April 2010 to August 2010*) when the additional generation capacity was available but could not be operated due to non-availability of matching capacity transformer.

The Management stated (July 2011) that the action to either replace or to up-rate the existing generator transformer was actually initiated in May 2007. However, the provision for replacement of all generator transformers was made in the RMU&LE scheme of Bassi Power House and the case regarding replacement/retrofitting of existing generator transformer was approved by the Board in July 2008. The reply itself points towards abnormal delay in processing the case for which no justification has been furnished.

The Board should investigate the reasons for this delay besides strengthening the internal control mechanism to avoid re-occurrence of such delays.

The matter was referred to the Government in June 2011; their reply is awaited (September 2011)

3.11 Non-recovery of worker welfare cess

Failure of the Company in recovering the Workers' Welfare Cess from the contractors resulted in non-recovery of ₹ 2.29 crore besides attracting penalty for non-payment of cess to the cess authorities.

Government of India notified 'The Building and Other Construction Workers Welfare Cess Act, 1996' with a view to augment the resources for the Building and Other Construction Workers Welfare. As per the Act, cess was to be levied and collected at such rates not exceeding two *per cent* but not less than one *per cent* of cost of construction incurred by an employer. Accordingly, the Government of Himachal Pradesh belatedly framed (4 December 2008) rules there under which became applicable with effect from 8 December 2008. The State Government also constituted (March 2009) the Workers Welfare Board for this purpose. According to the Rules, all Government Departments and Public Sector Undertakings carrying out construction activities were required to deposit cess to Himachal Pradesh Building and Other Construction Workers Welfare Board on total cost of construction incurred by it excluding cost of land and compensation paid to workers under the Workmen Compensation Act.

In view of the above, the Company was required to deduct labour welfare cess at the rate of one *per cent* of the cost of construction from the bills of turnkey contracts entered into for construction of sub-stations and transmission lines and remit the amount of cess so deducted to the cess authorities.

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* The loss has been calculated up to August 2010 instead of October 2010 when the matching capacity transformer was made available due to the reason that after August 2010 the generation machine remained closed due to some defects.

We noticed that despite the above instructions of the Government, the Company had not started effecting recovery of cess from the Contractors' bills so far (July 2011). Resultantly during 2009-10 and 2010-11 against the expenditure of ₹ 229.38 crore incurred by eight Operational Circles on various turnkey contracts and some other contracts, the Workers' Welfare Cess amounting to ₹ 2.29 crore could not be recovered from the contractors.

Non-recovery from the contractors not only violated the provisions of Cess Rules, 1998 but could also attract imposition of penalty for non-payment of cess to the authorities as per Section 9 of the *ibid* Act.

The Company should investigate the reasons for the same besides initiating immediate action to recover and remit the same in compliance with the statutory provisions.

The matter was referred to Government/Company in August 2011; their reply is awaited (September 2011).

3.12 Avoidable expenditure on purchase of conductor

Failure of the Board in placing the purchase order within the validity period resulted in extra expenditure ₹ 39.82 lakh on the purchase of conductor from the same supplier at higher rates after the expiry of validity period.

The erstwhile Himachal Pradesh State Electricity Board (Board) opened tenders (June 2007) for the purchase of ACSR* and AAA** conductor of various sizes (12 Nos.) measuring 5,388 Kms. (final & firm requirement for 2007-08). The rates quoted for different sizes of conductor by M/s Venketshwara Wire, Jaipur and M/s Durable conductor, Solan were found first and second lowest respectively amongst five participating firms. The tenders were valid up to 4 October 2007. As per instructions of the State Government and terms and conditions of the NIT the suppliers were requested to open dumps/depots. M/s Venketshwara Wire, Jaipur however, refused to open dumps/depots in Himachal and as such was not considered for award of work. The negotiation was held (28 December 2007) with M/s Durable Conductor, Solan to bring his L-II rates at par with the rates of L-I firm. The firm agreed (December 2007) to reduce the rates of few sizes of conductor ranging between ₹ 50 and ₹ 900 per Kms. The Store Purchase Committee approved (January 2008) the partial purchase of only 613 Kms. (two types of conductor *i.e.*, ACSR weasel and Rabbit) against the tendered quantity of 1,883 Kms (weasel: 898 Kms and Rabbit: 985 Kms.) from M/s Durable

* Aluminum Conductor Steel Reinforced.
** All Aluminium Alloy.

Conductor, Solan for which no reasons were found on record. The firm, however, did not agree to reduce the rates at par with other L-I firm for the remaining quantity of other different sizes of the conductors. Meanwhile the validity period of offer was extended twice by the supplier (first up to January 2008 and again up to March 2008) on the request of the Board due to delay in finalisation of purchase order. The purchase order for 613 Kms. was placed (February 2008) on M/s Durable Conductor, Solan (its quoted L-I rates).

The Board further placed (May and October 2008) purchase orders for 2,074.52 Kms (1,481.80 Kms. and repeat order 592.72 Kms.) against the requirement of 2007-08 on the firm at negotiated rates of December 2007 which was accepted by the firm subject to the condition that the order for the balance quantity of 3,294 Kms. would also be placed simultaneously at the increased rate of 5.7 and 7.96 *per cent*.

The Board placed (July 2008 and October 2008) orders for 3,077.60 Kms. (2000+1077.60 Kms.) at the negotiated increased rates of 5 *per cent*. The supplies against these purchase orders were received between August 2008 and January 2009. Thus, the delay in finalisation of purchase even within the extended validity period as well as not placing the order for the entire quantity initially, resulted in an extra expenditure of ₹ 39.82 lakh on procurement of 3,077.60 Kms. conductor at increased rates when the rates were showing reducing trend in December 2007.

The Chief Engineer (MM) stated (August 2011) that the purchase order was placed with 5 *per cent* hike, when there was about 10.73 *per cent* hike in the price of aluminium from May 2007 to July 2008. As such the purchase order issued with 5 *per cent* price hike was considered to be genuine. The reply does not address the core issue regarding non-placement of purchase order for the entire tendered quantity at the negotiated rates which had to be purchased subsequently at higher rates from the same firm.

The Board should fix the responsibility for this delay in finalisation of purchase orders besides strengthening the internal control mechanism so as to avoid recurrence of such lapses.

The matter was referred to Government in July 2011; their reply is awaited (September 2011).

3.13 Avoidable loss of interest

Failure to make specific provisions in the contract agreement to release the interest free advance to contractor as per actual handing over schedule of each machine for service resulted in loss of interest of ₹ 28.65 lakh.

