

CHAPTER–II

Compliance Audit observations relating to Public Sector Undertakings

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Important audit findings emerging from test check of transactions made by the Public Sector Undertakings are included in this Chapter.

Department of Public Enterprises (DPE)

2.1 Audit of 'Non-functional Public Sector Undertakings of Government of Uttar Pradesh'

Introduction

2.1.1 Public Sector Undertakings (PSUs) are established to carry out activities of commercial nature keeping in view of welfare of people and play a vital role in the State's economy. These PSUs consists of Government Companies and Statutory Corporations. As on 31 March 2021, there were 115 PSUs (109 Government Companies including 42 Non-functional PSUs and six Statutory Corporations) in Uttar Pradesh.

The Government of Uttar Pradesh (GoUP) established (February 1974) Department of Public Enterprises (DPE). The functions of DPE include providing assistance to Administrative Departments in various matters¹; assisting PSUs in framing their manuals, rules, procedures, *etc.*; in preparation and execution of reform/rehabilitation/restructuring packages and in execution of closure activities; laying down policy guidelines in various areas of management for guidance of PSUs' managements and furnishing periodic reports to the State Government on the working of PSUs, *etc.*

Further, GoUP established (March 1981) DPE's technical wing *viz.* Bureau of Public Enterprises (BPE) to work as a Directorate. The functions of BPE include periodic monitoring and review of PSUs and presentation of periodic reports; providing technical guidance/consultancy to DPE, Administrative Departments, Finance Department and PSUs; monitoring the progress of completion of annual accounts of PSUs with the objective of reducing the arrears of accounts; assisting PSUs in decision making and in formulating strategies for reform, rehabilitation and restructuring, *etc.*

The DPE is headed by the Principal Secretary/Secretary who is also the *ex-officio* Director General of the Bureau of Public Enterprises.

Status of Non-functional PSUs

2.1.2 In Uttar Pradesh, 42 out of 109 Government Companies were Non-functional. These have ceased to carry on their operations for the period ranging from one year to 39 years. These Non-functional PSUs were incorporated during 1924 to 2013 with different objectives (**Appendix-2.1 and Appendix-2.2**) keeping in view the welfare of people and development of State economy. None of the Non-functional PSUs were listed on the Stock Exchange.

The status of 42 Non-functional PSUs as on 31 March 2021 is given in **Table 2.1**.

¹ Making appointment in the Board of Directors and senior managerial positions, appraisal of feasibility reports/projects/schemes/activities of PSUs, appraisal of fund release proposals of PSUs and giving approvals/comments on rules, manuals, procedures, *etc.* of PSUs.

Table 2.1: Status of the Non-functional PSUs

Sl. No.	Particulars	PSUs
1	Orders/instructions for closure of operation issued by Government/Board of Directors. (liquidation process not yet started)	29
2	Liquidation by the Court (liquidator appointed)	11
3	Voluntary winding up (liquidator appointed by the Government)	2

As seen from the table, out of 42 Non-functional PSUs, orders for closure of operations of 29 PSUs were issued by the Government or Board of Directors whereas 13 PSUs were under liquidation after orders for closure. The total investment, total accumulated losses and net worth eroded in these 29 PSUs was ₹ 1,045.93 crore, ₹ 1,212.65 crore and ₹ 632.38 crore respectively as on 31 March 2021 (**Appendix-2.3**).

Audit Objective

2.1.3 The audit was conducted to ascertain:

- The underlying reasons attributable to the continuation of the Non-functional PSUs.
- Whether there is specific policy/guideline/action plan for effective management of the available resources of Non-functional PSUs,
- Whether timely action was taken for winding up of Non-functional PSUs to obviate further financial burden on the Exchequer.
- Efficacy of monitoring mechanism of the Administrative Departments, DPE and BPE in respect of Non-functional PSUs.

Audit criteria

2.1.4 Audit criteria adopted for ensuring the achievement of the audit objective were drawn from following sources:

- Memorandum of Association and Articles of Association of the PSUs;
- Relevant provisions of Companies Act, 1956, Companies Act, 2013 and Rules made thereunder;
- Agenda and minutes of meetings of Board of Directors; Administrative orders, budget allotment rules and annual accounts of the PSUs;
- Resolutions/Notifications/Circulars/Orders issued by the Government and BPE; and
- Order/directions issued by the Hon'ble Court/Statutory Bodies.

Scope and Methodology of Audit

2.1.5 The audit of the Non-functional PSUs, except those under liquidation², for the period since their becoming Non-functional to March 2021 was conducted during December 2021 to April 2022. An Entry Conference was held with the Special Secretary, GoUP and the management of respective PSUs on 12 January 2022 wherein the scope of audit and audit objectives were discussed. Audit examined records at head office of the PSUs/Departments. The audit findings were discussed with the Government and the Management in an Exit Conference held on 27 July 2022. The reply of the Government is awaited (September 2022).

² In respect of 13 PSUs under liquidation, audit has commented on inordinate delay in liquidation of these PSUs in Para 2.1.11.1.

Limitation of Audit

2.1.6 The following limitations were faced by Audit during examination of records of Non-functional PSUs:

- Records of 13 PSUs, which were under liquidation either by the order of court or under voluntary winding up, could not be examined as these were under the possession of Official Liquidator and not made available for audit despite several requests to Government.
- Records of six³ companies, which were Non-functional after orders for closure of operation, could not be examined as most of the records have been destroyed by termite or records were stolen.
- Records of Agra Mandal Vikas Nigam Limited could not be examined due to non-availability of records as the custodian of records had superannuated without handing over the records to the Management.
- Records of Bundelkhand Vikas Nigam Company Limited and Uttar Pradesh State Leather Development and Marketing Corporation Limited could not be examined due to non-production despite several requests to Management.
- Records related to DPE and BPE were not furnished to audit except partial information related to dates of PSUs going into liquidation.
- Various records during audit of other Non-functional PSUs were not furnished as detailed in **Appendix-2.4**.

Audit Findings

2.1.7 Audit findings emerged from the examination of available records in respect of 29 Non-functional PSUs are discussed below.

Reasons attributable to the continued Non-functioning of the PSUs

2.1.8 GoUP vide GO no. 863/44-2-1994 dated 1 June 1994 approved policy for Public Sector Undertakings to ensure work efficiency, to provide Government financial assistance and privatise them wherever required. The concerned Administrative Departments as well as Department of Public Enterprises were required to take action for the implementation of this Policy. The Policy further provided that the PSUs other than those working for social cause/public welfare whose annual loss was more than ₹ 10 crore and the net worth was eroded by half or more than half should be reviewed for privatisation.

The primary responsibility for supervision of PSUs for their efficient functioning lies on the Administrative Departments. Further, final view for closure of sick/Non-functional PSUs was to be taken by Administrative Departments. It is in the public interest to make this process time bound, comprehensive, performance driven and efficient so that such decisions are taken and implemented in a time bound manner to minimise further losses.

