Chapter-2
Performance Audit

Chapter-2

Performance audit of Statutory Corporations and Government Companies

Punjab State Warehousing Corporation

2.1 Working of Punjab State Warehousing Corporation

Executive Summary

The Punjab State Warehousing Corporation is engaged mainly in three activities i.e. Warehousing, Containerisation and Procurement of foodgrains. Performance audit covers the activities of warehousing, procurement of foodgrains and custom milling of paddy by the Corporation.

Non/ delayed availing of cheaper loan from National Bank for Agriculture and Rural Development resulted in loss of ₹ 2.58 crore.

(Paragraph 2.1.10)

Delay in handing over godowns to Food Corporation of India resulted in loss of ₹ 7.68 crore.

(***Paragraph 2.1.11.1)***

Non adoption of FCI rice driage norms, non-execution of MOUs and delay in lodging of claims resulted in loss of ₹ 158.83 crore.

(Paragraphs 2.1.12.2 to 2.1.12.4)

Poor storage and lack of preservation measures damaged 15,453 MT of wheat valuing ₹ 32.23 crore.

(Paragraph 2.1.14.1)

Failure of the Corporation to get the paddy milled within the stipulated period resulted in loss of interest and custody & maintenance charges of ₹ 556.44 crore and inadequate control on milling operations of paddy resulted in short delivery/misappropriation of paddy/rice amounting to ₹ 62.86 crore by millers.

(Paragraph 2.1.15 and 2.1.15.1)

Transportation charges of ₹ 22.34 crore were not recovered from the millers.

(Paragraph 2.1.15.2)

Introduction

2.1.1. Punjab State Warehousing Corporation (Corporation) was established (November 1967), under Section 18 (1) of the Warehousing Corporations Act, 1962 (read with Punjab Reorganisation Act, 1966) with the main objective of construction and maintenance of warehouses in the State for the storage of agricultural produce, agricultural inputs and other notified commodities. The State Government entrusted (1993) the activity of procurement of foodgrains under the minimum support price (MSP) announced by the Government of India (GoI). The Corporation is engaged mainly in three activities i.e. Warehousing, Containerisation and Procurement. The Corporation stores wheat in its owned/hired godowns/plinths and delivers the same to Food Corporation of India (FCI) for Central pool as per movement plan drawn by FCI. Paddy procured is stored in the premises of allotted rice millers under joint custody and the resultant rice is directly delivered by the millers to FCI. After delivery thereof, FCI may store this rice in the warehouses hired from PSWC. The activities of the Corporation are carried out through its 16 district offices.

Organisational set-up

2.1.2. The Management of the Corporation is vested in a Board of Directors (BOD). As on 31 March 2014, the BOD comprised of nine directors of whom five were nominated by Central Warehousing Corporation (CWC) and remaining four (including the Chairman and Managing Director) by the State Government. The Managing Director is the Chief Executive.

Audit Objectives

2.1.3. The audit objectives of the performance audit were to assess whether:

- Storage capacity was created and warehousing operations were managed economically and efficiently;
- Procurement, storage of wheat and paddy, milling of paddy and delivery of wheat and rice was made and reimbursement there against were claimed timely and in full;
- The Corporation had devised and made operational a reliable system of monitoring at the highest level to ensure that the objectives were achieved in an efficient and economical manner; and
- Internal Control System was effective and commensurate with the size and activities of the Corporation.

Scope and audit methodology

2.1.4. The present performance audit conducted between January 2014 and July 2014 covers the activities of warehousing[1] and procurement of wheat and

[1] Except activity relating to containerisation

paddy including milling during the years 2009-10 to 2013-14. The audit examination involved scrutiny of records at head office and five[2] out of 16 district offices selected on the basis of probability proportional to size sampling method which covered 62 *per cent* of storage revenue and 50 *per cent* of procurement of foodgrains during 2009-14.

We explained the audit objectives and criteria to the Management of the Corporation and representative of the Administrative department during an entry conference (February 2014). Audit findings were reported to the Corporation and the State Government (August 2014) and discussed in the exit conference (September 2014). The exit conference was attended by the representatives of the Government and Corporation. The views expressed by the Government/Management along with replies received from Management have been considered while finalising this performance audit report.

Audit Criteria

2.1.5. Sources of audit criteria are as follow:

- Instructions/guidelines issued by GoI/ State Government/ FCI with regard to warehousing and procurement of foodgrains, milling of paddy, raising of bills, reimbursement of cost, incidentals and other related expenses;
- Norms/instructions issued by the head office of the Corporation for optimum utilisation of warehouse capacity along with recovery of storage charges from depositing agencies;
- Terms and conditions of handling and transportation contracts;
- Internal control mechanism in the Corporation.

Audit Findings

2.1.6. The audit findings are discussed in subsequent paragraphs.

Financial position and working results

2.1.7.1 The Corporation had finalised its accounts up to 2012-13. The financial position of the Corporation for the years 2009-14 is given in the ***Annexure 5***. Activity wise working results of the Corporation are summarised as below:

[2] Amritsar, Ferozepur, Ludhiana, Patiala and Sangrur.

Table 2.1.1

(₹ in crore)

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14 (unaudited)
1.	Operating profit from warehouse activity	106.27	169.54	129.46	175.71	168.40
2.	Operation loss from procurement activity	232.42	281.75	351.55	443.57	476.55
3.	Net losses as per Profit and loss account	126.15	112.21	222.09	267.86	308.15
4.	Impact of Statutory Auditors and CAG audit observations	14.74	67.11	100.62	183.89	Not Available
6.	Net loss considering impact of audit observations	140.89	179.32	322.71	451.75	Not Available

The Corporation had been incurring losses continuously in procurement activity. As can be seen had the qualifications of the statutory auditor and CAG been considered, losses would have been much higher. The Corporation was not preparing its accounts on realistic basis and showing the amount of Infrastructure Development (ID) cess paid in excess of the amount being reimbursed, deductions made on account of driage, guarantee fee, etc as recoverable from FCI without any confirmation from GoI/FCI.

The Corporation was availing of cash credit (CC) facility from State Bank of India for procurement of foodgrains and related incidental expenses against hypothecation of stocks on guarantee given by the State Government. Agreement between SBI and the State Government on behalf of the procuring agencies provided that the value of hypothecated stocks should fully match with the CC outstanding. However, from ***Annexure 5***, it would be seen that the outstanding against the cash credit limit had increased from ₹ 2,372.27 crore in 2009-10 to ₹ 5,137.24 crore in 2013-14.

2.1.7.2 Guarantee fee is paid by the Corporation to the State Government at the rate of 1/8 *per cent* of CC limit actually availed of whereas GoI allowed guarantee fee subject to maximum of 1/8 *per cent* of MSP of quantity of wheat/rice delivered to FCI for the Central Pool.

Audit noticed that as against the guarantee fee of ₹ 24.06 crore paid by the Corporation to the State Government for the crop years 2009-14, the portion of guarantee fee reimbursed/ reimbursable by FCI worked out to ₹ 19.18 crore only, leaving an unbridged gap of ₹ 4.88 crore.

Management while admitting the observation stated (September 2014) that matter has been taken up with the State Government for reimbursement of excess amount.

Warehousing activity

2.1.8. The main activity of the Corporation is to build, hire and operate warehouses for storage. As on 31 March 2014, the Corporation had 117 warehouse centres having 1,273 owned (Capacity: ₹ 26.79 lakh MT) and

1,242 hired (Capacity: 37.11 lakh MT) godowns in the State with total storage capacity of 63.90 lakh MT. Average storage capacity of owned and hired godowns and their utilisation is given in ***Annexure 6***. From the ***Annexure***, it would be seen that percentage of capacity utilisation of warehouses increased from 85 *per cent* in 2009-10 to 93 *per cent* in 2013-14 which indicated that the Corporation had been successful in utilisation of its warehousing capacity. Of the storage capacities available, capacity ranging between 93.11 *per cent* to 99.97 *per cent* were utilised by the FCI and state procurement agencies.

Creation of new capacities

2.1.9. FCI had approved creation of capacity of 2.89 lakh MT under the Private Entrepreneurs Guarantee (PEG) Scheme[3] during 2009-14. However, the Corporation had created 1.69 lakh MT capacity at a cost of ₹ 56.25 crore, one project of 0.50 lakh MT capacity was under progress and remaining 0.70 lakh MT capacity could not be created due to non- availability of land as per the requirement of the Scheme. The Corporation also constructed 4 godowns with storage capacity of 0.15 lakh MT at a cost of ₹ 5.10 crore for its own procurement activity. The deficiencies noticed in the creation of new capacities are discussed in the succeeding paragraphs.

Finance for construction of new capacities under PEG

2.1.10 Non/ delayed availment of loan from NABARD

i) National Bank for Agriculture and Rural Development (NABARD) provides loan for construction of godowns in rural areas at rate of interest of 6.5 *per cent* per annum. Audit noticed that six godowns with storage capacities of 85,550 MT under PEG scheme were constructed by obtaining (March 2010) term loan of ₹ 18 crore from Bank of Maharashtra at floating rates of interest ranging between 8.25 and 11.25 *per cent* during March 2010 to March 2014. There were no recorded reasons for not approaching NABARD to arrange loan for this purpose at cheaper rates. The Corporation paid ₹ 4.56 crore interest up to March 2014 on the term loan. Not obtaining loan from NABARD resulted in excess outgo of interest of ₹ 1.73 crore on loan availed from commercial bank up to March 2014 as compared to NABARD loan.

ii) Under Grameen Bhandaran Yojna, Ministry of Agriculture, GoI releases capital subsidy of 25 *per cent* of the project cost to NABARD for onward disbursement to participating banks in advance for keeping the same in the Subsidy Reserve Fund Account of the concerned borrower and interest on the loan amount to the extent of subsidy was not to be charged by the bank. The subsidy was to be released in two installments - 50 *per cent* in advance, on submission of project profile-cum-claim form and remaining 50 *per cent* after joint inspection.