The erstwhile Himachal Pradesh State Electricity Board awarded (March 2007) the work of providing services in respect of renovation,

modernisation, up-rating and life extension of all the four machines of 60 MW Bassi Power House (BPH) to M/s VA Tech Escher Wyss Flovel Limited (contractor) at a total contract price of ₹ 12.08 crore. Clause 14 (Appendix 1) of the contract agreement stipulates that ten *per cent* of the total contract price as indicated in the notice of the award shall be paid as an interest free advance against receipt of invoice. Further 100 *per cent* service tax and education cess on progressive payment shall be paid extra as per prevailing rates at the time of their invoicing. These four machines were to be handed over to the contractor for renovation in phased manner during June 2007, March 2008, December 2008 and January 2009. The completion time of work was 31 months from the notification of award which was subsequently revised to 38 months.

The contractor submitted (July 2007) the invoices for ₹ 1.35 crore (10 *per cent* advance: ₹ 1.21 crore and taxes: ₹ 0.14 crore) as per clause *ibid* for all the four machines at a time whereas the actual work of each machine was to be done in phases. Despite knowing that the contractor would take up the services of these machines in phases, the Board failed to include the same in the agreement in order to release the phase-wise proportionate amount of advance and released (September 2007) the payment of ₹ 1.35 crore. This enabled the contractor to draw advance in respect of three machines much before the actual commencement of the work besides drawal of inadmissible extra advance payment of ₹ 0.14 crore on account of taxes.

Audit noticed that machines No. IV, III, II and I were actually handed over to the contractor for renovation in November 2007, September 2008, November 2010 and December 2010 respectively. The contractor has completed the services (March 2010) of one machine only (unit no. IV) and the remaining three machines were yet to be commissioned (April 2011).

Thus, non-insertion of specific provisions in the agreement to release the interest free advance as per actual handing over schedule of each machine to contractor for service resulted in loss of interest of ₹ 28.65 lakh on payment of advance in respect of three machines.

The Management stated (July 2011) that the payment of 10 *per cent* advance was a standard condition as was being followed for other contracts although it may not be possible to adhere to the figure of 10 *per cent* only as some contractors may even demand more in their bid.

The reply is not acceptable as the conditions of work in this case were different and the work was to be taken up in different phases as such the relevant clause regarding payment of advance linking with the handing over schedule should have been inserted in the agreement. Moreover, the payment of advance includes ₹ 14 lakh on account of taxes not even covered in the agreement for which no justification has been furnished.

The Company should investigate the reasons for non-inclusion of the provisions of proportionate release of advance in line with the commencement of actual service schedule of each machine

The matter was referred to the Government in June 2011; their reply is awaited (September 2011).

3.14 Avoidable loss due to non-recovery of infrastructure cost

Failure of the Board in correctly estimating infrastructure cost and not restricting the expenditure within the limit prescribed by the HPERC Regulations, 2005 resulted in non-recovery of ₹ 2.55 crore from a consumer.

Regulation 5 (1) (a) of the Himachal Pradesh Electricity Regularity Commission (Recovery of Expenditure for Supply of Electricity) Regulations, 2005 *inter-alia* envisaged that in case of application for new connection, where such supply requires only extension of extra high tension line from the existing transmission substation to the consumer's premises, the distribution liscensee shall estimate and recover the cost of line and cost of terminal and metering arrangement at the premises of the consumer. Regulation 8 envisaged that the applicant shall, before the commencement of work, deposit 100 *per cent* on notice of demand for amount payable under regulation 5. Regulation 6 (2) (b) further provides that where the actual expenditure exceeds the initial estimated cost by more than three *per cent*, the applicant shall pay the difference between the estimated cost and actual expenditure to the extent of three *per cent* only and any amount in excess of three *per cent* shall be borne by the licensee.

The Power Availability Certificate issued (January 2005) to Jaypee Himachal Cement Project, Village Bagga (Consumer) for a connected load of 35 MW provided that the entire cost of dedicated feeder along with bay and terminal equipment at both ends if required, was to be borne by the consumer. Therefore, to recover the entire cost of infrastructure from the consumer, preparation of correct estimate was very essential.

The Board prepared (September 2005) an estimate of ₹ 6.91 crore for construction of 132 KV line and sub-station at Kharsi to provide power connection to the consumer. Against this, the consumer deposited (October 2005) an amount of ₹ three crore. Due to non-availability of land (to be provided by the consumer) at proposed site, the Board decided (October 2006) to construct the sub-station at consumer premises at Bagga for which the entire material was to be provided by the consumer. In view of this, an estimate for ₹ 2.19 crore for erection part only was sanctioned (April 2007)

and the excess amount of ₹ 0.81 crore out of ₹ three crore deposited earlier was refunded to the consumer. Subsequently, this estimate was again revised (July 2009) to ₹ 3.57 crore due to cost escalation and involvement of forest land, *etc.* and the differential cost of ₹ 1.37 crore was also deposited by the consumer (August and October 2009). The sub-station was, however, energised during November 2009 and the connection was released to the consumer after incurring an expenditure of ₹ 6.11 crore. The increase in expenditure was mainly due to increase in cost of construction of sub-station in the hilly terrain and expensive remote area whereas the estimate was prepared on the basis of construction on the levelled ground.

Audit observed that the main reasons for further increase in the cost was non-inclusion of some items of works (₹ 0.57 crore), increased payment of net present value to the Forest Department (₹ 0.12 crore), non/short-provision of civil works/erection charges of line and construction of sub-station on four benches against levelled ground proposed earlier. Consequently, the estimate was again revised to ₹ 6.11 crore (179 *per cent* higher as compared to first estimate of ₹ 2.19 crore) and the consumer was asked (August 2010) to deposit the balance amount of ₹ 2.55 crore against the actual recoverable amount of ₹ 10.68 lakh in accordance with the *ibid* provisions of HPERC regulation to hide the deficiency in preparation of estimate. Since the balance now demanded was much in excess of three *per cent* limit prescribed by the Regulations, the consumer (August 2010) termed the demand as unjustified and in violation of Regulations issued by the HPERC.

Thus, the failure of the Company in estimating infrastructure cost correctly coupled with not restricting the actual expenditure with in the limit prescribed by the HPERC Regulations, 2005 resulted in avoidable loss due to non-recovery of ₹ 2.55 crore from the consumer.

The Company admitted (February 2011) that the balance amount of ₹ 2.55 crore is lying pending with the firm against the total revised cost of ₹ 6.11 crore.

The matter was referred to the Government/Company in April 2011; their reply is awaited (September 2011).

General

3.15 Follow-up action on Audit Reports

Explanatory Notes outstanding

3.15.1 The Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of the Governments. It is, therefore, necessary that they elicit

appropriate and timely response from the Executive. The State Finance Department issued (February 1994) instructions to all Administrative Departments to submit explanatory notes indicating corrective/remedial action taken or proposed to be taken on paragraphs and performance audits included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Committee on Public Undertakings (COPU).