³ Varanasi Mandal Vikas Nigam Limited, Uttar Pradesh Poorvanchal Vikas Nigam Limited, Gorakhpur Mandal Vikas Nigam Limited, Moradabad Mandal Vikas Nigam Limited, Uttar Pradesh State Horticultural Produce and Marketing Company Limited and Lucknow Mandaliya Vikas Nigam Limited.

Following deficiencies were noticed in this regard:

- Audit noticed that operations of 29 Non-functional PSUs were closed since one to 31 years (**Appendix-2.1**). Of these, the period of closure ranged between one to ten years in two PSUs, 11 to 20 years in 10 PSUs, 21 to 25 years in four PSUs and 26 to 31 years in 13 PSUs. No efforts were made by the Administrative Departments or DPE for winding up of these PSUs. Out of 29 Non-functional PSUs, net worth of 10 PSUs was negative, but neither any efforts were made by the Administrative Departments nor by DPE to explore privatisation of these PSUs as was provided in the Policy. Thus, due to inaction of Administrative Departments and DPE these PSUs continued to remain Non-functional and incurred sundry expenditure of ₹ 131.28 crore as discussed in **Paragraph 2.1.12.1**. Reasons for these PSUs becoming Non-functional as analysed by Audit were deteriorating financial position, unavailability/high prices of raw materials, under utilisation of installed capacity, outdated machinery, etc. Administrative Department/DPE/BPE failed to provide records to audit relating to efforts made in compliance of the above Policy.
- Further, Section 3 (O) read with Section 15 of the *erstwhile* Sick Industrial Companies Act, 1985 (SICA) provided that when an industrial company has become a sick industrial company, the Board of Directors of the company shall make a reference to Board for Industrial and Financial Reconstruction (BIFR) for determination of the measures which shall be adopted with respect to the company.

Audit noticed that only six⁴ PSUs moved to BIFR under the provisions of SICA during the period from 1992 to 1996 and the matter was pending before BIFR at time of repealing of SICA in 2016. Accordingly, these PSUs had to move to National Company Law Tribunal as per enactment of new Companies Act, 2013 which they did not do, for which no reasons were found on record. Thus, due to laxity of the concerned Administrative Departments/DPE/BPE, no decision was taken on liquidation of these PSUs and they have continued to exist in stupor state for 25 to 29 years incurring expenditure of ₹ 112.71 crore on them.

Irregularities in management of resources of Non-functional PSUs

2.1.9 As discussed in **Paragraph 2.1.1**, DPE was required to lay down policy guidelines in various areas of management for guidance of PSUs' managements.

Audit noticed that DPE did not frame any policy guidelines for effective management of the available resources of Non-functional PSUs till date (July 2022). Further, it did not issue any specific instructions/orders for effective management of available resources of the Non-functional PSUs. In absence of any guidelines/orders, these PSUs managed their resources at own discretion. Deficiencies noticed in the management of available resources are discussed in following paragraphs.

⁴ Nandganj Sihori Sugar Company Limited, Chhata Sugar Company Limited, Ghatampur Sugar Company Limited, Uttar Pradesh State Yarn Company Limited, Uttar Pradesh State Textile Corporation Limited and The Indian Turpentine & Rosin Company Limited.

Monetisation of Fixed Assets not done

2.1.9.1 Asset monetisation is the process of creating new sources of revenue for the PSUs by unlocking the economic value of their unutilised or underutilised assets.

Audit noticed that 29 Non-functional PSUs were having fixed assets amounting to ₹ 12.09 crore⁵ (**Appendix-2.5**). These assets were lying unutilised since closure of operations of these PSUs but no efforts for their monetisation were made in absence of proper monitoring mechanism at the level of PSUs, Administrative Departments, BPE and DPE. Due to lapse of considerable time, the value of these assets may have significantly diminished.

Recovery from Debtors and Loans & Advances not done

2.1.9.2 Audit noticed that 29 Non-functional PSUs were having Debtors and Loans & Advances amounting to ₹ 56.31 crore⁶ (**Appendix-2.5**). These were assets of these PSUs but were lying unrecovered since closure of operations of these PSUs but no efforts for recovery of this amount were made by these PSUs in absence of proper monitoring mechanism at the level of PSUs, Administrative Departments, DPE and BPE. In view of lapse of substantial period the possibility of recovery of these dues is remote.

Transfer of land without consideration

2.1.9.3 GoUP decided (26 February 2014) to transfer the land measuring 50.04 acres situated at Siddiqupur of Jaunpur unit (closed since June 2012) of Uttar Pradesh State Yarn Company Limited (Company) to Medical Education and Health Department for construction of Government Medical College. For this, Government decided to write off the loan of ₹ 34.67 crore (up to 31 March 2013) given to the Company earlier and making cash payment of ₹ 16.18 crore to the Company by Infrastructure and Industrial Development Department, GoUP for liquidating the liabilities of the Company. This land was transferred to the Medical Education and Health Department in the year 2014.

It was noticed that dues of the Company were not written off by the Government and cash payment was also not made till March 2021. Due to this, liabilities of the Company could not be settled even after lapse of more than seven years. Consequently, Government loan increased from ₹ 34.67 crore to ₹ 46.71 crore by accumulation of interest thereon and other liabilities also increased from ₹ 16.18 crore to ₹ 21.07 crore as of March 2021.

In reply, the Management stated (January 2022) that inspite of several correspondences with the Government, no response has been received so far.

The fact remains that the land was transferred to the Government Medical College in the year 2014 and no payment was received to the Company.

Movable/immovable assets lying at the land not disposed

2.1.9.4 As discussed in **Paragraph 2.1.9.3**, Uttar Pradesh State Yarn Company Limited (Company) transferred its land to Government Medical College in 2014. At the time of transfer, some movable/immovable assets of

⁵ As per latest finalised accounts of these 29 PSUs.

⁶ As per latest finalised accounts and information furnished by the PSUs.

the Company valuing ₹ 7.11 crore⁷ were lying at the land which were to be disposed off by the Company. The Company failed to dispose-off the assets till 2018. Due to which, the District Magistrate (DM) disposed off the assets at a value of ₹ 3.69 crore and remitted the sale amount to the Company. Thus, due to failure of the Company in timely disposal of assets, it suffered loss amounting to ₹ 3.42 crore (₹ 7.11 crore - ₹ 3.69 crore).

In reply, the Management stated that the book value of assets as on 31 March 2014 was ₹ 2.70 crore and as per Section 22 and 22A of Sick Industrial Company Act, 1985 (SICA), no assets of the Company or part thereof could be reshaped in any way during the course of BIFR proceedings without having direction of BIFR.

Reply is not acceptable as the land was transferred as per Government order and the assets were disposed off by the DM.