Audit noticed that:

[3] Under this scheme, FCI gives a guarantee of six years for assured hiring on storage charges as applicable to CWC from time to time.

During 2010-11, the Corporation got construction of six godowns at an estimated cost of ₹ 21.70 crore, financed from Bank of Maharashtra. The Bank started charging interest on the loan from March 2010 yet the Corporation claimed 50 *per cent* advance subsidy of ₹ 1.07 crore in August 2010 (after a delay of 4 months) which was released in February 2011. Though the godowns were constructed between July and November 2010, the Corporation claimed (November 2012) balance 50 *per cent* subsidy of ₹ 1.07 crore after a delay of 23 months. Subsidy of ₹ 1.03 crore was released by NABARD in February 2013. This caused financial loss of ₹ 19.17 lakh on the repayment of interest on capital subsidy to the bank.

iii) Detailed project report (DPR) for construction of 12 godowns of 1.36 lakh MT capacity at a cost of ₹ 66.18 crore was sent to NABARD through State Government for sanction of loan (March 2012), though the project was approved by FCI in June 2011. NABARD intimated (15 May 2012) that allocation of funds of ₹ 2,000 crore under Rural Infrastructure Development Fund (RIDF)-XVII had already been fully utilised. Government of Punjab (GoP) sent (November 2012) revised proposal for construction of 11 godowns of 1.29 lakh MT at a cost of ₹ 55.74 crore to NABARD. In the meantime the Corporation got sanctioned (August 2012) loan of ₹ 29.95 crore at interest rate of 10.25 *per cent* per annum from Corporation Bank for construction of 10 godowns having storage capacity of 95,250 MT (excluding one godown of 33,450 MT capacity which was subsequently taken up in 2014-15) . Audit observed that 10 godowns were constructed in September/ October 2013 and handed over to FCI in January/ February 2014. NABARD sanctioned (March 2013) loan of ₹ 41.80 crore (75 *per cent* of the project cost) for construction of storage capacity of 1.29 lakh MT. The Corporation availed (April 2014) loan of ₹ 27.95 crore and repaid (April 2014) the bank loan. The Corporation paid interest of ₹ 2.48 crore on the term loan of Corporation Bank till the loan was repaid which was ₹ 0.66 crore more than that had the loan been obtained from NABARD.

Construction of new godowns

2.1.11.1 Loss of potential revenue due to delay in handing over of godowns to FCI

Construction of godowns under PEG scheme have a guaranteed hiring period of six years provided that godowns are constructed within one year. Guaranteed hiring period would be reduced by the period of delays in construction of godowns.

Audit noticed that in the construction of thirteen godowns with aggregate storage capacity of 1,69,350 MT (allotted between February to November 2010 and December 2012 to February 2013) the contractors were required to construct the godowns within 90 days but were delayed from 52 to 200 days. The Corporation also took time to remove the deficiencies and hand them over to FCI. The godowns were handed over in March/ April 2011 and January/ February 2014. These delays in construction and consequent handing over resulted in loss of potential revenue of ₹ 7.68 crore. The Corporation also did

not impose penalty of ₹.2.23 crore on the contractors for delays in construction.

Management stated (September 2014) that delay in construction was due to ban on the excavation of sand in the State. The reply is not acceptable as the contractor had not maintained the desired pace of the work, was aware of the ban on excavation while accepting the work and arrangement of construction material was also his responsibility**.**

2.1.11.2 Inability to earn higher revenue due to non/ delayed installation of weighbridges

FCI enhanced (April 2009) the rate of storage charges of PSWC with the condition that the stocks were to be weighed on the computerised weighbridges at various locations of warehouses/ godowns. As on 31 March 2009, the Corporation was having weighbridges at seven out of 98 owned warehouses. During August 2010 to September 2013, 13 more godowns were constructed under PEG scheme (guarantee period of 6 years) without installing the weighbridges. In January 2011, FCI hired seven godowns, of the 13 constructed, under General Hiring Basis (GHB) for one year due to non provision of weighbridges. During April 2011 to February 2013, weighbridges were installed in 9 out of 13 godowns constructed under PEG scheme. The Corporation did not initiate any action up to March 2014 to install weighbridges at remaining warehouses. The Corporation framed (April 2014) an estimate for installation of weighbridges at 44 locations at a cost of ₹ 7.92 crore. Audit noticed that from April 2009 to March 2014, FCI deducted ₹ 5.77 crore weighment charges for weighment of foodgrains at private weighbridges. Thus, had the Corporation installed the weighbridges it could have not only saved expenditure incurred on private weighment but also have earned higher hiring charges under PEG scheme.

Management while admitting the facts stated (September 2014) that installation of weighbridges is still under BODs consideration.

Warehousing Operations

2.1.12 As already pointed out at Para 2.1.8, the capacity utilisation of warehouses ranged between 85 *per cent* to 93 *per cent* of available capacity and 93.11 *per cent* to 97.97 *per cent* was utilised by FCI and state procurement agencies. In respect of warehousing operations Audit noticed:

2.1.12.1 Non release of revised storage charges.

The Corporation is entitled for storage charges at par with those charged by CWC provided the godowns are at par with the specifications of CWC.

Audit noticed that the Corporation did not take any initiative to upgrade its warehouses at par with those of CWC. On revision[4] (September 2012 to

[4] ₹ 2.73 per bag per month for the year 2009-10, ₹ 2.92 per bag per month for the year 2010-11 and ₹ 3.07 per bag per month for the year 2011-12

March 2014) of storage charges for years 2009-10 to 2011-12, the FCI restricted (August 2013) the payment of storage charges to the rates applicable for the year 2008-09, due to persistent deficiencies in the warehouses of non-installation of weigh bridges, roadside verandah, isolated platforms, internal roads, etc. Audit observed that in the selected district offices, storage charges amounting to ₹ 118.64 crore up to August 2014 were restricted at pre revised rates of ₹ 2.45 per bag per month since April 2009 which had a cumulative effect of ₹ 32.78 crore.

Management stated (September 2014) that while they are in the process of removing the deficiencies, some of the major discrepancies pointed out by the FCI in old constructed godowns is being taken up with them. The reply is not acceptable as the Corporation should have identified the deficiency in November 2009 when FCI issued instructions regarding payment of revised storage charges at par with CWC where the SWCs godowns are at par in specifications with that of CWC.

2.1.12.2 Loss due to excess driage in rice

FCI had revised (January 2006) norms for driage in rice. For driage till moisture level 14 *per cent*, full value allowance was provided and for moisture level below 14 *per cent*, allowance at the rate of 0.7 *per cent* for every *one per cent* driage was allowed. PSWC Rules, 1958 provided for excess driage norms in comparison with FCI norms. FCI refused to accede to the PSWC driage norms and insisted upon following of their standards. FCI made deductions of ₹ 91.57 crore for the period 2009-13 and ₹ 50.69 crore for 2013-14 on account of excess driage. The Corporation recommended (January 2013) adoption of FCI norms with retrospective effect (January 2006) which are yet to be notified.

Management stated (September 2014) that matter has been taken up with the State Government for amendment in the PSWC Rules**.**

2.1.12.3 Short recovery of storage charges due to non execution of MOUs

In November 2008, the Corporation revised the storage charges to ₹ 20 per MT per month for covered storage within municipal limit and to ₹ 15 per MT per month for covered storage outside the municipal limit against the existing rate of ₹ 5 per MT per month and issued (January 2009) instructions to district offices to get MOUs executed as per the revised rates or get the capacities vacated on expiry of the existing agreement. During scrutiny of the records of the district office, Sangrur, Audit observed that agreement for hiring 38,250 MT of storage space by PUNGRAIN expired in March 2009. On the expiry of MOUs, the district office did not execute new MOUs at revised rates of ₹ 15 (22,500 MT) and ₹ 20 (15,750MT) per MT or get the capacities vacated. PUNGRAIN stopped (April 2009) making payments of storage charges. Audit further observed that though the Corporation was storing its foodgrains on open plinths, it did not take action to get the warehouses vacated. The Corporation failed to take legal action for recovery of warehousing charges of ₹ 1.50 crore for the period from April 2009 to January 2014 from PUNGRAIN as it did not sign MOU at revised rates.

Management stated (September 2014) that matter has been taken up with the State Government for release of revised storage charges by procurement agencies.

2.1.12.4 Delays in claiming of storage charges

Audit noticed that the Corporation did not evolve a system at its head office to ensure and monitor that the district offices were raising storage charges bills timely. During test check of records of the five[5] selected district offices during 2009-14, Audit noticed:-

(a) As per FCI instructions (July 1988) and reiterated (October 2001) in respect of payment of storage charges, bills were required to be preferred in advance before the 7th of each month along with prescribed certificate relating to capacity/guarantee and FCI was required to release the payments of storage charges in advance through crossed cheques with an endorsement indicating not payable before 1st of the following month. Audit noticed that there were delays up to 89 days (after giving a margin of 7 days) in raising regular monthly bills of storage charges of ₹ 642.16 crore from FCI. This resulted in loss of interest of ₹ 3.64 crore.