Though the Audit Reports for the years 2008-09 and 2009-10 were presented to the State Legislature in April 2010 and April 2011, four departments did not submit explanatory notes on 18 out of 28 paragraphs/performance audits, as on 30 September 2011, as indicated below:

Year of Audit Report (Commercial)	**Date of presentation**	**Total paragraphs/ performance audits in Audit Report**	**Number of paragraphs/ performance audits for which explanatory notes were not received**
2008-09	April 2010	15	6
2009-10	April 2011	13	12
Total		**28**	**18**

Department wise analysis is given below:

Name of department	**2008-09**	**2009-10**
Power	6	9
Forest	-	1
Finance	-	1
Industries	-	1
Total	**6**	**12**

The Power Department was largely responsible for non-submission of explanatory notes, which did not submit explanatory notes on 15 out of 18 paragraphs/performance audits.

Compliance to Reports of Committee on Public Undertakings (COPU)

3.15.2 The Action Taken Notes on the recommendations of COPU are required to be furnished within six months from the presentation of the Reports. Replies to 43 paragraphs pertaining to 22 Reports of the COPU, presented to the State Legislature between December 2008 and September 2011 had not been received as of 30 September 2011 as indicated below:

Year of the COPU Report	Total number of Reports involved	No. of paragraphs where replies not received
2008-09	4	4
2009-10	6	17
2010-11 (up to 30-9-2011)	12	22
Total	**22**	**43**

Response to inspection reports, draft paras and performance audits

3.15.3 Audit observations made during audit and not settled on the spot are communicated to the heads of the Public Sector Undertakings (PSUs) and concerned departments of the State Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of four weeks. Inspection reports issued up to March 2011 pertaining to 22 PSUs revealed that 4,155 paragraphs relating to 933 inspection reports remained outstanding at the end of 30 September 2011. The Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2011 is given in **Annexure 11**.

Similarly, performance audit reports and draft paragraphs on the working of Public Sector Undertakings are forwarded to the Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. However, one performance audit report and thirteen draft paragraphs forwarded to four departments between April 2011 and October 2011, as detailed in **Annexure 12,** had not been replied to so far (October 2011).

It is recommended that the Government should ensure (a) that procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/Action Taken Notes on the recommendations of COPU as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayments is taken within the prescribed time schedule and (c) the system of responding to audit observations is revamped.

Shimla **(J.WILSON)**
The **Accountant General (Audit)**
Himachal Pradesh

Countersigned

New Delhi **(VINOD RAI)**
The **Comptroller and Auditor General of India**

Annexure 1
(Refer paragraph 1.7)
Statement showing particulars of up to date paid-up capital, loans outstanding and Manpower as on 31 March 2011 in respect of Government companies and Statutory corporations

(Figures in column 5 (a) to 6 (c) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of incorpo-ration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2010-11				Debt equity ratio for 2010-11 (Previous year)	Manpower (No. of employees) (as on 31.3.2011)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
A. Working Government companies													
AGRICULTURE & ALLIED													
1.	Himachal Pradesh Agro Industries Corporation Limited	Horticulture	Septem-ber 1970	9.84	1.96	-	11.80	1.11	0.40	-	1.51	0.13:1 (0.13:1)	207
2.	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	Horticulture	June 1974	31.19	1.50	6.07	38.76	-	-	0.34	0.34	0.01:1 -	402
3.	Himachal Pradesh State Forest Development Corporation Limited	Forest	March 1974	11.71	-	-	11.71	-	-	144.08	144.08	12.30:1 (13.02:1)	2548
Sector wise total				**52.74**	**3.46**	**6.07**	**62.27**	**1.11**	**0.40**	**144.42**	**145.93**	**2.34:1 (2.47:1)**	**3157**
FINANCING													
4.	Himachal Backward Classes Finance and Development Corporation	Social Justice & Empowerment	January 1994	10.00	-	-	10.00	-	-	10.68	10.68	1.07:1 (0.85:1)	18
5.	Himachal Pradesh Mahila Vikas Nigam	Social Justice & Empowerment	April 1989	5.95	0.10	-	6.05	-	-	-	-	-	6
6.	Himachal Pradesh Minorities Finance and Development Corporation	Social Justice & Empowerment	Septem-ber 1996	6.95	-	-	6.95	-	-	12.92	12.92	1..86:1 (1.96:1)	14
Sector wise total				**22.90**	**0.10**	**-**	**23.00**	**-**	**-**	**23.60**	**23.60**	**1.03:1 (0.93:1)**	**38**
INFRASTRUCTURE													
7.	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	Public Works	June 1999	25.00	-	-	25.00	-	-	-	-	- -	2
8.	Himachal Pradesh State Industrial Development Corporation Limited	Industries	Novem-ber 1966	30.82	-	-	30.82	-	-	-	-	-	190
Sector wise total				**55.82**	**-**	**-**	**55.82**	**-**	**-**	**-**	**-**	**-**	**192**

(Figures in column 5 (a) to 6 (c) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of Incorpo-ration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2010-11				Debt equity ratio for 2010-11 (Previous year)	Manpower (No. of employees) (as on 31.3.2011)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
MANUFACTURE													
9.	Himachal Pradesh General Industries Corporation Limited	Industries	Novem-ber 1972	7.04	-	0.12	7.16	2.97	-	-	2.97	0.41:1 (0.41:1)	157
Sector wise total				**7.04**	**-**	**0.12**	**7.16**	**2.97**	**-**	**-**	**2.97**	**0.41:1 (0.41:1)**	**157**
POWER													
10.	Beas Valley Power Corporation Limited	MPP & Power	March 2003	-	-	214.53	214.53	-	-	388.98	388.98	1..81:1 (1.73:1)	281
11.	Himachal Pradesh Power Corporation Limited	MPP & Power	Decem-ber 2006	537.40	-	109.11	646.51	247.64	-	47.52	295.16	0.46:1 (0.18:1)	899
12.	Himachal Pradesh Power Transmission Corporation Limited	MPP & Power	August 2008	116.70	-	-	116.70	-	-	-	-	-	133
13	Himachal Pradesh State Electricity Board Limited	MPP & Power	Decem-ber 2009	396.53	-	575.25	971.78	20.33	-	1946.28	1966.61	2.02:1 -	20276
Sector wise total				**1050.63**	**-**	**898.89**	**1949.52**	**267.97**	**-**	**2382.78**	**2650.75**	**1.36:1 (0.48:1)**	**21589**
SERVICE													
14.	Himachal Pradesh State Civil Supplies Corporation Limited	Food & Supplies	Septem-ber 1980	3.51	-	-	3.51	0.09	-	-	0.09	0.03:1 (4.01:1)	922
15.	Himachal Pradesh State Electronics Development Corporation Limited	Industries	October 1984	3.72	-	-	3.72	1.95	-	-	1.95	0.52:1 (0.52:1)	74
16.	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	Industries	March 1974	8.72	0.03	-	8.75	0.50	-	-	0.50	0.06:1 (0.06:1)	113
17.	Himachal Pradesh Tourism Development Corporation Limited	Tourism & Civil Aviation	Septem-ber 1972	12.30	-	-	12.30	-	-	-	-	-	1750
Sector wise total				**28.25**	**0.03**	**-**	**28.28**	**2.54**	**-**	**-**	**2.54**	**0.09:1 (0.54:1)**	**2859**
Total A (All sector wise working Government companies)				**1217.38**	**3.59**	**905.08**	**2126.05**	**274.59**	**0.40**	**2550.80**	**2825.79**	**1.33:1 (0.58:1)**	**27992**