Failure to mutate land by Uttar Pradesh Chalchitra Nigam Limited

2.1.9.5 Uttar Pradesh Chalchitra Nigam Limited purchased 40,838 sqm. land in Narayanpur, Mirzapur in 1979. However, the Company failed to get the mutation of land in its own name in land records. In 1995, the Company invited tender for selling the land but it could not sell the land as the same was not in the name of the Company in the land records.

Thus, due to lackadaisical approach of the Company, the ownership of the land illegally rested with the seller's sons in the land records and the Company could not sell the land.

In reply, Management stated that request for mutation of land in the name of Nigam has been made with District Magistrate, Mirzapur in 1997 and it is time taking process.

The reply is not acceptable as even after more than 40 years of purchase the Company had failed to get the land mutation in its name and failed to sell the land.

Transfer of land by Uttar Pradesh Pashudhan Udyog Nigam Limited

2.1.9.6 GoUP directed (31 August 2001) Uttar Pradesh Pashudhan Udyog Nigam (UPPUN) to transfer 40 acre of land free of cost to U.P. State Warehousing Corporation Limited (UPSWC) for warehousing purposes. UPPUN transferred (10 January 2002) 40.104 acre land to UPSWC. On direction (March 2002) of GoUP, the U. P. State Industrial Development Corporation Limited (UPSIDC) acquired the said land for planned industrial development of the area at a price of ₹ 1.36 crore from UPSWC. In October 2017, UPPUN issued a demand notice of ₹ 4.63 crore (cost of land: ₹ 1.36 crore + interest: ₹ 3.27 crore) to UPSWC but neither cost of land nor interest was paid by UPSWC. UPPUN took up the matter with the GoUP and it was decided (December 2021) that the UPSWC will immediately transfer ₹ 1.36 crore to UPPUN and matter of recovery of interest will be pursued separately by UPPUN.

Audit noticed that though UPPUN has received cost of land from UPSWC in March 2022 but the interest amount was lying recoverable.

⁷ As per valuation report dated 26 February 2015.

Failure to take timely action for winding up of Non-functional PSUs

2.1.10 Failure to take action for winding up of Non-functional PSUs on the part of PSUs/Administrative Departments, DPE and BPE are discussed in succeeding paragraphs:

Non-finalisation of Annual Accounts and consequential delay in winding up of Non-functional PSUs

2.1.10.1 Chapter IX of the Companies Act, 2013 provides requirements of maintenance and preparation of annual accounts by a company established under the Act. It also provides penal provision in case of violation of provisions of the Act.

Audit noticed that annual accounts of 27 out of 29 Non-functional PSUs have not been finalised for the period ranging from one to 39 years (**Appendix-2.6**). Delay in finalisation of accounts was one of the reasons for delay in winding up of PSUs as in the absence of updated accounts, the current position of assets and liabilities was not known for their settlement. BPE was also responsible for monitoring the progress of completion of annual accounts by PSUs with the objective of reducing the arrears of accounts, but it failed in performing its role in reducing the arrears of accounts.

In this regard, it is pertinent to mention that the issue of arrear in accounts of State PSUs has been repeatedly pointed out in the previous Audit Reports⁸ of the CAG. However, despite being pointed out repeatedly, the concerned Administrative Departments/BPE failed to take action for liquidation of arrear accounts of PSUs.

Uttar Pradesh Chalchitra Nigam Limited accepted (March 2022) the observation and stated that reasons for not finalising accounts were closure of Company's activity, not having regular staff and financial crisis. Reply was awaited from other PSUs (September 2022).

Audit of accounts not completed due to non-receipt of fund

2.1.10.2 Tarai Anusuchit Janjati Vikas Nigam Limited (TAJVNL) demanded (April 2001) ₹ 4.25 lakh from its Administrative Department for payment of Statutory Auditor's fees for audit of annual accounts pertaining to period from 1983-84 to 1999-2000. It sent 32 letters and reminders between April 2001 and July 2013 for release of said amount, but no amount was released to TAJVNL by the Administrative Department till date (July 2022). Hence, audit of accounts of TAJVNL is pending till March 2021 due to lack of response from the Administrative Department.

Failure in timely transfer of fixed assets

2.1.10.3 Command Area Poultry Development Corporation (CAPCO) became Non-functional in August 1999. In the meeting (February 2002) under chairmanship of Additional Chief Secretary (ACS), Department of Land Development and Water Resource, GoUP and Agriculture Produce Commissioner, assets of CAPCO were valued at ₹ 106.32 lakh whereas liabilities were ₹ 117.06 lakh. It was decided in the meeting that fixed assets of CAPCO shall be transferred to Sharda Sahayak Command Authority (SSCA)

⁸ In the Audit Report on Economic Sector and Public Sector Undertakings for the years 2001-02 to 2018-19 and State Finances Audit Report for the years 2019-20 and 2020-21.

being major creditor of ₹ 60.99 lakh. In this regard an agreement was also executed (May 2002) between CAPCO and SSCA for transfer of fixed assets and settlement of liabilities of CAPCO towards SSCA and others.

Audit noticed that even after lapse of 19 years of executing the agreement CAPCO failed to get the agreement implemented. In September 2021, SSCA requested to the Administrative Department for issuance of Government Order to expedite the liquidation process of the company and transfer its assets and liabilities to SSCA. This indicates lack of timely action on the part of company and Government resulting into delay in liquidation process of the company.

Deficiencies in Monitoring Mechanism

2.1.11 Failure/non-existence of effective monitoring system on the part of Administrative Departments of PSUs, DPE and BPE are discussed in succeeding paragraphs:

Inordinate delay in liquidation of the PSUs due to poor monitoring by Administrative Departments

2.1.11.1 Clause 9.4 and 9.5 of Ministry of Corporate Affairs (MCA), Government of India guidelines provide that completion of liquidation process should be made within the timeframe of two years and a fixed time should be provided for each stage of rehabilitation and liquidation process. Extension at every stage should be rare and allowed only in exceptional circumstances and in any case without affecting the outer time limit provided. The concerned Administrative Departments are responsible for ensuring the timely completion of liquidation process.

Audit noticed that 13 PSUs were under liquidation since a very long period *i.e.*, ranging between seven and 39 years (**Appendix-2.2**). Administrative Department/DPE failed to provide records to audit relating to efforts made for ensuring timely completion of liquidation process of these PSUs. Moreover, it also failed to furnish present status of PSUs under liquidation and reasons attributable for such long delay except in case of three PSUs *viz.* Uttar Pradesh Cement Corporation Limited, Bhadohi Woollens Limited and Auto Tractors Limited for which the reasons were cited as court cases and litigations.

Thus, due to poor monitoring by Administrative Departments, process of liquidation of PSUs could not be completed even after a lapse of seven to 39 years.