(b) The GoI revised (between August 2009 and October 2011) the storage charges payable to PSWC ranging between ₹ 1.90 (applicable with effect from 1 April 2007) and ₹ 2.45 (applicable with effect from 1 April 2008) per bag of 50 Kg per month. Audit noticed that supplementary bills for revised storage charges amounting to ₹ 98.29 crore for 2009-14 were raised after delays ranging between 7 and 846 days (after giving a margin of 15 days) which led to loss of interest of ₹ 11.26 crore (calculated at the lowest CCL rate of 11.70 *per cent* per annum) to the Corporation

(c) Further, for the capacity utilised over and above the reserved capacity, the Corporation was entitled to storage charges calculated on daily basis. Audit noticed that the district office Amritsar and Ludhiana was raising bills and supplementary bills correctly whereas the district offices Ferozepur and Sangrur did not claim the storage charges during the period 2009-14 for capacity overutilised. District offices Patiala did not claim the supplementary bill of revised storage charges of ₹ 17.22 lakh for the period from February 2011 to September 2013 at the revised rate of ₹ 2.45 per bag per month.

The Corporation had neither analysed the reasons for delay in raising of claims, nor fixed responsibility of any official in this regard.

Management while admitting the facts stated (September 2014) that action will be taken to fix the responsibility for the delays and to curb the delay in future**.**

[5] Amritsar, Ferozpur, Ludhiana, Patiala and Sangrur

Procurement activity

2.1.13.1 Targets and achievements

The foodgrains production for *Rabi & Kharif* crops is estimated by the Agriculture department and the agency-wise procurement targets are fixed by the State Government. The details of the targets for the procurement of wheat and paddy and actual procurement there against during 2009-14 are given below:

Table 2.1.2

(Quantity in lakh MTs)

Crop year	Targets of procurement		Actual procurement by the Corporation		Excess (+)/ Short(-) procurement	
	Wheat	Paddy	Wheat	Paddy	Wheat	Paddy
2009-10	12.65	16.80	13.61	16.91	(+)0.96	(+)0.11
2010-11	12.65	15.40	11.25	14.89	(-)1.40	(-) 0.51
2011-12	12.10	15.40	12.59	13.00	(+)0.49	(-) 2.40
2012-13	12.65	16.50	14.51	12.71	(+)1.86	(-) 3.79
2013-14	15.40	16.50	12.66	11.78	(-) 2.75	(-) 4.72
Total	**65.45**	**80.60**	**64.62**	**69.29**		

It can be seen from above that the performance of the Corporation in achieving its procurement targets had mixed results. The procurement targets of wheat had been exceeded in all the years except in 2010-11 and 2013-14 while the targets for procurement of paddy had been achieved only in 2009-10. Management stated (September 2014) that actual procurement depends upon the arrival of stocks in the allocated mandis.

2.1.13.2 Non-compliance of instructions regarding procurement

To ensure that fair average quality (FAQ) paddy is procured, the technical staff deputed in each mandi should exercise checks at mandi level relating to moisture content and admixture of lower class grains etc. The instructions for procurement of paddy from mandis are issued at the commencement of each Kharif Marketing Season (KMS). The technical officers have to check stock by drawing samples from paddy offered for purchase and prescribed number of sealed samples sent for analysis. Scrutiny of the Head office and selected districts records disclosed that:

- Against the sanctioned strength of 195 technical assistants, only 82 to 158 were available with the Corporation who procured paddy from 269 to 293 mandies and were operating 112 to 117 storage centres also all over the state;

- Against requirement of 142 to 210 moisture meters, only 69 to 136 were available in the district offices and the procurement staff was also not recording the moisture and other specifications in the purchase/bidding registers.

- The district offices were not operating the laboratories in the offices and no independent squads were formed for supervision of procurement of paddy in mandis to ensure that procurement is made as per specifications issued by the GoI.

Storage and delivery of wheat

2.1.14.1 Loss due to damage of wheat

The Corporation is required to make arrangement for storage of wheat in covered godowns/on scientific plinths to avoid loss due to damage of wheat. Audit observed that out of wheat procured during 2009-14, 15,453 MT of wheat valuing ₹ 32.23 crore was damaged due to poor storage and lack of preservation measures. Out of this, 2,115.52 MT wheat of crop years 2009-11 valuing ₹ 5.10 crore was disposed of at ₹ 0.87 crore (550.37 MT wheat valuing ₹ 1.47 crore was found short). Balance 13,337.5 MT damaged wheat valuing ₹ 27.13 crore was awaiting (May 2014) disposal though a period up to 37 months had lapsed since damage to wheat came to notice. Due to delay in disposal of damaged stock, the condition of the stocks will further deteriorate.

Management stated (September 2014) that wheat was damaged due to storage of stock in open as there was shortage of covered godowns and disposal of damaged wheat is in process. The Management however did not fix the responsibility for damage to wheat due to improper storage and non-initiation of remedial measure by the field staff.

2.1.14.2 Short accountal of storage gain in wheat

According to GoI's instructions (November 1999 and October 2003), storage gain was required to be passed on to FCI at the rate of one *per cent* and 0.7 *per cent* of the wheat stored in covered godowns and open plinths respectively at the time of delivery of wheat to FCI after 30 June each year.

In view of continuous deduction being made by FCI for not passing the required gain, BOD approved (December 2008) the norms of the GOI and sent (May 2010) the norms so approved to the State Government for notification and amendment in Punjab Warehouses Rules, 1958. However, these Rules were not amended so far. (Oct 2014).

During checking of records of the selected district offices, Audit noticed that the district offices short delivered storage gain equivalent to 8,081.83 MT wheat valuing ₹ 10.68 crore.

Management stated (September 2014) that matter has been taken up (May 2010) with the State Government for amendment in the PSWC Rules; the response of the Government was awaited.

Storage and milling of paddy

2.1.15 The paddy procured from mandis is stored in the premises of millers under joint custody. Custom Milling Policy of the State Government for each

crop year and standard terms of agreement between the rice millers and the Corporation, *inter alia*, provided that rice millers would deliver the custom milled rice to FCI within the stipulated/extended period. Table below indicates details of the paddy procured, rice due and rice delivered during the crop years 2009-14:

Table 2.1.3

(Quantity in lakh MT)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Paddy procured	16.91	14.89	13.00	12.71	11.78	**69.29**
Rice due	11.33	9.98	8.71	8.51	7.89	**46.42**
Rice delivered up to stipulated date* (percentage)	5.67 (50.0)	4.32 (43.3)	6.44 (73.9)	7.92 (93.1)	7.74 (98.1)	**32.09**
Rice delivered during extended period^	5.27	5.40	2.14	0.37	N.A.	**13.18**
Rice not delivered	0.39	0.26	0.13	0.22	0.15	**1.15**
Rate of rice per MT (₹)	18,798.20	19,089.50	20,675.30	23,284.20	24,554.70	
Value of rice not delivered (₹ in crore)	73.31	49.63	26.88	51.23	36.83	**237.88**
* Stipulated date	31 March 2010	31 March 2011	30 June 2012	30 June 2013	30 June 2014	
^Date of extended period (No. of months)	15 July 2011 (15.5 months)	30 June 2012 (15 months)	31 December 2012 (6 months)	17 January 2014 (6.5 months)	N.A.	

From the above it would be observed that rice delivered up to stipulated date of delivery increased from 43.3 *per cent* during 2010-11 to 98.1 *per cent* during 2013-14 which indicated that Corporation had improved upon timely deliveries of rice. Further, against 46.42 lakh MT of rice due, the millers delivered 32.09 lakh MT and 13.18 lakh MT rice up to stipulated period and during extended delivery period respectively. Balance 1.15 lakh MT rice remained undelivered during 2009-14. Reasons for non-delivery of rice by millers within the stipulated and extended delivery period were not available on records. Audit noticed that weighted average delivery period during 2009-14 decreased from 15 months during 2009-10 to 4 months (on the basis of operations up to 30 June 2014) during 2013-14. The weighted average delivery period was, however, still higher vis-à-vis the weighted average period of two months allowed by GoI/FCI. Thus, failure of the Corporation to get the paddy milled within the stipulated period resulted in loss of ₹ 556.44 crore (on account of non-recovery of interest: ₹ 468.33 crore and custody and maintenance charges: ₹ 88.11 crore) during 2009-14, reflecting inefficiency in operations and affecting its financial position.

Management stated that from KMS 2003-04 to 2013-14 GOI has sanctioned provisional rate and final rates are yet to be sanctioned/finalised. There would be no loss on this account once the rates are finalised. Reply is not acceptable as in the year where the State Government has dispensed with the interest clause on the extended period of delivery of rice, the Corporation has not taken up with the State Government the issue of compensation and in the years

where penal interest clause has been inserted in the agreement with the millers for delay in delivery of rice, it has not been implemented while settling the bills of the millers.

2.1.15.1 Misappropriation of paddy/ rice by millers

Audit of five selected districts disclosed that 1.62 lakh MT of paddy of crop years 2009-13 was stored with 22 millers for milling. The millers short delivered 0.59 lakh MT of rice valued at ₹ 67.40 crore during above crop years. The total amount recoverable from the millers on account of short delivered/misappropriated[6] rice and cost of gunnies (after adjustment of amount deposited by millers and milling charges payable to them) worked out to ₹ 62.86 crore. FIRs were lodged in eight cases only. In remaining 14 cases involving misappropriation of 0.23 lakh MT rice valuing ₹ 35.40 crore, the Corporation did not even report the matter to the police authorities for registering FIRs against the millers.