(Figures in column 5 (a) to 6 (c) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of Incorpo-ration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2010-11				Debt equity ratio for 2010-11 (Previous year)	Manpower (No. of employees) (as on 31.3.2011)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
B. Working Statutory corporations													
FINANCING													
1.	Himachal Pradesh Financial Corporation	Industries	April 1967	92.98	-	6.59	99.57	-	-	168.14	168.14	1.69:1 (1.79:1)	87
Sector wise total				**92.98**	**-**	**6.59**	**99.57**	**-**	**-**	**168.14**	**168.14**	**1.69:1 (1.79:1)**	**87**
SERVICE													
2.	Himachal Road Transport Corporation	Transport	Septem-ber 1974	398.26	15.44	-	413.70	-	-	59.63	59.63	0.14:1 (0.30:1)	8496
Sector wise total				**398.26**	**15.44**	**-**	**413.70**	**-**	**-**	**59.63**	**59.63**	**0.14:1 (0.30:1)**	**8496**
Total B (All sector wise working Statutory corporations)				**491.24**	**15.44**	**6.59**	**513.27**	**-**	**-**	**227.77**	**227.77**	**0.44:1 (2.31:1)**	**8583**
Grand Total (A + B)				**1708.62**	**19.03**	**911.67**	**2639.32**	**274.59**	**0.40**	**2778.57**	**3053.56**	**1.16:1 (2.02:1)**	**36575**
C. Non working Government companies													
AGRICULTURE & ALLIED													
1.	Agro Industrial Packaging India Limited	Horticulture	February 1987	16.75	-	0.97	17.72	22.13	-	-	22.13	1.25:1 (1.25:1)	5
Sector wise total				**16.75**	**-**	**0.97**	**17.72**	**22.13**	**-**	**-**	**22.13**	**1.25:1 (1.25:1)**	**5**

(Figures in column 5 (a) to 6 (c) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Name of the Department	Month and year of Incorpo-ration	Paid-up Capital[$]				Loans[**] outstanding at the close of 2010-11				Debt equity ratio for 2010-11 (Previous year)	Manpower (No. of employees) (as on 31.3.2011)
				State Govern-ment	Central Govern-ment	Others	Total	State Govern-ment	Central Govern-ment	Others	Total		
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	6 (a)	6 (b)	6 (c)	6 (d)	(7)	(8)
MANUFACTURE													
2.	Himachal Worsted Mills Limited	Industries	October 1974	-	-	0.92	0.92	-	-	-	-	-	-
3.	Nahan Foundry Limited	Industries	October 1952	3.50	-	-	3.50	-	-	-	-	-	-
Sector wise total				**3.50**	**-**	**0.92**	**4.42**	**-**	**-**	**-**	**-**	**-**	**-**
Total C (All sector wise non working Government companies)				**20.25**	**-**	**1.89**	**22.14**	**22.13**	**-**	**-**	**22.13**	**1.00:1 (1.00:1)**	**5**
Grand Total (A + B + C)				**1728.87**	**19.03**	**913.56**	**2661.46**	**296.72**	**0.40**	**2778.57**	**3075.69**	**1.16:1 (1.37:1)**	**36580**

Notes:

$ Above includes one Section 619-B company at Sr. No. A-10.

$ Paid-up capital includes share application money.

** Loans outstanding at the close of 2010-11 represent long-term loans only.

Annexure 2

(Refer paragraph 1.15 and 1.35)

Summarised financial results of Government companies and Statutory corporations for the latest year for which accounts were finalised

(Figures in column 5 (a) to (10) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed@	Return on capital employed^	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A. Working Government Companies														
AGRICULTURE & ALLIED														
1.	Himachal Pradesh Agro Industries Corporation Limited	2009-10	2011-12	(-)0.49	0.07	0.08	(-)0.64	25.45	(-)7.47	11.80	(-)13.76	(-)4.00	(-)0.57	-
2.	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	2009-10	2010-11	(-)5.90	0.24	0.57	(-)6.71	25.66	(-)9.23	38.76	(-)53.05	(-)6.68	(-)6.47	-
3.	Himachal Pradesh State Forest Development Corporation Limited	2008-09	2011-12	5.36	2.89	0.49	1.98	127.89	(-)41.45	11.71	(-)48.67	147.72	4.87	3.30
Sector wise total				**(-)1.03**	**3.20**	**1.14**	**(-)5.37**	**179.00**	**(-)58.15**	**62.27**	**(-)115.48**	**137.04**	**(-)2.17**	-
FINANCING														
4.	Himachal Backward Classes Finance and Development Corporation	2008-09	2011-12	0.65	0.33	0.02	0.30	1.44	-	9.50	3.88	21.11	0.63	2.98
5.	Himachal Pradesh Mahila Vikas Nigam	2009-10	2011-12	0.17	-	-	0.17	0.35	(-)0.52	5.75	0.25	5.90	0.17	2.88
6.	Himachal Pradesh Minorities Finance and Development Corporation	2009-10	2011-12	(-)0.16	0.24	0.03	(-)0.43	0.27	0.89	5.95	(-)2.78	15.05	(-)0.19	-
Sector wise total				**0.66**	**0.57**	**0.05**	**0.04**	**2.06**	**0.37**	**21.20**	**1.35**	**42.06**	**0.61**	**1.45**