Lack of effective monitoring mechanism for winding-up of Companies

2.1.11.2 The primary responsibility of supervision of PSUs for their efficient functioning lies on the Administrative Departments and final view for winding up of sick/Non-functional PSUs has to be taken by the Administrative Departments in consultation with DPE/BPE.

Audit noticed that although it was the responsibility of the concerned Administrative Departments to take action for winding up of sick/Non-functional PSUs, these Departments did not make any concerted efforts. Due to this, these 29 PSUs could not be wound up till March 2021. Some instances of failure of the Administrative Departments are discussed in **Table 2.2** below:

Table 2.2: Instances showing lack of monitoring by Administrative Departments

Sl. No.	Name of PSUs	Date of closure of activity	No. of years since closure of activity (approx.)	Failure of Administrative Department
1	Uttar Pradesh State Yarn Company Limited	28.06.2012	8	Uttar Pradesh State Yarn Company Limited (Company) was declared sick by the BIFR. The company did not go to the National Company Law Tribunal (NCLT) for winding up, even though permission was granted by the Government on 26.09.2017. It was the responsibility of the Administrative Department <i>i.e.</i> , Hathkargha Evam Vastra Udyog Vibhag to expedite the process by taking effective steps. But it neither sought any status of the matter till date nor called for any clarifications from the concerned officials for not referring the matter to NCLT.
2	Uttar Pradesh State Textile Corporation Limited	14.03.2001	20	Uttar Pradesh State Textile Corporation Limited (Company) was declared sick by the BIFR on 02.02.1995 and ordered for winding up on 13.07.2005. The order was stayed by the Appellate Authority for Industrial and Financial Reconstruction. The Company did not file the case in NCLT even though permission was granted by the Government vide latter dated 26.09.2017. It was the responsibility of concerned Administrative Department <i>i.e.</i> Hathkargha Evam Vastra Udyog Vibhag to expedite the process by taking effective steps but it neither sought any status of the matter till date nor called for any clarifications from the concerned officials for not referring the matter to NCLT.

Thus, the Administrative Departments and Management did not take timely action for winding up as per procedure of the Companies Act due to which status of these Non-functional PSUs remained same even after lapse of one to 31 years of their becoming Non-functional.

Failure of Department of Public Enterprises in monitoring the PSUs

2.1.11.3 The Department of Public Enterprises (DPE) is responsible for furnishing periodic reports to the State Government on the working of PSUs, provide assistance in executing closure of activities and lay down policy guidelines for management of PSUs.

However, neither DPE could provide any records related to functions performed for PSUs nor PSUs could make available such records of approaching DPE for any assistance.

Failure of Bureau of Public Enterprises in monitoring the PSUs

2.1.11.4 Bureau of Public Enterprises (BPE) works as a Directorate and provides assistance to DPE in its assigned work along with the work of periodic monitoring and review of PSUs, providing technical guidance/consultancy to Administrative Departments, monitoring of the progress of completion of Annual Accounts of PSUs with the objective of reducing the arrears of accounts, *etc.*

Audit noticed that BPE failed to monitor the timely completion of Annual Accounts of PSUs as Annual Accounts of 27 out of 29 Non-functional PSUs were pending for the period ranging from one to 39 years (**Appendix-2.6**) as of March 2021. Further, details of any technical guidance provided and monitoring of progress of annual accounts of PSUs by BPE was not found on record.

Financial burden due to delayed winding up of Non-functional PSUs

2.1.12 The audit observed following deficiencies in this regard:

Expenditure on security, staff and day to day expenses

2.1.12.1 The Non-functional PSUs has to incur recurring expenditure on payment of staff, security of assets and for its day-to-day expenses. For meeting such expenditure, these PSUs took bridge loan or managed funds from own sources.

Audit noticed that all the 29 PSUs were managing its day-to-day expenditure either from its own resources/funds provided by their Parent Company or taking interest bearing bridge loan from GoUP. Audit further noticed that delay in winding up of these PSUs led to incurring an avoidable expenditure of ₹ 131.28 crore (**Appendix-2.5**) on staff, security and day to day expenses by these PSUs till March 2021.

Avoidable Payment of Electricity Bill

2.1.12.2 The Indian Turpentine & Rosin Company Limited (Company) was closed in October 2000. Audit observed that based on advice (January 2004) of Assets Sale Committee, the Company proposed⁹ to Government to transfer 92 residential quarters valuing to ₹ 1.72 crore to employees, however, no response on the proposal was received from the State Government. The Company also did not pursue the matter till December 2020 when it made a request to Secretary, Infrastructure and Industrial Development Department, GoUP for resolving the case. As on 31 March 2021, amount of VRS ₹ 6.05 lakh and amount of Bonus ₹ 9.57 lakh was still payable to employees.

Further, failure in taking timely action by the Company and the Administrative Department also resulted in avoidable expenditure of ₹ 15.72 crore¹⁰ on electricity charges of the residential quarters occupied by the employees.

Conclusion

Administrative Departments and DPE did not take appropriate action for timely winding up or privatisation of Non-functional PSUs. Liquidation process of PSUs could not be completed even after lapse of seven to 39 years. DPE and BPE failed to monitor. The Non-functional PSUs mismanaged their resources in absence of any policy, guidelines and monitoring mechanism. Non-functional PSUs had to bear avoidable financial burden towards recurring expenditure on staff costs, security expenditure, electricity charges and other day to day expenses amounting to ₹ 131.28 crore due to delay in winding up of PSUs.

⁹ Vide letter no.MD/T/2004-05/254 dated 10.01.2005.

¹⁰ Payment made against dues of electricity charges: ₹ 12.12 crore + Liabilities created towards electricity charges: ₹ 3.95 crore – Arrear dues of previous period: ₹ 0.35 crore.

Recommendations

Audit recommends that Administrative Departments/DPE/BPE should:

1. **Make concerted efforts for winding up of the PSUs pending in Non-functional status since long and for monetisation of their assets.**
2. **Expedite the liquidation process of PSUs under liquidation.**
3. **Take necessary steps to liquidate the arrears in accounts of Non-functional PSUs.**
4. **DPE should frame and issue policy/guidelines for the management of resources of Non-functional PSUs.**

Energy Department

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited

2.2 Audit of 'Repair and Maintenance of Thermal Power Plants of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited'

Introduction

2.2.1 Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) headquartered at Lucknow was incorporated on 25 August 1980 under the Companies Act, 1956 as a wholly owned State Government Company, with the main objective of construction of new thermal power projects in the State. UPRVUNL has nine¹¹ Thermal Power Plants (TPPs) having total installed capacity of 5,380 MW. Out of total energy requirement of the State, the Thermal Power Plants of UPRVUNL met¹² the energy requirement of 25.26 *per cent*, 21.43 *per cent* and 19.39 *per cent* during 2018-19, 2019-20 and 2020-21 respectively.