Management stated (September 2014) that matter is being taken up with the police authorities for registration of FIRs.

2.1.15.2 Non recovery of transportation charges from millers

While fixing the rates of custom milled rice (CMR) for the crop years 2009-14 by GoI, separate rates for transportation charges within eight kms were not fixed as these were included in the milling charges. Audit noticed that for transportation of 23.83 lakh MT paddy from purchase centres to millers premises within eight kms, expenditure of ₹ 22.52 crore was incurred by the five selected district offices of the Corporation for crop years 2009-14 which was to be borne by millers. Audit noticed that district office, Amritsar recovered partial amount of ₹ 0.18 crore while settling the accounts of 18 millers during 2009-12 and the balance amount of ₹ 22.34 crore was not recovered which led to loss of ₹ 22.34 crore to the Corporation.

Management accepted (September 2014) the audit contention.

Non reimbursement of procurement cost

2.1.16.1 Non reimbursement of cost of gunny bags

GoI had not fixed any norms for replacement of gunny bags (requiring replacement due to torn condition/spillage at the time of delivery of wheat) after crop year 2004 and as such FCI was not reimbursing the cost of gunny bags used for replacement/spillage. The rates of gunny bags fixed by GoI for crop years 2009-14 were ranging between ₹ 32.25 and ₹ 40.89 per bag. Scrutiny of record of the selected district offices disclosed that the Corporation used 6.89 lakh gunny bags (as replacement/ make up) valued at ₹ 2.42 crore at

---

[6] One case of misappropriation of 5,192 MT rice valued at ₹ 14.14 crore relating to Ganeshay Overseas Industries Limited Sahnewal (Ludhiana) for KMS 2009-10 was reported in Audit Report(Commercial) for the year ended 31 March 2011.

the time of delivery of 55.97 lakh MT of wheat to FCI during 2009-14 (up to December 2013). The Corporation failed to resolve the issue even after lapse of more than ten years.

2.1.16.2 Non reimbursement of custody and maintenance charges on wheat

Provisional rate of incidentals for the years 2009-14 included rate of custody and maintenance charges of ₹ 0.92, ₹ 1.04, ₹ 1.04 per quintal for 15 days and ₹ 3.12 and ₹ 3.60 per quintal for one and half months respectively for CAP/ open storage but did not provide rate of custody and maintenance charges for wheat delivered from covered godowns. Audit observed that the Corporation delivered 23.27 lakh MT of wheat to FCI from covered godowns during 2009-14 (up to December 2013) but could not claim custody and maintenance charges of ₹ 3.11 crore as the Corporation did not take up the matter with State Government.

Management stated (September 2014) that corrective measure to recover the dues would be taken.

2.1.16.3 Excess payment of ID Cess

Government of Punjab enhanced (September 2008) the ID Cess from two *per cent* to three *per cent* against two *per cent* being sanctioned and paid by GoI for crop years 2008-09 onward. GoI did not agree to reimburse the hike of ID Cess from two *per cent* to three *per cent* on the plea that the levy of taxes/duties/cess are much higher than the taxes levied in other States and the same needs to be rationalised. The State Government did not rationalise its tax structure and the Corporation had to deposit ₹ 67.84 crore excess for procurement of foodgrains during 2012-14 in addition to ₹ 15 crore (out of ₹ 100.62 crore) for the period 2008-12 with the Punjab Infrastructure Development Board.

Management stated (September 2014) that Department of Food and Civil Supplies & Consumer affairs, Punjab had filled Civil Writ Petition in the Punjab & Haryana High Court on behalf of all the State procurement agencies for recovery of ID cess from GOI.

2.1.16.4 Non-recovery of service tax on transportation charges

Service Tax on payment of transportation charges was imposed with effect from January 2005 in pursuance of GoI notification (December 2004). As per Service Tax notification, the person making the payment towards freight would be liable to pay the service tax, in case the consignee or consignor of goods transported was company/corporation established by or under Companies Act or any law. As such service tax paid on transportation was required to be recovered from the transporters.

Scrutiny of records of five selected districts showed that the service tax amounting to ₹ 20.14 lakh paid on the transportation of paddy during the crop year 2009-10[7] remained unrecovered from the transporters.

Raising of claims

2.1.17.1 Non/ delayed/ less claiming of incidentals

(i) The GoI fixed the provisional rates of wheat including incidentals for the crop years 2009-14. Audit observed that during crop year 2009-10 the district office, Sangrur had not claimed incidental charges amounting to ₹ 1.55 crore against 9,670.77 MT of wheat delivered during April 2009 to August 2009. It was further observed that the district offices, Patiala, Sangrur and Ferozepur claimed incidental charges of ₹ 7.71 crore for crop years 2009-14 after delays ranging between 133 and 257 days. The payment of ₹ 3.36 crore pertaining to district office, Patiala in this regard was still to be made by FCI (March 2014).

Thus, non/ delayed claiming of incidental charges resulted in non-recovery of ₹ 4.91 crore and consequential loss of interest of ₹ 1.49 crore to the Corporation.

(ii) Scrutiny of records disclosed that the district office, Patiala delivered 75,431.8 MT wheat of RMS 2012-13 and 36,582.3 MT wheat of RMS 2013-14 during April 2012 to December 2013 against which incidentals were raised at ₹ 234.37 per quintal instead of ₹ 236.67 per quintal for RMS 2012-13 and at the rate of ₹ 255.93 per quintal instead of ₹ 258.49 per quintal for RMS 2013-14. Similarly, district office, Ludhiana, delivered 1,22,623.3 MT wheat during April 2012 to March 2013 against which bills were raised at ₹ 236.40 per quintal instead of ₹ 236.67 per quintal resulting in short reimbursement of ₹ 30.02 lakh.

Management stated (September 2014) that the responsibility for short claiming of incidentals would be fixed.

2.1.17.2 Short claiming of carry over charges

(i) As per instructions circulated by GoI, the Corporation was to recover carry over charges (interest plus storage charges) for delivery of wheat from July onwards. Test check of the sale bills of wheat delivered in July and onwards of the selected district offices for the crop years 2009-14 disclosed that district offices, Ferozpur and Ludhiana were recovering carry over charges by including the storage charges whereas district offices, Amritsar, Patiala, and Sangrur did not include storage charges into account for recovery which resulted in short recovery of ₹ 3.76 crore. On being pointed out (May 2014) by Audit, the district office Amritsar raised (May 2014) a claim of ₹ 0.74 crore, payment against which was pending (June 2014).

(ii) As per the rates approved by GoI for wheat for crop years 2009-14, carry over charges were payable on MSP and incidentals which included VAT. The

[7] Service tax on transportation charges was abolished after 2009-10.

Corporation did not recover carry over charges of ₹ 1.29 crore (VAT element) on 45.04 MT of wheat delivered during July onwards.

Management stated (September 2014) that the corrective measures to recover the dues would be taken.

2.1.17.3 Delay in raising of sale bills

Custom Milling Policy issued by Food and Supply Department for each KMS provides that miller would supply 'Acceptance Note', weight check memo and all other relevant documents to the concerned agency within seven days of delivery of rice for claiming payments from FCI. As per instructions of the Corporation, the sale bills along with relevant documents in respect of rice and wheat were to be sent to FCI within eight days (rice) and six days (wheat) respectively failing which concerned District Manager would be held personally responsible for the loss of interest caused to the Corporation. Checking of records of the selected district offices disclosed that there were delays up to 102 days and 54 days in raising of bills (after allowing a margin of six days in respect of wheat and 10 days in respect of rice) during 2009-14. This resulted in loss of interest amounting to ₹ 4.39 crores (wheat: ₹ 3.58 crore and rice: ₹ 0.81 crore).

Management stated (September 2014) that corrective measures to recover the dues would be taken.

2.1.17.4 Non claiming of interest for delayed payments by FCI

In terms of GoI's standing instruction (December 1970) reiterated by FCI in December 2001, FCI was to release payments against delivery of rice and wheat within 24 hours of submission of sale bills. In case of delay beyond the prescribed period, FCI was liable to pay interest at the bank rate. Audit observed that FCI during 2009-14, in case of wheat in four selected district[8] offices and in case of rice in all the five district offices, made payment after delays of up to 210 days and 164 days (beyond the margin of 3 days) respectively during 2009-14. The district offices failed to raise claim of interest of ₹ 5.35 crore (wheat: ₹ 2.82 crore and rice: ₹ 2.53 crore) from FCI against the delayed receipt of payment. The Corporation did not evolve a system to ensure recovery of interest from FCI in all such cases.

Management stated (September 2014) that corrective measure to recover the dues would be taken.

2.1.17.5 Delay in claiming of bonus

The provisional rates of CMR issued by GoI in November 2009 for KMS 2009-10[9] included incentive bonus of ₹ 74.63 and interest of ₹ 1.40 thereon per quintal. The GoI also provided (April 2011) in the provisional rates bonus of ₹ 50 per quintal for procurement of wheat during RMS 2011-12.