(Figures in column 5 (a) to (10) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed@	Return on capital employed^Δ	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
INFRASTRUCTURE														
7.	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	2010-11	2011-12	-	-	-	***	-	-	25.00	-	443.94	-	-
8.	Himachal Pradesh State Industrial Development Corporation Limited	2009-10	2010-11	1.38	-	0.14	1.24	8.28	-	29.59	12.77	53.08	1.24	2.34
Sector wise total				**1.38**	**-**	**0.14**	**1.24**	**8.28**	**-**	**54.59**	**12.77**	**497.02**	**1.24**	**0.25**
MANUFACTURE														
9.	Himachal Pradesh General Industries Corporation Limited	2009-10	2010-11	(-)1.86	0.16	0.10	(-)2.12	22.18	0.05	7.16	(-)3.86	6.35	(-)1.96	-
		2010-11	2011-12	0.20	0.16	0.09	(-)0.05	26.98	Under audit	7.16	(-)3.91	6.30	0.11	1.75
Sector wise total				**0.20**	**0.16**	**0.09**	**(-)0.05**	**26.98**	**-**	**7.16**	**(-)3.91**	**6.30**	**0.11**	**1.75**
POWER														
10.	Beas Valley Power Corporation Limited	2010-11	2011-12	-	-	-	**	-	-	-	-	-	-	-
11.	Himachal Pradesh Power Corporation Limited	2010-11	2011-12	-	-	-	**	-	-	-	-	-	-	-
12.	Himachal Pradesh Power Transmission Corporation Limited	2009-10	2010-11	-	-	-	**	-	-	-	-	-	-	-
13	Himachal Pradesh State Electricity Board Limited	-	-	-	-	-	&	-	-	-	-	-	-	-
Sector wise total					-	-	-	-	-	-	-	-	-	-

(Figures in column 5 (a) to (10) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments[#]	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed[@]	Return on capital employed[Δ]	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
SERVICE														
14	Himachal Pradesh State Civil Supplies Corporation Limited	2010-11	2011-12	3.99	0.07	0.77	3.15	1079.39	-	3.51	18.14	25.02	3.22	12.87
15.	Himachal Pradesh State Electronics Development Corporation Limited	2010-11	2011-12	0.24	-	0.07	0.17	28.46	(-)1.78	3.72	0.38	5.47	0.17	3.11
16.	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	2009-10	2010-11	(-)1.91	0.04	0.05	(-)2.00	11.59	(-)0.48	8.75	(-)19.98	(-)6.34	(-)1.96	-
		2010-11	2011-12	(-)1.04	-	0.04	(-)1.08	14.89	(-)0.03	8.75	(-)21.06	(-)7.12	(-)1.08	-
17.	Himachal Pradesh Tourism Development Corporation Limited	2009-10	2010-11	5.96	0.28	2.60	3.08	60.41	(-)0.56	12.30	(-)18.53	(-)4.01	3.36	-
Sector wise total				**9.15**	**0.35**	**3.48**	**5.32**	**1183.15**	**(-)2.37**	**28.28**	**(-)21.07**	**19.36**	**5.67**	**29.29**
Total A (All sector wise working Government companies)				**10.36**	**4.28**	**4.90**	**1.18**	**1399.47**	**(-)60.15**	**173.50**	**(-)126.34**	**701.78**	**5.46**	**0.78**
B. Working Statutory corporations														
FINANCING														
1.	Himacal Pradesh Financial Corporation	2010-11	2011-12	0.58	15.16	0.06	(-)14.64	9.86	(-)0.89	99.57	(-)117.48	280.31	0.52	0.19
Sector wise total				**0.58**	**15.16**	**0.06**	**(-)14.64**	**9.86**	(-)0.89	**99.57**	**(-)117.48**	**280.31**	**0.52**	**0.19**

(Figures in column 5 (a) to (10) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed@	Return on capital employed^	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
POWER														
2.	Himachal Pradesh State Electricity Board	2009-10	2010-11	129.12	176.21	105.53	(-)152.62	2978.35	(-)156.73	971.77	(-)383.18	2556.01	23.59	0.92
Sector wise total				**129.12**	**176.21**	**105.53**	**(-)152.62**	**2978.35**	**(-)156.73**	**971.77**	**(-)383.18**	**2556.01**	**23.59**	**0.92**
SERVICE														
3.	Himachal Road Transport Corporation	2010-11	2011-12	8.30	11.48	19.89	(-)23.07	576.91$	Under audit	413.70	(-)572.80	(-)89.87	(-)11.59	-
Sector wise total				**8.30**	**11.48**	**19.89**	**(-)23.07**	**576.91$**	-	**413.70**	**(-)572.80**	**(-)89.87**	**(-)11.59**	-
Total B (All sector wise working Statutory corporations)				**138.00**	**202.85**	**125.48**	**(-)190.33**	**3565.12**	**(-)157.62**	**1485.04**	**(-)1073.46**	**2746.45**	**12.52**	**0.46**
Grand Total (A + B)				**148.36**	**207.13**	**130.38**	**(-)189.15**	**4964.59**	**(-)217.77**	**1658.54**	**(-)1199.80**	**3448.23**	**17.98**	**0.52**
C. Non working Government companies														
AGRICULTURE & ALLIED														
1.	Agro Industrial Packaging India Limited	2009-10	2010-11	(-)1.48	-	0.13	(-)1.61	-	-	17.72	(-)76.18	2.46	(-)1.61	-
Sector wise total				**(-)1.48**	-	**0.13**	**(-)1.61**	-		**17.72**	**(-)76.18**	**2.46**	**(-)1.61**	-

(Figures in column 5 (a) to (10) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Period of Accounts	Year in which finalised	Net Profit (+)/ Loss (-)				Turnover	Impact of Accounts Comments#	Paid up Capital	Accumulated Profit (+)/ Loss (-)	Capital employed@	Return on capital employedΔ	Percentage return on capital employed
				Net Profit/ Loss before Interest & Depreciation	Interest	Depreciation	Net Profit/ Loss							
(1)	(2)	(3)	(4)	5 (a)	5 (b)	5 (c)	5 (d)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
MANUFACTURE														
2.	Himachal Worsted Mills Limited	2000-01	2001-02	(-)0.01	-	-	(-)0.01	-	-	0.92	(-)5.44	(-)0.64	(-)0.01	-
3.	Nahan Foundry Limited	2009-10	2010-11	0.04	-	-	0.04	-	-	3.50	(-)4.77	(-)1.28	0.04	-
Sector wise total				**0.03**	**-**	**-**	**0.03**	**-**	**-**	**4.42**	**(-)10.21**	**(-)1.92**	**0.03**	**-**
Total C (All sector wise non working Government companies)				**(-)1.45**	**-**	**0.13**	**(-)1.58**	**-**	**-**	**22.14**	**(-)86.39**	**0.54**	**(-)1.58**	**-**
Grand Total (A + B + C)				**146.91**	**207.13**	**130.51**	**(-)190.73**	**4964.59**	**(-)217.77**	**1680.68**	**(-)1286.19**	**3448.77**	**16.40**	**0.48**

\# Impact of accounts comments include the net impact of comments of Statutory Auditors and CAG and is denoted by (+) increase in profit/ decrease in losses (-) decrease in profit/ increase in losses.

@ Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in case of finance companies/ corporations where the capital employed is worked out as a mean of aggregate of the opening and closing balances of paid up capital, free reserves, bonds, deposits and borrowings (including refinance).