To ensure long term sustainable levels of performance of TPPs, it is important to adhere to periodic maintenance and equipment overhauling schedules. Not adhering to the schedule carries a risk of the equipment consuming more coal, fuel oil and a higher risk of forced outages. These factors lead to increase in the cost of power generation and reduced availability of equipment which affects the total power generated.

2.2.2 Repair and Maintenance (R&M) of TPPs are time bound activities which are generally carried out through tendering process and its timely completion is essential for optimum generation of power by the TPPs. In UPRVUNL, the total expenditure on R&M was ₹ 502.95 crore, ₹ 549.29 crore and ₹ 472.64 crore during the period 2018-19, 2019-20 and 2020-21, respectively.

Organisational Structure

2.2.3 The Management of the Company is vested with a Board of Directors (BOD) comprising of Chairman, Managing Director and four Directors under the administrative control of the Energy Department, Government of Uttar Pradesh. The day-to-day activities are carried out with the assistance of Chief Engineers/Chief General Managers and Executive Engineers at Headquarters and field.

¹¹ During 2018-19 to 2020-21.

¹² 29,154 Million Unit (MU), 25,318 MU and 23,388 MU against the purchase of energy of 1,15,435.51 MU, 1,18,140.93 MU and 1,20,589.94 MU during 2018-19, 2019-20 and 2020-21, respectively by Uttar Pradesh Power Corporation Limited.

Audit Objectives

2.2.4 Audit was conducted with a view to ascertain:

- Whether planning for R&M was done as prescribed in Original Equipment Manufacturer (OEM) manual;
- Whether agreements for supply of materials/contracts for R&M were made as per laid down procedure;
- Whether the work of R&M has been executed timely and economically as per plan and norms fixed by Uttar Pradesh Electricity Regularity Commission (UPERC) have been achieved; and
- Whether there is effective monitoring mechanism for R&M related works.

Audit Criteria

2.2.5 Audit criteria adopted for assessing the achievement of audit objectives were sourced from the following:

- OEM manual, Annual plan, Budget, Operational parameters for R&M, Agreements with Contractors and Outage reports after overhauling.
- Financial Handbook of GoUP, Justification of estimates and Rate analysis of works.
- UPERC norms, assessment of shutdown of machine, mechanism framed for controlling delays and Standard Operating Procedure/Operating manual of equipment.

Scope and Methodology of Audit

2.2.6 The Audit for the period 2018-19 to 2020-21 was conducted from August 2021 to January 2022 and audit examined the records related to R&M of TPPs at UPRVUNL Headquarters at Lucknow and its selected seven¹³ out of nine thermal power plants. The expenditure incurred on R&M in these seven TPPs was 77.13 *per cent* of the total expenditure incurred on R&M by UPRVUNL during 2018-19 to 2020-21. During the period, TPPs finalised 7,215 tenders against which Audit selected 478 tenders based on monetary value through stratified random sampling.

Audit methodology consisted of explaining the scope of audit and audit objectives to top Management in an Entry Conference held on 31 August 2021, examination of records, interaction with auditee personnel, analysis of data with reference to audit criteria and raising audit queries followed by discussion with Management.

The Audit findings were issued to the Management and State Government in June 2022. The replies of the Company and comments/views put forth by the Management in the Exit Conference held on 8 July 2022 have been suitably incorporated in the respective paragraphs. However, the reply of the Government is still awaited (September 2022).

¹³ 'B' Obra TPP (2 x 500 MW), 'A' Parichha TPP (2 x 110 MW), 'B' Parichha TPP (2 x 210 MW), 'C' Harduaganj TPP (1 x 110 MW), Harduaganj Extension TPP (2 x 250 MW), 'A' Anpara TPP (3 x 210 MW) and 'B' Anpara TPP (2 x 500 MW).

Audit Findings

2.2.7 Audit findings which emerged from the examination of records at UPRVUNL Headquarters and its selected seven TPPs are discussed below.

Planning for overhauling

2.2.8 Overhauling of the generating units of TPPs plays a vital role in smooth functioning of the various equipment installed in these units for energy generation. UPRVUNL had categorised overhauling into three categories viz. Capital Overhauling (COH), Annual Overhauling (AOH) and Mini Overhauling (MOH). COH of the equipment is scheduled every six years from the running of unit as fixed by the OEM in which overhauling of High Pressure (HP), Intermediate Pressure (IP) and Low Pressure (LP) of Turbine along with overhauling of Generator and Boiler is included. AOH and MOH are planned annually by UPRVUNL of the equipment¹⁴ as per requirement. For planning of overhauling, UPRVUNL prepares Rolling Plan and executes the overhauls as per yearly targets fixed in the Rolling Plan.

The Board of Directors of UPRVUNL approved the Rolling Plan for overhauling of TPPs for the year 2018-19 to 2021-22 in August 2017. In the Rolling Plan prepared (23 August 2017), 52 overhauls (COH: 8, AOH: 17 and MOH: 27) of 18 generation units¹⁵ of eight TPPs¹⁶ with budgeted expenditure of ₹ 1,046 crore for the year 2018-19 to 2020-21, with period of 45 days for COH, 30 days for AOH and 18 days for MOH were planned.

Audit noticed that Rolling Plan was not prepared as per OEM schedule fixed for COH. Major deviations/delays were noticed in the planning of COH of TPPs as summarised in the **Table 2.3** below:

Table 2.3: Deviations/delays in planning of COH of TPPs

Name of TPP	Unit No.	Capacity (MW)	Last capital overhauling made	Overhauling due as per OEM schedule	Overhauling proposed as per Rolling Plan	Delayed planning in Rolling plan (in years)
Anpara 'A'	1	210	April-2008	April-2014	2018-19	4
	2	210	Nov-2012	Nov-2018	2021-22	3
	3	210	March-2008	March-2014	2019-20	5
Anpara 'B'	4	500	Dec-2009	Dec-2015	2019-20	4
	5	500	May-2008	May-2014	2018-19	4
Harduaganj 'Ext'.	8	250	COD ¹⁷ in Feb-2012	Feb-2018	2019-20	2
Parichha 'B'	4	210	March-2012	March-2018	2020-21	3

Source: Data provided by UPRVUNL

It can be seen from above that there were significant delays ranging between two and five years against the schedule fixed by the OEM. Due to this, performance of generating units deteriorated as it could be seen in succeeding paragraphs.

¹⁴ Low pressure (LP) stage turbine, generator, boiler, conveyer belt, fly ash evacuation system, coal mill reject handling system, ash pipeline structure, etc.

¹⁵ 2018-19: 17 overhauls, 2019-20: 17 overhauls and 2020-21: 18 overhauls.

¹⁶ One TPP (Parichha: 2x110 MW) was not planned for COH/AOH/MOH in Rolling Plan.

¹⁷ Commercial Operation Date.