[8] Sangrur, Patiala, Ferozepur, Amritsar and Ludhiana
[9] Bonus was not declared by GOI for KMs 2010-11 to 2012-13

Reimbursement of bonus and interest were to be made by FCI on delivery of rice and wheat and on production of documentary evidence of payment of bonus to the farmers. District office Amritsar did not claim bonus and interest amounting to ₹ 2.45 crore on 0.32 lakh MT rice delivered between December 2009 and January 2011. The bills were raised (April 2010 to December 2011) with delays ranging between 46 and 238 days. Similarly, it also did not claim bonus of ₹ 2.85 crore while claiming the MSP and other incidentals from FCI for 0.57 lakh MT of wheat delivered during May 2011-November 2012. For claiming bonus, supplementary bills were raised after delays ranging between 10 and 539 days. Delay in raising the bills resulted in loss of interest of ₹ 0.47 crore (Rice: ₹ 0.14 crore and wheat: ₹ 0.33 crore).

Management while admitting the facts stated (September 2014) that the responsibility of the officials would be fixed.

2.1.17.6 Non/delayed raising of claims for transportation charges

State agencies were required to produce audited certified document/vouchers which could prove that the State agencies had actually paid the transportation charges. Scrutiny of records in five selected district offices revealed that the Corporation incurred an expenditure of ₹ 25.93 crore on transportation of 8.35 lakh MTs of paddy beyond eight kms during the crop years 2009-14. Transportation charges were paid to the transporters immediately after shifting of paddy from the mandis to the millers' premises. However, the claims of transportation charges were not raised by three[10] out of five selected district offices and remaining two district offices (Amritsar and Ferozepur) raised claims of transportation charges with FCI after delays ranging between 3 and 51 months without requisite certified documents. The district offices of FCI did not release any payment there against (March 2014).

Non claiming of transportation charges and claiming of transportation charges without requisite certificate for paddy transported beyond 8 Kms resulted in blocking of ₹ 25.93 crore as well as loss of interest of ₹ 6.87 crore up to March 2014.

Management stated that the matter was being taken up with the GOI/ FCI.

2.1.17.7 Non-claiming/reimbursement of depreciation on gunny bags

Provisional rates of custom milled rice for Kharif Marketing Season (KMS) provided for recovery of depreciation on gunny bags. Scrutiny of records of the five selected districts disclosed that district offices Amritsar, Ludhiana and Sangrur were following the good practice of claiming depreciation on gunny bags while raising bills for delivery of rice. Audit noticed that district office, Ferozepur delivered 0.58 lakh MT rice between December 2011 and March 2013 and claimed ₹ 1.97 crore as depreciation on gunny bags in August 2013 (after delays ranging between 5 and 20 months), the payment of which was awaited (June 2014). Audit further noticed that district office, Patiala delivered 1.51 lakh MT rice but depreciation of ₹ 4.71 crore on gunny bags

[10] Ludhiana, Patiala and Sangrur District

was not claimed even after a lapse of 28 months (May 2014). This led to loss of interest of ₹ 0.86 crore.

Management stated (September 2014) that the matter was being taken up with the GOI.

Other related issues

2.1.18 Misappropriation of gunny bags

State Warehouse (SW) Dhuri received 96,000 gunny bags from SW, Bhawanigarh (91,000 bags) and SW Amargarh (5,000 bags) during April 2012 and September 2012 respectively but accounted for only 52,000 gunny bags in the Gunnies Register. Further, as per records maintained at district office, Sangrur, there was a closing stock of 22,132 bags at SW, Dhuri as on 31 October 2012. Closing stock in the Gunnies Register maintained at SW, Dhuri was shown 'Nil'. The Corporation issued (August 2013) charge sheets for various omission to three Warehouse Managers posted in SW, Dhuri of which one official resigned (September 2011) and two officials retired in March 2011 and July 2012 from the services of the Corporation (before detection of the discrepancies). Thus, lack of monitoring led to misappropriation of 66,132 gunny bags valuing ₹ 23.55 lakh.

Management while admitting the facts stated (September 2014) that the enquiry was under process for recovery of amount in respect of loss caused to the Corporation.

Internal Control/Internal Audit

2.1.19 Internal control is a management tool used to provide reasonable assurance that the objectives of the organisation are being achieved in an efficient, effective and orderly manner. Review of the internal control system showed the following:

- The Corporation is yet to compile an Accounting Manual incorporating therein the detailed procedure for maintenance of financial records at its head office and field offices;

- The Corporation had not evolved a management information system (MIS) of periodical reports to senior management status regarding creation of capacities, utilisation of capacities, delivery of wheat/rice to FCI, claiming of Government subsidies, recovery of storage charges, timely raising of sale bills/ differential claims/ interest claims for delayed payments by FCI and recovery there against.

Management while admitting the facts assured (September 2014) to strengthen the internal audit by widening its scope.

Conclusion

The performance of the Corporation with regard to construction of godowns, procurement and delivery of foodgrains to FCI was sub-optimal. The Corporation did not avail loan available at cheaper rates of interest for construction of godowns from NABARD and took loans from commercial banks at higher rates. The subsidy under Grameen Bhandaran Yojna was claimed after delay. Godowns were constructed and handed over to FCI after delays which resulted in loss of opportunity of revenue to the Corporation. The Corporation did not levy and recover penalty for delay in construction of godowns from contractors. The corporation had not upgraded its godowns and thus failed to earn revised storage charges. Non adoption of FCI driage norms resulted in loss. The Corporation took weighted average period up to 15 months against permissible weighted average period of two months for milling and delivery of rice which resulted in loss of interest and non recovery of custody and maintenance charges. The Corporation has not taken up with the State Government the issue of compensation for those years where the Government had dispensed with the interest clause on extended period of delivery of rice. The Corporation did not evolve a system to ensure timely claiming of bills.

Recommendations

We recommend that the Corporation should:

- **Construct new capacities within the stipulated time at par with the CWC specification to earn higher hiring charges;**
- **Take up with State Government for notification of amendments to PSWC Rules for driage norms in respect of both rice and wheat; and**
- **Evolve a mechanism to ensure that paddy gets milled and rice delivered to FCI as per norms and specifications within the stipulated period.**

The matter was reported to the Government (July 2014), their reply was awaited (October 2014).

Punjab Energy Development Agency, Punjab Irrigation Department and Punjab State Power Corporation Limited

2.2 Micro Hydel Projects in Punjab

Executive Summary

With a view to develop and promote new & renewable sources of energy, the Government of Punjab notified (July 2001, November 2006 and December 2012) New and Renewable Sources of Energy (NRSE) Policy. One of the thrust areas of the Policy was to establish micro hydel projects in the State through private/public sector participation. Punjab Energy Development Agency (PEDA) was designated as the nodal agency for implementation of the policy.

149.92 MW power potential could not be harnessed due to non-resolution of inter-state water dispute, delay in implementation of project by PSPCL and lack of efforts by PEDA to harness potential on run-off-river and distributaries.

(Paragraph 2.2.6)

Only 17.65 MW potential was harnessed during 2006-07 to 2013-14 against the target of 200 MW potential as envisaged in NRSE Policy 2006.

(Paragraph 2.2.7)

Out of 22 projects (26.90 MW) commissioned by independent power producers during the years 2003-04 to 2013-14, 21 projects (26.25 MW) were commissioned with delay ranging between 3 and 86 months.

(Paragraph 2.2.8)

Handing over the operation and maintenance of four MHPs of Punjab State Power Corporation Limited to a contractor was not successful due to not ensuring preventive & routine maintenance. There was theft of major components, closure of the projects with consequential loss of generation of 10 MUs of power each year.

(Paragraph 2.2.11)

Punjab Irrigation Department delayed recovery of charges of ₹ 2.15 crore from various developers of micro hydel projects on account of various facilities provided by the government on concessional rates.

(Paragraph 2.2.14)

Introduction

2.2.1 Government of Punjab, Department of Science, Technology, Environment and Non-conventional Energy notified (July 2001) New and Renewable Sources of Energy (NRSE) Policy, which was further revised in November 2006 and December 2012. One of the thrust areas of the Policy was to establish micro hydel projects (MHPs) i.e. MHPs upto 25 MW, on irrigation canal network of the State through private/public sector participation. Punjab Energy Development Agency (PEDA) has been designated as the nodal agency for implementation of the policy.

For exploiting the potential available at various falls on the canal network, 41 MHPs[1] with generation capacity of 133.65 MW were established during 1971-72 to 2013-14 and 20 MHPs[2] with generation capacity of 46.94 MW were under progress (31 March 2014) at various stages as detailed in ***Annexure 7.***

Organisational Set-up

2.2.2 Three agencies namely PEDA, Punjab Irrigation Department (PID) and Punjab State Power Corporation Limited (PSPCL) are involved in establishment of MHPs. PEDA, the nodal agency, is responsible for identification of sites, calling competitive bidding, scrutinising project proposals submitted by independent power producers (IPPs), preparing & signing of MOUs, evaluation of project reports, their approval, signing of implementation agreements (IA) with IPPs and overall monitoring from the allotment of the project to sale of power. These activities are looked after by Director under the supervision of Chief Executive (PEDA). PEDA is working under the charge of Secretary, Department of Power and New and Renewable Sources of Energy.

PID is responsible for according approval of drawings/ technical specifications, supervision during construction and providing river/canal water to these projects. The department also provides land to IPPs on lease basis for construction of MHPs. These activities are looked after by Director, Central Design Office (CDO) and Chief Engineers, Canal and Lining. Principal Secretary to the Government, Irrigation Department is the overall in-charge of the Irrigation Department.