Δ Return on capital employed has been worked out by adding profit and interest charged to profit and loss account.

** Companies (serial no. A-10, 11 and 12) have not prepared the profit and loss accounts.

*** Excess of expenditure over income is reimbursable by the State Government.

$ Includes subsidy of ₹ 90 crore received during the year on account of issue of free/concessional passes and running buses on uneconomic routes.

ΔΔ Before taking into account the subsidy/subvention from Government (₹ 0.20 crore).

& Company at Serial No. 13 has not prepared its first accounts since incorporation.

Annexure 3

(Refer paragraph 1.10)

Statement showing grants and subsidy received/receivable, guarantees received, waiver of dues, loans written off and loans converted into equity during the year and guarantee commitment at the end of March 2011

(Figures in column 3 (a) to 6 (d) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
A. Working Government Companies													
AGRICULTURE & ALLIED													
1.	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	-	-	16.02	6.29	-	22.31	5.00	-	-	-	-	-
2.	Himachal Pradesh State Forest Development Corporation Limited	-	-	-	-	-	-	-	148.95	-	-	-	-
Sector wise total			-	**16.02**	**6.29**	-	**22.31**	**5.00**	**148.95**	-	-	-	-
FINANCING													
3.	Himachal Backward Classes Finance and Development Corporation	-	-	-	-	-	-	15.00	10.68	-	-	-	-
4.	Himachal Pradesh Mahila Vikas Nigam	0.30	-	-	-	-	-	-	-	-	-	-	-
5.	Himachal Pradesh Minorities Finance and Development Corporation	1.00	-	-	-	-	-	18.00	12.92	-	-	-	-
Sector wise total		**1.30**	-	-	-	-	-	**33.00**	**23.60**	-	-	-	-

(Figures in column 3 (a) to 6 (d) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
INFRASTRUCTURE													
6.	Himachal Pradesh Road and Other Infrastructure Development Corporation Limited	-	-	-	143.82	-	143.82	-	-	-	-	-	-
Sector wise total		-	-	-	**143.82**	-	**143.82**	-	-	-	-	-	-
POWER													
7.	Himachal Pradesh Power Corporation Limited	75.76	175.01	-	-	-	-	-	-	-	-	-	-
8.	Himachal Pradesh Power Transmission Corporation Limited	60.00	-	-	-	-	-	-	-	-	-	-	-
9	Himachal Pradesh State Electricity Board Limited	-	-	-	193.83	-	193.83	-	1009.48	-	-	-	-
Sector wise total		**135.76**	**175.01**	-	**193.83**	-	**193.83**	-	**1009.48**	-	-	-	-
SERVICE													
10.	Himachal Pradesh State Handicrafts and Handloom Corporation Limited	-	-	0.98	2.80	-	3.78	0.60	0.60	-	-	-	-
11.	Himachal Pradesh Tourism Development Corporation Limited	-	-	10.10	0.74	0.75	11.59	-	-	-	-	-	-
Sector wise total		-	-	**11.08**	**3.54**	**0.75**	**15.37**	**0.60**	**0.60**	-		-	-
Total A (All sector wise working Government companies)		**137.06**	**175.01**	**27.10**	**347.48**	**0.75**	**375.33**	**38.60**	**1182.63**	-	-	-	-

(Figures in column 3 (a) to 6 (d) are ₹ in crore)

Sl. No.	Sector & Name of the Company	Equity/ loans received out of budget during the year		Grants and subsidy received during the year				Guarantees received during the year and commitment at the end of the year@		Waiver of dues during the year			
		Equity	Loans	Central Government	State Government	Others	Total	Received	Commitment	Loans repayment written off	Loans converted into equity	Interest/ penal interest waived	Total
(1)	(2)	3 (a)	3 (b)	4 (a)	4 (b)	4 (c)	4 (d)	5 (a)	5 (b)	6 (a)	6 (b)	6 (c)	6 (d)
B. Working Statutory corporations													
FINANCING													
1.	Himachal Pradesh Financial Corporation	-	-	-	-	-	-	16.05	89.53	-	-	-	-
Sector wise total		-	-	-	-	-	-	**16.05**	**89.53**	-	-	-	-
SERVICE													
2.	Himachal Road Transport Corporation	25.85	-	-	*	-	-	-	-	-	-	-	-
Sector wise total		**25.85**	-	-	*	-	-	-	-	-	-	-	-
Total B (All sector wise working Statutory corporations)		**25.85**	-	-	-	-	-	**16.05**	**89.53**	-	-	-	-
Grand Total (A + B)		**162.91**	**175.01**	**27.10**	**347.48**	**0.75**	**375.33**	**54.65**	**1272.16**	-	-	-	-

@ Figures indicate total guarantees outstanding at the end of the year.

* State Government released a subsidy of ₹ 90 crore during 2010-11 for bridging the gap of losses sustained by the Corporation on account of free/concessional facilities provided to the various section of society and running buses on uneconomic routes. Subsidy so provided has been taken as passenger income instead of subsidy.

Annexure 4

(Refer paragraph 1.25)

Statement showing investment made by the State Government in PSUs whose accounts are in arrears

Sl. No.	Name of PSU	Year up to which accounts finalised	Paid-up capital as per latest finalised accounts	Investment made by State Government during the years for which accounts are in arrears			
				Equity	Loan	Grants/subsidy	Others
Working companies/corporations			₹ in crore				
1	Himachal Pradesh Horticultural Produce Marketing and Processing Corporation Limited	2009-10	38.76	-	-	6.29	-
2	Himachal Backward Classes Finance and Development Corporation	2008-09	9.50	0.68 (2009-10)	-	-	-
3	Himachal Pradesh Mahila Vikas Nigam	2009-10	5.75	0.30	-	-	-
4	Himachal Pradesh Minorities Finance and Development Corporation	2009-10	5.95	1.00	-	-	-
5	Himachal Pradesh Power Transmission Corporation Limited	2009-10	56.70	60.00	-	-	-
6	Himachal Pradesh Tourism Development Corporation Limited	2009-10	12.30	0.74	-	-	-
	Total		**128.96**	**62.72**	**-**	**6.29**	**-**

Annexure 5

(Refer paragraph 1.15)

Statement showing financial position of Statutory corporations

(₹ in crore)