In the Exit Conference, the Management accepted the delay in overhauling and stated that Standard Operating Procedure (SOP) regarding overhauling and other issues is under preparation.

Deficiencies in execution of Contract/Agreement

Audit noticed deficiencies in execution of Contract/Agreement as discussed below:

Undue favour to Contractor

2.2.9 As per Clause 2 of commercial terms and condition of tender¹⁸, bids shall be kept valid for acceptance for a minimum period of 180 days from the date of opening of technical bid.

Parichha TPP awarded (25 June 2018) the work to M/s AKA Logistics at a value of ₹ 34.57 crore (excluding GST) for the period 1 July 2018 to 30 June 2020.

For continuation of the above work, new tender was invited on 30 May 2020 with cut-off date of submission of bids on 16 July 2020 which was further extended to 7 August 2020 due to COVID lockdown. Four firms participated in the bid out of which two firms were qualified after opening of Part-I of bid document on 13 August 2020. Two firms were declared disqualified due to not submitting work experience, default in payment of GST in earlier years, etc. The matter of default in payment of GST in earlier years of one disqualified firm, i.e., M/s Energo Construction Limited was reviewed but could not be substantiated and it was decided (23 November 2020) that opening of Part-II bid cannot be denied on the said issue. After that, Part-II of bids was opened on 16 December 2020 of these three firms and M/s Energo was declared L-1 bidder. The work was awarded (22 February 2021) to M/s Energo for a period of two years starting from 28 February 2021 to 28 February 2023 at a value of ₹ 25.87 crore (excluding GST).

Audit noticed (January 2022) that the validity period of Part-II of bid of the above tender was up to 8 February 2021 (180 days from the opening of Part-I bid, i.e., 13 August 2020) but the company awarded the tender to L-1 bidder on 22 February 2021 after finalisation of negotiation on 15 January 2021 and approval of the same on 16 February 2021 by the Corporate Tender Committee.

Thus, the Management awarded the work with a delay of 14 days. Till the award of work to new contractor, the work was being executed by old contractor¹⁹, i.e., M/s AKA Logistics at a cost of ₹ 1.44 crore per month which was much higher than the awarded rate of ₹ 1.08 crore per month of new contract. Thus, due to delayed award of work, UPRVUNL extended undue favour to M/s AKA Logistics amounting to ₹ 0.17 crore which was avoidable and could have been saved.

In the Exit Conference, the Management accepted the delay in award of work and stated that there is cost saving in the award of new work. Further, SOP

¹⁸ Round the clock complete operation and maintenance work of entire 2x210 MW Coal Handling Plant (CHP) for uninterrupted coal feeding to 2x210 MW + 2x250 MW (unit no. 3, 4, 5 and 6), unloading work of 2x110 MW CHP, including manual unloading and management, operation and shunting works, etc. and round the clock complete mechanical and electrical maintenance works of coal unloading plant of 2x 110 MW CHP, etc.

¹⁹ Expiry date of contract was 30 June 2020 which was extended from time to time.

would be prepared for fixing the timelines for finalisation of contract by various levels of Committee.

Execution of overhauling

2.2.10 The main equipment of TPPs such as Turbine, Boiler and Generator were installed by OEM (BHEL, Toshiba, etc.) and overhauling of the same was to be done by these OEMs once in six years. Other equipment of TPPs were being overhauled through tendering on annual basis or requirement basis. As per the time schedule prescribed, COH, AOH and MOH was to be completed within 45 days, 30 days and 18 days respectively. The completion of overhauls within the stipulated time is crucial as high overhauling cycle or delay in prescribed overhauling time leads to reduced plant availability and loss of generation. The strategic and advance planning, timely mobilisation of resources, meticulous monitoring and dedicated round the clock effort reduces the overhaul time.

As discussed in **Paragraph 2.2.8**, UPRVUNL planned 52 overhauls of 18 generation units of eight TPPs in Rolling Plan. However, at the time of execution of overhauls during 2018-19 to 2020-21, it reduced the planned overhauls to 33 only due to State Load Dispatch Centre (SLDC) restrictions on overhauling.

Audit noticed (January 2022) the shortfall in execution of overhauls even after the reduced targets as detailed in the **Table 2.4** below:

Table 2.4: Shortfall in execution of overhauls

Year	No. of units planned		No. of units overhauled		Shortfall	
	COH	AOH/MOH	COH	AOH/MOH	COH	AOH/MOH
2018-19	5	12	1	2	4	7 ²⁰
2019-20	3	5	1	3	2	2
2020-21	6	2	2	1	4	1
Total	14	19	4	6	10	10

Source: Data provided by UPRVUNL

It can be seen from the above that there was significant shortfall of 10 overhauls (71 *per cent*) in COH and 10 overhauls (53 *per cent*) in AOH/MOH which shows poor execution of overhauls by UPRVUNL.

Further, in 23 overhauls in 17 generation units of selected seven TPPs, COH for 13 overhauls and AOH/MOH for 10 overhauls were planned during 2018-19 to 2020-21. Against this, significant shortfall of 10 overhauls (77 *per cent*) in COH and six overhauls in AOH/MOH (60 *per cent*) was noticed by Audit.

Failure to adhere to the time schedule of overhauling resulted in loss of generation and execution of many additional works such as replacement of all HIP turbine diaphragm, repairing of power cylinders, removal of jammed bolt, work of generator rotor epoxy injection, etc.

Management accepted the audit observation and stated that the efforts would be made for overhauling as per the Rolling Plan/OEM Schedule.

²⁰ During 2018-19, three units (unit no. 9, unit no. 10 and unit no. 11) of Obra TPP were planned for MOH. However, due to fire occurred in Obra TPP on 14 October 2018, these units were not take up for overhauling in 2018-19. Hence, these units are not considered for shortfall in overhauling.

Avoidable loss due to not following the overhauling schedule

Audit noticed instances of avoidable loss due to not following the overhauling schedule as discussed below:

Generation loss on account of low PLF due to delayed COH

2.2.11 The norms of plant load factor (PLF) of all generating stations are fixed by the Uttar Pradesh Electricity Regulatory Authority (UPERC) in accordance with UPERC (Terms and condition of Generation Tariff) Regulations 2014 and 2019. PLF refers to the ratio between the actual generation and the maximum possible generation at installed capacity. According to the norms fixed by UPERC, the PLF for State Thermal Power Plants ranged from 70 per cent to 85 per cent for the year 2018-19 to 2020-21.

As discussed in **Paragraph 2.2.10**, delay in overhauling leads to reduced plant availability and loss of generation.

Audit noticed that four TPPs²¹, in which capital overhauling was not done timely as per prescribed OEM schedule, were running at low PLF than the norms fixed by UPERC leading to generation loss of 277.97 MU²² energy. Due to this, UPRVUNL could not supply above energy to Uttar Pradesh Power Corporation Limited (UPPCL) during 2018-19 to 2020-21. As a result, UPPCL had to purchase energy to above extent from private power producers leading to extra expenditure of ₹ 39.22 crore by UPPCL.