PSPCL is responsible for entering into power purchase agreements (PPAs) for purchase of electricity produced by MHPs as per tariff approved by Punjab State Electricity Regulatory Commission (PSERC). This activity is looked after by Chief Engineer (CE), Power Purchase and Regulations under supervision of Director (Distribution).

---

[1] 19 projects (Sl. No. 1 to 19 of ***Annexure 7***) under State sector (Punjab State Power Corporation Limited: 11 projects (96.95 MW) and Punjab Genco limited: 8 projects (9.80 MW)) and 22 projects (Sl. No. 20 to 41 of ***Annexure 7***) under private sector (Independent Power Producers (26.90 MW)).

[2] One project (Sl. No. 42 of ***Annexure 7***) (18.00 MW) under State sector and 19 projects (Sl. No. 43 to 61 of ***Annexure 7***) (28.94 MW) under private sector

Audit Objectives

2.2.3 The objectives of the Performance Audit were to assess whether:

- planning; identification of project sites; selection of IPPs; allotment; implementation; operation and monitoring of projects was efficient and effective;
- targets of setting of MHPs under the Policy were achieved;
- sale of power was as per terms and conditions of NRSE Policy/ PPA and
- charges from developers, if any, were recovered and deposited with Government.

Scope of Audit and Methodology

2.2.4 The performance audit covered the activities undertaken from bidding to sale of power of 41 established/ running MHPs and from bidding to establishing of 20 under progress MHPs.

We explained the audit objectives and criteria to the management of PEDA, PID and PSPCL during an entry conference (March 2014). Audit findings were reported to them and the State Government in (August 2014) and discussed in the exit conference (October 2014). The exit conference was attended by the representatives of PEDA, PID, PSPCL and the Government. The views expressed/replies received by/from the Management/Government have been considered while finalising this performance audit report.

Audit Criteria

2.2.5 The audit criteria adopted for assessing the achievement of audit objectives were derived from the following sources:

- National Electricity Policy;
- NRSE Policy of Government of Punjab;
- Norms and guidelines of the Central Electricity Authority and Punjab State Electricity Regulatory Commission (PSERC);
- Provisions of Electricity Act, 2003;
- Standard procedure for award of contract;
- Terms and conditions of Power Purchase Agreements (PPA);
- Central and State Electricity Grid Code; and
- Terms and conditions of Tripartite Agreements among PID, IPP and PEDA.

Audit Findings

Audit findings are discussed in the succeeding paragraphs:

Planning

2.2.6 Wide gap between power potential identified and harnessed

PEDA, with a view to identify small hydel power potential available in the State, entrusted (April 2004) the work of "Preparation of Master Plan of Small Hydro Power Potential in the State of Punjab" to Alternate Hydro Energy Centre (AHEC), Indian Institute of Technology, Roorkee. AHEC identified (April 2006) 184 sites with power potential of 237.94 MW in the State, on Canal Network: 117 sites (102.74 MW), Run-off River: 36 sites (54.25 MW), Dam Outlet: 11sites (0.51 MW), Tail Race: 8 sites (80.00 MW), Distributaries: 12 sites (0.44 MW). Besides, PID/ PEDA also identified 17 sites (29.47 MW) on canal networks.

Audit observed that out of the above identified potential, the State harnessed only 40.60 MW through 34 MHPs (47 sites) up to March 2014. 15 projects having power potential of 13.14 MW (15 sites) were under progress as on March 2014. Audit further observed that 63.75 MW identified on Bhakra Main Line (BML) could not be harnessed due to non-resolution of inter-state water dispute. Remaining 149.92 MW power potential was yet to be harnessed, on canal network (14.72 MW at 45 sites), run-off-river (54.25 MW at 36 sites), irrigation dam outlet (0.51 MW at 11 sites), tail race (80.00 MW at 8 sites) and distributaries (0.44 MW at 12 sites).

Government of Punjab (GoP) accepted the facts and stated (October 2014) that for harnessing the potential on BML, efforts were made to resolve the issue with GoI but the matter remained unresolved till date. As regard 14.72 MW potential on canal network, efforts were made many times for allocation of sites but due to non-perennial canals, low head & low discharge of water, it could not go ahead. Potential of 54.25 MW at 36 sites was on *barsati khadd* where availability of water depended on rainy season and they would explore harnessing this potential. Out of 80.00 MW potential available at tail race, 42 MW at four sites was on tail of Mukerian Hydel Channel (MHC) and would be harnessed after development of 18 MW project (delay in implementation of project pointed out in paragraph 2.2.10 *infra*) by PSPCL on MHC-II. Power potential of 22 MW at three sites on tail of Anandpur Sahib Hydel Channel linked with Satluj Yamuna Link Canal (SYL) could not be harnessed due to inter-state water dispute. 16 MW potential on Upper Bari Doab Canal (UBDC), Gurdaspur was not tapped keeping in view the UBDC-III scheme for which action was yet to be taken by PSPCL (March 2014). Action for harnessing 0.44 MW potential at distributaries had not been taken. Thus, due to non-resolution of inter-state water dispute, delay in implementation of project by PSPCL and lack of efforts by PEDA to harness potential on run-off-river and distributaries, 149.92 MW power potential could not be harnessed by the State.

Achievement of Targets

2.2.7 Non achievement of target set for MHPs projects

NRSE Policy 2006 had a target to exploit untapped estimated potential of 200 MW by establishing MHPs by the year 2012. Of this, the capacity of Small/ MHPs harnessed as on 31 March 2014 was 133.65 MW out of which 116.00 MW was harnessed prior to 2006-07 and only 17.65 MW was harnessed during 2006-07 to 2013-14 which was far less than the target of 200 MW. The Policy envisaged achievement of the target through public/ private sector participation. Reasons for non-achievement of targets are discussed in succeeding paragraphs.

2.2.7.1 Slow pace of allotment of projects

One of the thrust areas of NRSE Policy was to establish MHPs on the Irrigation Canal Network of the State through Public/Private sector participation on Build, Operate and Own (BOO) basis. Audit noticed that during the period from 2009-14, PEDA allotted 10 projects (15.24 MW) in 2009-10, one project (3 MW) in 2010-11, four projects (2.90 MW) in 2011-12 and one project (2 MW) in 2013-14. It is apparent that after 2009-10, the pace of allotment of the projects was very slow.

GoP stated (October 2014) that the slow pace of allotment was due to poor response from developers as the availability of water and head in the rest of sites were less.

2.2.7.2 Dropping of project for want of structural drawing

M/s SKR Hydro Power Generators Private Limited was allotted (July 2005) a site for development of MHP at Parowal (0.400 MW) on Lahore Branch Canal. The developer submitted (July 2008) the general layout drawings of the project to the Director, CDO. After four years, PID informed (July 2012) PEDA that the drawings of the existing structure at site or other similar structure were not available with them. The project was eventually dropped (October 2012).

Audit observed that the developer had signed IAs (March 2006), land lease agreement (October 2007) and PPA (October 2011) before approval of the layout drawings from PID. This showed lack of co-ordination among PID, PEDA and PSPCL and monitoring on the part of PEDA.

PID stated (June 2014) that the structure was very old and hence, drawings were not available. The reply was not justifiable as this matter should have been sorted out before the allotment of the project. The non-availability of drawings consequently resulted in non-approval and the developer abandoning the project.

2.2.7.3 Re-allotment of cancelled sites

PEDA allotted (August 1999 to January 2010) 19 MHP sites (17.13 MW) on BOO basis to six private developers. As per allotment letters, MHPs on allotted sites were to be developed within 665 to 730 days of allotment. The developers did not take any steps to perform their obligations. PEDA did not take timely action against the defaulter developers. After an abnormal delay of 707 to 2,874 days, PEDA terminated (June 2009 to October 2013) all the agreements and encashed performance bank guarantees of ₹ 49.00 lakh.

Audit noticed that these 19 cancelled MHP sites were put to re-allotment but only seven MHP sites[3] with power potential of 9.40 MW were re-allotted during March 2010 to October 2013.

GoP replied (October 2014) that efforts were being made to exploit the potential.

2.2.7.4 Non-utilisation of Corpus Fund

As per provisions of NRSE Policy, 2001 and 2006, PEDA created a Renewable Energy Corpus Fund to be funded through sale of its energy share received from developers of NRSE projects. PEDA was to operate, maintain and utilise this fund for the specific purpose[4] of development of renewable energy sector. PEDA realised ₹ 13.90 crore[5] up to 31 March 2014 and incurred expenditure of ₹ 0.27 crore on techno-commercial feasibility study for development of small hydro projects by IIT, Roorkee. An amount of ₹ 7.16 crore was incurred on installation of one MW SPV, Solar Power Plant at Phulokheri, Bathinda. The balance amount of ₹ 6.47 crore was unutilised as of 31 March 2014, thus, defeating the purpose of creation of fund.