1	**Himachal Pradesh State Electricity Board**			
	Particulars	**2007-08**	**2008-09**	**2009-10**
A	**Liabilities**			
	Equity capital	334.00	372.23	971.77
	Loans from Government	18.40	92.64	77.49
	Other long-term loans (including bonds)	2281.87	1847.75	2156.77
	Reserves and surplus	1333.86	1530.08	1775.69
	Current liabilities and provisions	2423.12	3049.61	3391.70
	Total-A	**6391.25**	**6892.31**	**8373.42**
B	**Assets**			
	Gross fixed assets	3564.76	4271.34	4644.54
	Less: Depreciation	552.91	649.56	754.91
	Net fixed assets	3011.85	3621.78	3889.63
	Capital works-in-progress	1098.53	997.79	1040.28
	Deferred cost	104.81	135.72	129.22
	Current assets	1091.80	779.56	1017.80
	Investments	815.66	1121.04	1907.56
	Miscellaneous expenditure	5.93	6.06	5.75
	Deficits	262.67	230.36	383.18
	Total-B	**6391.25**	**6892.31**	**8373.42**
C	**Capital employed**[#]	**2779.06**	**2349.52**	**2556.01**
2	**Himachal Road Transport Corporation**			
	Particulars	**2008-09**	**2009-10**	**2010-11 (Provisional)**
A	**Liabilities**			
	Capital (including capital loan & equity capital)	339.60	387.85	413.70
	Borrowings (Government) (Others)	- 140.01	- 114.71	- 59.63
	Funds[=]	38.29	25.41	9.60
	Trade dues and other current liabilities (including provisions)	155.74	181.57	224.73
	Total-A	**673.64**	**709.54**	**707.66**
B	**Assets**			
	Gross block	214.93	234.05	240.15
	Less: Depreciation	128.24	135.03	143.65

[#] Capital employed represents net fixed assets (including works-in-progress) plus working capital.

[=] Excluding depreciation funds.

	Net fixed assets	86.69	99.02	96.50
	Capital works-in-progress (including cost of chassis)	2.11	1.77	1.55
	Current assets, loans and advances	72.61	59.02	36.81
	Accumulated losses	512.23	549.73	572.80
	Total-B	**673.64**	**709.54**	**707.66**
C	**Capital employed***	**5.67**	**(-)21.76**	**(-)89.87**
3	**Himachal Pradesh Financial Corporation**			
	Particulars	**2008-09**	**2009-10**	**2010-11**
A	**Liabilities**			
	Paid-up capital(including share application money)	48.57	99.57	99.57
	Reserve funds and other reserves and surplus	4.97	4.97	4.97
	Borrowings:	-	-	-
	Bonds and debentures	91.06	89.58	89.53
	Industrial Development Bank of India and Small Industries Development Bank of India	76.10	80.28	69.31
	Others (including State Government)	8.38	12.76	10.09
	Other liabilities and provisions	71.84	73.47	78.50
	Total-A	**300.92**	**360.63**	**351.97**
B	**Assets**			
	Cash and Bank balances	12.20	18.91	16.67
	Investments	20.05	71.05	71.05
	Loans and Advances	163.71	165.21	143.36
	Net fixed assets	0.96	0.90	0.89
	Dividend deficit account	0.79	0.79	0.79
	Other assets	1.16	0.93	1.73
	Profit and loss account	102.05	102.84	117.48
	Total-B	**300.92**	**360.63**	**351.97**
C	**Capital employed@**	**229.35**	**258.12**	**280.31**

* Capital employed represents net fixed assets (including works-in-progress) plus working capital.

@ Capital employed represents the mean of the aggregate of opening and closing balances of paid-up capital, loans in lieu of capital, seed money, debentures, reserves (other than those which have been funded specifically and backed by investments outside), bonds, deposits and borrowings (including refinance).

Annexure 6

(Refer paragraph 1.15)

Statement showing working results of Statutory corporations

(₹ in crore)

1	**Himachal Pradesh State Electricity Board**			
	Particulars	**2007-08**	**2008-09**	**2009-10**
1	(a) Revenue receipts	2352.48	2966.04	3048.54
	(b) Subsidy/Subvention from Government	-	0.02	0.20
	Total	**2352.48**	**2966.06**	3048.74
2	Revenue expenditure (net of expenses capitalised) including write off of intangible assets but excluding depreciation and interest	2135.45	2645.21	2976.04
3	Gross surplus (+)/deficit (-) for the year (1-2)	217.03	320.85	72.70
4	Adjustments relating to previous years	23.05	(-)19.31	56.22
5	Final gross surplus(+)/deficit(-) for the year (3+4)	240.08	301.54	128.92
6	Appropriations:			
	(a) Depreciation (less capitalised)	87.99	96.96	105.53
	(b) Interest on Government loans	2.12	1.97	1.87
	(c) Interest on others, bonds, advances etc. and finance charges	248.34	245.67	251.15
	(d) Total interest on loans and finance charges (b+c)	250.46	247.64	253.02
	(e) Less: Interest capitalised	72.99	75.39	76.81
	(f) Net interest charged to revenue (d-e)	177.47	172.25	176.21
	(g) Total appropriations (a+f)	265.46	269.21	281.74
7	Surplus(+)/deficit(-) before accounting for subsidy from State Government {5-6 (g)-1(b)}	(-)25.38	32.31	(-)153.02

8	Net surplus(+)/deficit(-) {5-6(g)}	(-)25.38	32.33	(-)152.82
9	Total return on capital employed*	152.09	204.58	23.39
10	Percentage of return on capital employed	5.46	8.71	0.92
2	**Himachal Road Transport Corporation**			
	Particulars	**2008-09**	**2009-10**	**2010-11 (Provisional)**
	Operating			
	(a) Revenue	371.00	395.09	486.90
	(b) Expenditure	397.33	421.78	499.58
	(c) Surplus(+)/Deficit(-)	(-)26.33	(-)26.69	(-)12.68
	Non-operating			
	(a) Revenue	1.18	1.50	1.09
	(b) Expenditure	9.03	12.31	11.48
	(c) Surplus(+)/Deficit(-)	(-)7.85	(-)10.81	(-)10.39
	(a) Revenue	372.18	396.59	487.99
	(b) Expenditure	406.36	434.09	511.06
	(c) Net profit (+)/Loss (-)	(-)34.18	(-)37.50	(-)23.07
	Interest on capital and loans	9.03	12.31	11.48
	Total return on Capital employed	(-)25.15	(-)25.19	(-)11.59
	Percentage of return on capital employed	-	-	-

* Total return on capital employed represents net surplus/deficit plus total interest charged to profit and loss account (less interest capitalised).

3	**Himachal Pradesh Financial Corporation**			
	Particulars	**2008-09**	**2009-10**	**2010-11**
1	**Income** (a) Interest on Loans (b) Other income	 16.49 0.15	 17.62 5.38	 11.30 0.09
	Total-1	**16.64**	**23.00**	**11.39**
2	**Expenses** (a) Interest on long-term and short-term loans (b) Other expenses	 15.93 4.87	 18.67 5.12	 15.16 6.01
	(c) Provision for non-performing assets	2.16	-	4.86
	Total-2	**22.96**	**23.79**	**26.03**
3	Profit(+)/loss (-) before tax (1-2)	(-)6.32	(-)0.79	(-)14.64
4	Provision for tax	-	-	-
	Profit(+)/Loss(-) after tax (3-4)	(-)6.32	(-)0.79	(-)14.64
5	Other appropriations (special reserve for the purpose of Section 36 (I) (viii) of the Income Tax Act, 1961 and general reserve)	-	-	-
6	Amount available for dividend	-	-	-
7	Dividend paid/payable	-	-	-
8	Total return on Capital employed[@]	9.61	17.88	0.52
9	Percentage of return on Capital employed	4.19	6.93	0.19

[@] For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss at disclosed in the profit and loss account.