Loss to UPRVUNL due to not conducting timely testing

2.2.12 The annual overhauling of unit no. 7 of Harduaganj was planned during 1 September 2017 to 30 September 2017 but was not executed by the Management. The unit remained shut down during 13 November 2018 to 8 May 2019 on the instruction of SLDC. Unit was again put on load on 9 May 2019. Meanwhile, during the period of shutdown, a mini overhauling during 1 January 2019 to 18 January 2019 was proposed but the same was also not executed by UPRVUNL. After putting on load, an incidence of fire occurred in Generator Transformer (GT) and unit tripped on 15 May 2019. The unit was synchronized on 27 July 2019 after replacement of GT. As per the enquiry report, the main reason of occurrence of incidence of fire was failure in timely testing of equipment such as GRP relay, Excitation System Generator and GT which were not tested for last 4 years²³. Tan Delta Test of bushing had been carried out on 20 February 2018 in which R&Y phase bushing Tan Delta values were found quite high and crossed the dangerous limit.

²¹ Unit no. 11 of Obra-B TPP (2020-21)- actual PLF was 63.85 per cent against norm of 75 per cent; Unit no. 2 of Parichha-A TPP (2018-19)- actual PLF was 65.94 per cent against norm of 70 per cent; Unit no. 1 (2019-20) of Anpara-A TPP- actual PLF was 83.92 per cent against norm of 85 per cent; Unit no. 5 of Anpara-B TPP (2018-19)- actual PLF was 84.01 per cent against norm of 85 per cent and Unit no. 4 of Anpara-B TPP (2020-21)- actual PLF was 84.70 per cent against norm of 85 per cent.

²² 177.09 MU, 34.96 MU, 14.08 MU and 51.84 MU in Obra-B, Parichha-A, Anpara-A and Anpara-B TPPs respectively.

²³ As per testing schedule, GRP relay, Excitation System Generator and GT, etc. should have been tested on yearly basis.

UPRVUNL incurred an expenditure of ₹ 1.52 crore on transportation and installation of replacement of Generator Transformer²⁴ besides write off the value of burnt transformer valuing ₹ 6.30 crore. Further, UPRVUNL, based on finalisation of charge sheet, awarded minor penalty (warning, censor entry) to five officers/officials. This expenditure could have been avoided had the timely testing been made by the officers/officials before running of unit as per testing schedule.

In the Exit Conference, the Management accepted the observation and stated that presently testing of GT is being carried out on regular basis.

Shortcomings noticed in monitoring mechanism

Audit noticed shortcomings in motoring mechanism over R&M works being executed in TPPs as discussed below:

Improper Bearing Purchase Policy

2.2.13 UPRVUNL framed (19 September 2018) a new Bearings Purchase Policy for purchase of SKF/FAG/Timken/NTN make bearing by all TPPs for the use in Induced Draft Fans (ID Fan), Forced Draft Fans (FD Fan), Primary Air Fans (PA Fan), etc. The Policy stated that, in view of prior experience, as a special case, purchase of NTN make bearing may be done for use in the units of Obra TPP and 3x210 MW unit of Anpara TPP after approval of Director (Technical).

Audit noticed (January 2022) that unit no. 1 of Anpara TPP had tripped on 29 March 2019 due to problem in ID Fan 1 B and during repairing of defects, NTN make bearing was installed in it without taking approval of Director (Technical). Due to poor quality of NTN make bearing used in ID Fan, unit had again tripped on 16 September 2019 and was synchronised on 18 September 2019. This indicates that UPRVUNL failed to ensure the quality of NTN make bearing before purchase of the same. As a result, unit no. 1 remained closed for two days for generation during 16 September 2019 to 17 September 2019 which was avoidable.

Further, it was noticed on analysis of tripping details of TPP that unit no. 3 of Anpara TPP tripped twice on 7 September 2019 and 9 February 2020 due to damage of NTN make bearing. This also indicates that quality of bearing was poor.

Further, tripping committee of thermal power plant also recommended (February 2020) that NTN make bearing may not be procured for critical auxiliaries such as ID Fans and further recommended for review of the bearing policy. This fact clearly indicates that decision to purchase NTN make bearing was not proper.

Management stated that failure of NTN makes bearing in ID Fan might be due to various technical reason other than quality and performance of NTN make bearing.

Reply is not acceptable as in the tripping committee reports, it was clearly mentioned that quality of NTN make bearing was poor

²⁴ The replaced GT (125 MVA) was kept idle in Panki TPP which was transported and installed in place of burnt transformer.

Loss of generation due to poor monitoring of work

2.2.14 The Letter of Intent (LoI) for the work of shifting of damaged 150 MVA Generator Transformer of unit no. 7 Harduaganj TPP and installation of 125 MVA generator transformer available at Panki TPP was issued on 10 June 2019 to M/s Sun Engineering works at a cost of ₹ 34.55 lakh. Completion period of work was 35 days from the issue of LoI *i.e.* up to 15 July 2019.

Audit noticed that the work was completed on 26 July 2019 with a delay of 11 days and the unit was synchronised on 27 July 2019. The reason noticed by the Management for delay was poor deployment of manpower by the contractor. The Management imposed penalty of ₹ 55,000 on the contractor for the delay.

Audit further noticed that Management neither made any correspondences with the contractor for timely completion of work nor issued any instructions to the contractor during the contract period despite knowledge of the fact about poor deployment of manpower. Thus, effective monitoring of the work was not done by the Management which led to shutdown of unit for additional 11 days with loss of generation of energy of 2.253 MU²⁵ with loss of fixed charges of ₹ 2.47 crore²⁶.

Management stated in its reply that monitoring of the work was being done regularly and penalty for delay was deducted as per terms and condition of the contract.

Reply is not acceptable as Management failed to provide the records in supports of monitoring done regularly and delayed completion caused crucial loss of generation.

Failure in tracing the fault due to delayed installation of 'Sequence of Events Recording System'

2.2.15 Data Acquisition Software (DAS) was installed (between 1986 and 1988) with the equipment of TPPs at the time of installation of unit no. 1, 2 and 3 of Anpara TPP. The main function of the DAS is to display and record the problems that occur during the operations of unit and reasons of the tripping thereof so that fault in equipment can be traced timely.

Audit noticed (January 2022) that DAS was not in working condition due to unavailability of its spares and support from OEM in unit no. 2 and 3 of Anpara TPP since April 2016 due to which Management could not fetch the sequence of events to resolve the problem in time. The Management installed and commissioned (19 February 2020) another alternate system *i.e.* Sequence of Events Recording System (SOE) in these units for such work.