2.2.7.5 Blockade of funds in material procured for SYL project

PSPCL placed two purchase orders (POs) (September 1988 & November 1989) on Bharat Heavy Electrical Limited, New Delhi (BHEL) for design, manufacture and delivery of two 7.43 MW hydro generating units along with auxiliaries for SYL PH-II, Rajpura at ₹ 12.70 crore and two 18 MW hydro generating units along with auxiliaries for SYL PH-I, Ropar at ₹ 20.00 crore respectively. Against these POs, BHEL supplied machinery/material worth ₹ 27.10 crore. These projects could not be installed due to inter-state water dispute resulting in non-utilisation of machinery/material and consequent blockade of funds to the tune of ₹ 27.10 crore. Audit noticed that the machinery/material was tailor made and the possibility to utilise the same at other sites was very remote. No steps had, however, been taken to dispose of the machinery/material. PSPCL was getting the material insured since its purchase and had incurred an expenditure of ₹ 1.41 crore (Ropar: ₹ 0.84 crore

[3] Sl. No 44 to 49 and 61 of ***Annexure 7***

[4] Research and development in new and emerging technology areas, development of pilot/demonstration projects and for assisting & undertaking activities towards commercialisation of projects and programmes

[5] Bio Mass Project: ₹ 12.44 crore, MHPs: ₹ 1.21 crore and Co-generation Projects: ₹ 0.25 crore

and Rajpura: ₹ 0.57 crore) up to March 2014 besides storage expenses. PSPCL replied (October 2014) that efforts were made to dispose of/ utilise the material at other projects but could not succeed.

Implementation of projects

2.2.8 Inordinate delay in implementation and commissioning of projects allotted to private developers.

NRSE Policy of the State provides that IPP was to enter into an implementation agreement (IA) with PEDA within one month from the date of allotment of the project and project was to be commissioned within 16 months from the date of IA. Audit noticed that out of 22 projects (26.90 MW) at 35 sites commissioned by IPPs during the years 2003-04 to 2013-14, only one project[6] was commissioned within the scheduled time. Twenty one projects (26.25 MW) at 34 sites were commissioned with delay ranging between 3 and 86 months.

Further, 19 projects[7] at 20 sites with power potential of 28.94 MW allotted by PEDA to private developers between April 1998 and October 2013 and one project on Mukerian Hydel Channel undertaken by PSPCL were in progress as of 31 March 2014. Audit noticed that:

- Four MHPs at Talewal, Ralla, Bibiwala and Samalsar for which IAs were signed in August 2001, July 2003, March 2006 and in June 2006 respectively were in progress and as of March 2014, the delay was 135, 112, 80 and 77 months respectively.
- Three projects[8] (two allotted in December 2009 and one allotted in October 2013) were at DPR stage and IAs were not signed between developers and PEDA even after lapse of 51 months from the date of allotment in respect of two projects.
- One project (18 MW) being developed by PSPCL was in progress delayed by 94 months (March 2014).

This indicated that projects implementation was not being monitored closely and properly. Audit noticed that there was no penalty clause/extension fee in IA for delays in implementation allowing developers' time for implementation.

GoP replied (October 2014) that though time period was mentioned in IA but different clearance and approvals after IA took time and delay was on the part of developers. The reply is not justifiable because delay in implementation of projects delayed harnessing of power potential and depriving the State of power.

---

[6] Terkiana Headworks
[7] Sl. No 43 to 61 of ***Annexure 7***
[8] Sl. No 59 to 61 of ***Annexure 7***

2.2.9 Less receipt of energy share

Punjab Drainage Department was entrusted with the work of desilting/ remodelling of Holy Bein rivulet for enabling it to have a capacity of 500 cusecs discharge so that a MHP could be installed on it to harness power potential. PSPCL having agreed (March 2009) to release 350 cusecs of water from Mukerian Hydel Channel-II, PEDA allotted (August 2009) site at Terkiana (Hoshiarpur) Headworks to M/s Atlantic Power Private Limited (Developer) for setting up a MHP of 500 KW capacity (revised to 650 KW) on BOO basis. The Project was commissioned in August 2010 and 200 to 250 cusecs of water was discharged in the Holy Bein from MHC-II. The project was shut down (January 2011) on account of breaches in the banks of Holy Bein which resulted in water logging and damaging of the crop in the area. The developer constructed an escape channel at his own cost and refused (July 2013) to release the energy share to PEDA. This resulted in less receipt of energy share to PEDA amounting to ₹1.05 crore including interest up to March 2014.

GoP accepted (October 2014) the fact and stated that efforts were being made by PEDA to realise due energy share through PSPCL. The reply from PID was awaited. The developer has sought arbitration proceedings to settle the dispute.

2.2.10 Extra cost to PSPCL due to conversion of turnkey contract into cost plus contract

Electrical &Mechanical (E&M) works on turnkey basis of 2x9 MW of the Mukerian Hydel Project stage-II were awarded (May 2004) to M/s BHEL for ₹ 70.00 crore. As per terms and conditions of the contract, material was to be supplied within 18 months and the project was to be commissioned within 24 months. The work could not be taken up/completed within stipulated time period because civil work was delayed due to formation of artesian well (May and September 2004) for which BHEL was granted extension from time to time. BHEL demanded extra cost for not providing civil front by PSPCL. PSPCL amended (September 2011) the contract and inserted (August 2011) price variation clause with base date as December 2005 without any cap of variation. Bought out packages (BOPs) were agreed to be supplied at cost plus 13.5 *per cent* and freight along with taxes & duties on all supplies.

Audit observed that for civil works, the erstwhile Punjab State Electricity Board relied upon soil investigation data of stage-I and not geological data for the civil work on the said site. This resulted in formation of artesian well at project site and therefore the site had to be shifted 45 meters downstream after incurring expenditure of ₹ 1.26 crore on civil works and dewatering between December 2003 & April 2006, which delayed the Project. The site was finally made available by April 2013. PSPCL worked out an additional financial liability of ₹ 42.00 crore payable to BHEL due to cost escalation. Due to delay in implementation of project, State lost generation of 140.85 MUs of power per annum and also 42 MW power potential identified by PEDA on four sites at the tail of this project.

PSPCL replied (October 2014) that extension was given under clause 13 of the contract (force majure) vide which contract could be considered for extension with additional liability. Further, after allotment (May 2004) of work to BHEL, variation in parameters of turbine i.e. setting of turbine at lower level were proposed by BHEL which were deliberated among the consultant, PSPCL and BHEL. Finally, a new setting was accepted for which soil investigation tests were later on carried out. However, the fact remains that the starting of civil work without finalising level of turbine with E&M contractor and non geographical investigation of soil resulted in damage to the work site and delay in handing over resulting in extra expenditure of at least ₹ 43.26 crore.

Operation of MHPs

2.2.11 Non-functional projects of PSPCL

PSPCL had eleven MHPs, having capacity from 0.80 MW to 15.45 MW, with cumulative generation capacity of 96.95 MW. These MHPs had an yearly projected generation of 7 MUs to 135.34 MUs of power. The operation and maintenance (O&M) of the projects was carried out by PSPCL itself up to 10 July 2005. Thereafter, four projects (Nidampur, Rohti, Thuhi and Daudhar) were handed over to a private party for O&M for ten years. Of the seven projects which PSPCL continued to maintain itself, the yearly actual average generation during the period 2009-14 was between 8.59 MUs and 67.31 MUs. The shortfall in generation in percentage terms ranged between 42.35 *per cent* to 67.58 *per cent* of the projected generation of the MHPs.

The generation of power from the MHPs handed over for O&M to private party during 2005-10 was 5.96, 7.96, 6.99, 4.32 and 2.97 MUs respectively, which was far less than the annual targets of 10 MUs and designed capacity of 24.29 MUs. PSPCL failed to ensure preventive/ routine maintenance of these projects by the contractor and did not maintain records of forced and planned outages. The MHPs generated 0.44 MUs only during the year 2010-11. The contractor became defaulter and stopped generation from all the four MHPs with effect from 31 May 2010 and the contract was terminated (13 April 2011). As per interim award (18 March 2012) of sole Arbitrator, the possession of these MHPs was handed over (23 March 2012) to PSPCL when PSPCL noticed that major components of the plants were missing. The arbitrator awarded (14 August 2012) a claim of ₹ 6.28 crore in favour of PSPCL, recovery of which was pending.

Thus, handing over of O&M of these projects to the contractor without proper supervision resulted in theft of major components of these projects for which PSPCL is yet to get the awarded compensation besides loss of generation of 10 MUs of power each year.

Sale of Energy

2.2.12 Delay in signing of PPA resulted in extra cost on purchase of power

PEDA allotted (25 November 1997) the work of setting up of 5 MHPs[9] (5.30 MW) on Abohar Branch Canal to M/s Triveni Engineering & Industries Limited (Developer) renamed as Abohar Power Generation Private Limited on BOO basis, MOU of which was signed on 20 July 1999. IAs relating to three MHPs were signed on 30 August 2001 and for two MHPs on 2 November 2001. Clause 4.4 of IAs *inter-alia* provided that the developer would enter into PPA with PSPCL within 90 days from date of signing the IAs for sale of energy at the rate prescribed in NRSE Policy 2001. PSPCL did not get the PPA signed from the developer. In the meanwhile, NRSE Policy 2006 came into force. PPAs for the five projects were finally signed (20 November 2008) between PSPCL and the developer to purchase energy at ₹ 3.70 per unit (base year 2008-09) with three *per cent* annual escalation up to 2011-12 as per NRSE policy 2006. Audit noticed that due to delay in signing of PPA, PSPCL had to purchase 103.911 MUs between September 2009 and March 2014 at higher rates ranging between ₹ 3.70 and ₹ 4.04 per unit (as per NRSE Policy 2006) as against ₹ 3.66 per unit (as per NRSE Policy 2001) and incurred extra expenditure of ₹ 3.59 crore up to March 2014.