Annexure 7

(Refer paragraph 2.9)

Statement showing particulars of distribution network planned vis-à-vis achievement thereagainst in the State as a whole during 2006-07 to 2010-11

Sr. No.	Description	2006-07	2007-08	2008-09	2009-10	2010-11	Total
A	**No of sub-stations (DTRs) of various categories**						
(i)	At the beginning of the year	18255	19181	19907	20572	21302	-
(ii)	Additions planed for the year	1045	1204	803	1343	1314	5709
(iii)	Additions made during the year	926	726	665	730	1170	4217
(iv)	At the end of the year	19181	19907	20572	21302	22472	-
(v)	Shortage in addition (ii-iii)	119	478	138	613	144	1492
B	**HT lines (in CKM)**						
(i)	At the beginning of the year	28012.000	29044.000	29539.000	30422.300	30860.000	-
(ii)	Additions planed for the year	1268.871	1007.160	1085.165	1286.940	1052.944	5701.08
(iii)	Additions made during the year	1032.000	495.000	883.300	437.700	821.822	3669.822
(iv)	At the end of the year	29044.000	29539.000	30422.300	30860.000	31681.822	-
(v)	Shortage in addition (ii-iii)	236.871	512.160	201.865	849.240	231.122	2031.258
C	**LT lines (in CKM)**						
(i)	At the beginning of the year	50435.000	51478.000	52412.000	53161.000	53797.000	-
(ii)	Additions planed for the year	1503.517	1992.577	1735.372	3026.350	3080.015	11337.831
(iii)	Additions made during the year	1043.000	934.000	749.000	636.000	1681.141	5043.141
(iv)	At the end of the year	51478.000	52412.000	53161.000	53797.000	55478.141	-
(v)	Shortage in addition (ii-iii)	460.517	1058.577	986.372	2390.350	1398.874	6294.69
D	**Transformers capacity (in MVA)**						
(i)	At the beginning of the year	1007.981	1048.368	1101.791	1146.626	1182.406	-
(ii)	Additions planed for the year	9.487	16.309	29.088	20.922	22.237	98.043
(iii)	Additions made during the year	40.387	53.423	44.835	35.780	45.851	220.276
(iv)	At the end of the year	1048.368	1101.791	1146.626	1182.406	1228.257	-
(v)	Shortage in addition (ii-iii)	(+) 30.900	(+) 37.114	(+) 15.747	(+) 14.858	(+)23.614	(+)122.233

(Source: Data supplied by the Company)

Annexure 8

(Refer paragraph 2.13.2)

Statement showing source-wise purchase of power during 2006-10

(in Million Units/Average Cost per Unit)

Year	State Generation PSUs	Central Sector	IPPs	UI Charges	Others	Total
2006-07	808.129	2607.043	1276.989	80.630	284.160	5056.951
	1.24	2.34	2.80	3.09	2.44	2.30
2007-08	903.134	2558.865	1479.661	171.400	312.700	5425.760
	1.73	2.32	2.91	4.21	2.99	2.48
2008-09	955.350	2610.660	1680.422	76.160	724.908	6047.500
	1.48	2.65	2.94	3.60	6.24	2.99
2009-10	768.890	2970.460	1767.470	286.990	822.540	6616.350
	1.66	2.77	2.35	3.48	6.42	3.01

(Source: Data compiled from the administrative reports and annual accounts of the Company)

Annexure 9

(Refer paragraph 2.13.7)

Statement showing progress of installation of capacitor banks and consequential loss of envisaged energy savings

(in MVAR)

Year	Installed capacity at the beginning of the year	Targeted addition during the year	Actual addition during the year	Installed capacity at the close of the year	Percentage of shortfall in achievement of target	Loss of envisaged energy savings		
						In MUs	Average Rate per Unit	₹ in crore
2006-07	805.53	-	-	805.53	-	-	-	-
2007-08	805.53	-	-	805.53	-	-	-	-
2008-09	805.53	-	-	805.53	-	-	-	
2009-10	805.53	37	-	805.53	100	1.12	2.95	0.33
2010-11	805.53	90	-	805.53	100	2.72	2.95	0.80

(Source: (Data supplied by the Company)

Annexure 10

(Refer paragraph 2.13.11)

Statement showing targets & actual performance of checking, theft cases detected, assessment made and amount realized for the five years ending 31 March 2010

Year	No. of checking		Theft cases		Assessed amount (₹ in lakh)		Amount Realized (₹ in lakh)	
	Targets	Actual	Targets	Actual	Targets	Actual	Targets	Actual
2006-07	4,138	3,796	Not fixed	551	Not fixed	22.61	Not available	22.61
2007-08	4,236	3,074	Not fixed	577	Not fixed	93.73	Not available	93.73
2008-09	4,311	1,711	Not fixed	486	Not fixed	104.71	Not available	104.71
2009-10	4,411	3,295	Not fixed	1,027	Not fixed	95.59	Not available	95.59

(Source: Data supplied by the Company)

Annexure 11

(Refer paragraph 3.15.3)

Statement showing the department wise outstanding Inspection Reports (IRs) and paragraphs

Sl. No.	Name of Department	No. of PSUs	No. of outstanding I.Rs.	No. of outstanding paragraphs	Years from which outstanding
1	Horticulture	3	10	79	2005-06
2	Industries	7	20	82	2005-06
3	Forest	1	5	73	2005-06
4	Pubic Works	1	3	15	2008-09
5	Welfare	3	6	16	2007-08
6	Food and Supplies	1	2	3	2008-09
7	Tourism and Civil Aviation	1	10	20	2006-07
8	MPP and Power	3	766	3,322	2005-06
9	Transport	1	109	542	2005-06
10	IT	1	2	3	2009-10
	Total	**22**	**933**	**4,155**	

Annexure 12

(Refer paragraph 3.15.3)

Statement showing the department wise draft paragraphs/performance audit report replies to which are awaited

Sl. No	Name of Department	No. of draft paragraphs	No. of performance audit report	Period of issue
1	MPP & Power	8	1	April, May and August 2011
2	Forest	2	-	April & July 2011
3	Industries	2	-	May & June 2011
4	Finance	1	-	October 2011
	Total	**13**	**1**	