PSPCL replied (October 2014) that IAs of these projects were signed after the formulation of NRSE Policy 2001 and hence the projects were covered under the new policy. PPAs were signed on 20 November 2008 as per order of PSERC. The reply was not acceptable as MOU was signed prior to formulation of policy and failure on the part of PSPCL in signing of PPA, it had, later on, entered into the same at higher rate thereby incurring extra cost of ₹ 3.59 crore (up to March 2014).

2.2.13 Non revision and non adhering to the provisions of PPA by PSPCL resulted in non-recovery by PGL

(i) PGL entered (October 1998) into a PPA with PSPCL for eight MHPs [10]. Four projects on Abohar Branch Canal (ABC) were commissioned between May 1999 and November 1999. PGL could not commission the four projects on Bathinda Branch Canal (BBC) even within the extended time due to non-availability of funds from GOP. PSPCL was requested (September 2000) to extend the commissioning schedule of the four projects on BBC. PSPCL agreed (July 2001) to extend the commissioning schedule with the condition that energy to be generated from these projects would be billed as per revised PPA under NRSE Policy 2001. These four projects were commissioned between January 2001 and July 2003 but PPA was not revised by PGL & PSPCL so far (October 2014) and not submitted for approval of PSERC, though it was decided (June 2013) by GoP that PSPCL and PGL would sign the supplementary PPA and PSPCL will release all the due payments of PGL. Audit noticed that against the billed energy of ₹ 87.56 crore, raised in terms of

[9] Akhara, Gholian, Channuwal,Khanpur, Sudhar

[10] Chupki, Narngwal, Tugal and dalla on Abohar Branch Canal and Khatra, Kanganwal, Jagera and bowani on Bathinda Branch Canal.

the pre NRSE era PPA, PSPCL released ₹ 77.56 crore up to 31 March 2014 leaving balance payment of ₹ 11.00 crore.

(ii) Clause 6.3.0 of the PPA provided that PSPCL would provide at its own cost required transmission lines from its grid substation to the switchyard of the generation facility along with associated equipment at grid sub-station for accepting power from MHPs. After completion of projects (April 1999) at ABC, PGL lodged (August 2000) a claim of ₹ 1.47 crore for reimbursement of cost of construction of transmission lines and associated equipment which was not agreed to (February 2002) by PSPCL on the ground that the work was allotted to a private contractor by PEDA much before the circulation (November 1997) of policy. In a meeting chaired (February 2003) by Principal Secretary (Irrigation and Power), PSPCL agreed for reimbursement of cost of transmission lines and associated equipment at issue rate of materials prevalent at PSPCL's store after joint verification of lines and associated equipment. PGL accordingly raised (April 2005 and April 2004) revised bills of ₹ 1.36 crore (₹ 0.75 crore of ABC and ₹ 0.61 crore of BBC) on PSPCL. Audit observed that, after joint verification, transmission lines of ABC were taken over (March 2004) by PSPCL but transmission lines of BBC were yet to be taken over by PSPCL. PSPCL had not made payment of ₹ 1.36 crore so far (October 2014).

PSPCL replied (October 2014) that a supplementary PPA based on decision taken in meeting has been forwarded (02 September 2014) to PGL for their consent and signature. Only after signing of the supplementary PPA, would the final amount payable/ recoverable be decided. The cost of transmission lines and associated equipment would be released to PGL.

Non recovery of charges from developers

2.2.14 Irregularities noticed in six divisions[11] of PID relating to recovery of charges from developers in accordance with provisions of NRSE Policy/ agreements have been discussed in the following paragraphs;

a) Non-recovery of water mill charges

As per the tripartite agreement (TPA) entered amongst PEDA, private developer and PID, the developer of a MHP was to restore/compensate the loss of revenue to PID equal to the amount of the latest auction/bid of each site wherever the closure of the functional water mill (*Gharat*) was necessitated for setting up of an MHP. It was noticed that ₹ 1.60 crore on account of compensation for six water mills under Ropar, Faridkot and Sangrur divisions, closure of which were necessitated due to setting up of small/micro hydel projects by two developers, were outstanding as on 31 October 2014**.** Government replied (October 2014) that efforts are being made to pursue the developers to deposit the amount.

[11] (i) Sangrur IB Division, Sangrur; (ii) Bathinda Branch Canal Division, Bathinda; (iii) Sidhwan Canal Division, Ludhiana; and (iv) Ropar Headworks Division, Ropar; (v) Faridkot Canal Division, Faridkot, (vi) Gurdaspur Upper Bari Doab Canal (UBDC) Division, Gurdaspur

b) Non recovery of supervision charges

GoP, Department of Science, Technology, Environment and Non-Conventional Energy while exempting (May 2006) departmental charges, laid down that the developers would pay supervision charges to PID on actual basis in respect of the already completed or nearing completion MHPs. Further, as per NRSE Policy 2006, in case the private developer executed the canal protection works on his own, the same were to be done under supervision of PID and the developer was to pay supervision charges to PID on actual basis. Audit noticed that in case of two MHPs at Killa combined Bugra and Sahoke combined Harigarh on Kotla Branch Canal under Sangrur IB Division, supervision charges of ₹ 21.87 lakh for the period from January 2005 to November 2005 and from January 2006 to November 2006 respectively were calculated and demanded (December 2006) but the same were yet to be recovered (June 2014). In Ropar Headworks Division, supervision charges of ₹ 2.22 lakh in respect of MHP, Khanpur for the period from April 2009 to April 2010 were yet to be recovered (June 2014). In case of the remaining 17 MHPs though the developers executed canal protection works themselves but the supervision charges due from them were neither calculated nor claimed.

c) Short receipt of land lease charges

NRSE Policy 2001 provided for transfer of irrigation land on canal banks belonging to PID to PEDA on notional lease of ₹ 45,000 per annum per site. It was noticed that in case of three MHPs set up on six sites[12] of canal land falling under the jurisdiction of IB Division, Sangrur and UBDC Division, Gurdaspur, the lease was being charged (at the rate of ₹ 45,000 per annum) for one site only whereas each of these MHPs had been established by combining two sites on the canal banks. This was causing an annual recurring loss of ₹ 1.35 lakh to the State Government. The short recovery of lease charges up to March 2014 worked out to ₹ 15.75 lakh.

d) Non/ short recovery of cess on generation of electricity

As per NRSE Policy, for use of river/canal water, cess at the rate of one paisa per unit of electricity generated was to be recovered from all the developers. They were to deposit the amount of the cess on monthly basis with PID. Audit noticed that 15 MHPs generated 7,938.82 lakh units of electricity up to March 2014 since their commissioning. Against the cess of ₹ 79.39 lakh recoverable from the developers of these MHPs, ₹ 64.62 lakh only were recovered leaving ₹ 14.77 lakh unrecovered as on June 2014.

GoP replied (October 2014) that efforts are being made to recover the amount. Further developments are awaited.

[12] Two MHPs at four sites i.e.Killa combined Bugra and Sahoke combined Harigarh. In IB Division, Sangrur and one MHP at two sites i.e. Tibri combined Babehali in UBDC Division, Gurdaspur

Incentives by the Government

2.2.15 Non availing of Central financial assistance for renovation and modernisation of small hydro power projects

GoI, MNRE (SHP Division) introduced (11 December 2009), a scheme for Central financial assistance for providing grants/ assistance/ subsidy for renovation and modernisation of existing SHP projects in the Government sector. The amount of subsidy was ₹ 15,000 per KW up to 1000 KW projects and ₹ 1.50 crore for one MW plus ₹ 35 lakh for each additional MW for projects above one MW & up to 25 MW. A minimum of 50 *per cent* of the total project cost was required to be met by the State implementing agency or the owner of the project. PSPCL installed (1985-89) four micro hydel projects having total capacity of 3.9 MW[13] which were not in operation since 31 May 2010 as pointed out in paragraph 2.2.11 supra. The projects needed renovation and modernisation for further operation. Audit, however, noticed (April 2014) that PSPCL did not take steps for renovation of above projects despite provision of financial support by GoI for renovation and modernisation of existing SHP projects in the Government sector as mentioned above. PSPCL replied (October 2014) that the scheme was available upto 31 March 2012 and the same could not be availed upto that date. Now GoI, MNRE has extended (July 2014) the scheme upto 31 March 2017 but PSPCL has decided (June 2013) to transfer these MHPs to PEDA. The transfer is likely to take place shortly. The fact remained that PSPCL did not take timely action to avail of the financial assistance under the scheme.

Conclusion

The pace of allotment of projects was slow. PEDA was able to harness only 17.65 MW capacity against the target of 200 MW. Implementation of MHPs was weak due to lack of monitoring on the part of PEDA and lack of co-ordination among PEDA, PID and PSPCL resulting in delays in implementation of projects. Operation and maintenance work of four projects of PSPCL was inadequately supervised leading to theft of major components and claims in favour PSPCL were yet to be recovered. There was considerable shortfall in generation in MHPs under the control of PSPCL. Irregularities were noticed relating to recovery of charges for various facilities provided by the Government to developers at concessional rates.

Recommendations

We recommend that:

- **PEDA should improve pace of allotment of projects by giving wide publicity;**
- **PEDA should evolve an effective system to monitor the implementation of projects for their timely completion and**

[13] Nidampur (0.8MW), Rohti (0.8MW), Thuhi (0.8MW) and Daudhar (1.5MW)

establish effective co-ordination with PID and PSPCL for timely completion of the projects;

- **Claims awarded in favour of PSPCL should be executed; and**
- **PID should take action for recovery of amount in respect of various facilities provided by the Government on concessional rates.**