Audit further noticed that in all tripping reports of units of Anpara TPP during April 2016 to February 2020, Management mentioned that no specific reason for tripping could be established due to unavailability of DAS support. This substantiates that installation of DAS or any alternate system was necessary for analysis of tripping cause so that tripping could be reduced but SOE was installed after more than three years of unavailability of earlier DAS system.

²⁵ 110 MW x 7.76 per cent x 24 hours x 11 days/1000.

²⁶ 2.253 MU x 1000000 x ₹ 10.9849 per unit.

Due to this delay, analysis for reducing the tripping of units could not be made.

In the Exit Conference, the Management accepted and stated that installation of DAS system, if required will be done after analysing the cost economy as the running units are very old.

Conclusion

There were significant deficiencies in planning and execution of repair and maintenance activities. Rolling Plan of overhauling was not prepared as per OEM schedule. Time schedule of overhauling was not adhered to resulting in loss of generation. Failure in ensuring the quality of spares resulted in avoidable shutdown of TPPs and not conducting effective monitoring of R&M work led to shutdown of unit for additional period resulted in loss of generation of energy.

Recommendations

- 1. Rolling plan of overhauling should be prepared as per OEM schedule and the time schedule of overhauling should be strictly adhered to.**
- 2. The quality of spares should be ensured at the time of procurement.**
- 3. The works awarded to contractors should be monitored effectively.**

Audit Paragraphs**Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited****2.3 Avoidable Loss of ₹ 82.50 crore**

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited failed to comply with the efficiency parameters and suffered avoidable loss of ₹ 82.50 crore due to invoking the Performance Security by the Ministry of Coal.

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) executed (March 2015) an allotment agreement with Ministry of Coal, Government of India (MoC) for allotment of Saharpur Jamarpani Coal Mine, Dumka, Jharkhand. The allotment order was issued by MoC in August 2015. UPRVUNL deposited (April 2015) ₹ 412.50 crore as Performance Security with MoC as per terms of the agreement which may be appropriated by the Nominated Authority (MoC) upon failure to comply with the efficiency parameters as listed in Schedule-E of the agreement (**Appendix-2.7**).

Audit noticed (November 2019) that UPRVUNL started the process for first (Prospecting Licence) and second milestones (completion of Exploration and preparation of Geographical Report (GR)) simultaneously in April 2015 but could not even achieve the first milestone till date (July 2022) due to various reasons²⁷. For achieving the second milestone, UPRVUNL requested (April 2015) Geological Survey of India (GSI), Mineral Exploration Corporation Limited (MECL), Nagpur and Central Mine Planning and Design Institute, Ranchi (CMPDI) to submit offer for exploratory drilling work. GSI and MECL did not respond but CMPDI informed (May 2015) that 'present law and order situation in Dumka District was not conducive for taking up drilling operations. However, if law and order situation improved, we may be able to take up the assignment' and refused to submit the offer but accepted to execute consultancy work for preparation of GR. In March 2017, Singareni Collieries Company Limited (SCCL) was asked to submit offer for exploratory drilling work which was verbally refused due to law and order situation. In December 2017, PFC Consulting Limited (PFCCL) was appointed for completing all the milestone (Sl. No. 2 to Sl. No 13 as mentioned in Appendix-2.7). However, as per instruction (June 2017) of MoC, the work of second milestone was awarded (May 2018) to CMPDI with scheduled date of completion in 36 months. But, the work of second milestone could not be started due to law and order situation till February 2022. Due to this, PFCCL could complete the allotted work only partially.

Audit further noticed that MoC issued three show cause notices²⁸ to UPRVUNL for not achieving the milestones. The replies²⁹ submitted by UPRVUNL were scrutinised by Scrutiny Committee of MoC (committee) and after considering all aspects, it was found that fault for not achieving the milestones was on the part of UPRVUNL. The Committee recommended

²⁷ Due to change in coal block boundary map, submitting fresh application for grant of Prospecting Licence, arranging of scheme of Exploration, obtaining consent of Forest Department and obtaining certified copy of Land schedule for issuance of Prospecting Licence, etc.

²⁸ In March 2016, July 2017 and March 2018.

²⁹ In March 2016, July 2017 and April 2018.

(July 2018) to forfeit Performance Security amounting to ₹ 82.50 crore³⁰ as per Clause 6.2.1 (d) of the agreement and MoC appropriated (August 2018) Performance Security in compliance of recommendation of the Committee.

Audit is of the view that fault for not achieving the milestone was on the part of UPRVUNL as position of adverse law and order situation was in its knowledge from May 2015 but it never informed this situation in monthly Pre-Commencement Report (PCR) submitted to MoC up to February 2017 and included this situation in the PCR belatedly from March 2017 and requested for revision of efficiency parameters which was not accepted by MoC. Consequently, MoC decided (August 2018) to invoke 20 *per cent* Performance Security for not achieving milestone of Sl. No. 1 to 4 as mentioned in **Appendix-2.7**. Moreover, MoC issued (September 2018) another notice for invoking additional 35 *per cent* of Performance Security for not achieving milestone of Sl. No. 5 to 10. Against this, UPRVUNL filed a petition in February 2019 before Hon'ble Coal Tribunal at Godda, Jharkhand which is under consideration (July 2022).

Thus, due to taking delayed action in revising the time limit of efficiency parameters, UPRVUNL had to suffer avoidable loss of ₹ 82.50 crore.

The Government and Management stated (April 2022/ February 2022) in reply that Prospecting Licence is yet to be issued to UPRVUNL by Government of Jharkhand. All progress/hurdles/adverse situation has been continuously informed to MoC in monthly PCR from August 2015 onwards but it did not acknowledge these issues at the time of appropriation of Performance Security, which was beyond the control of UPRVUNL. Further, the matter of invocation of Bank Guarantee is under consideration of Hon'ble Coal Tribunal.

Reply of the Management is not acceptable as it failed to inform the adverse situation to MoC through PCR till February 2017, due to which constraint of law and order situation was not considered by MoC for non-achieving the timeline for efficiency parameters. MoC regularly issued notices for delay and finally appropriated the Performance Security. Moreover, any stay or interim/final order has not been given by the Hon'ble Coal Tribunal till date (July 2022).

Paschimanchal Vidyut Vitran Nigam Limited

2.4 Short billing of revenue

Paschimanchal Vidyut Vitran Nigam Limited applied incorrect tariff to a HV-2 category consumer resulting in short billing of ₹ 1.62 crore which was recovered after being pointed out by Audit.

The Tariff Orders³¹ approved by Uttar Pradesh Electricity Regulatory Commission and applicable to High Voltage (HV-2) category consumers with contracted load of 75 kW (100 BHP) and above provide the 'rate'³² at which a consumer shall be billed for consumption of electricity under urban schedule. The rate was as follows:

³⁰ Being 20 *per cent* of total deposited Performance Security of ₹ 412.50 crore.

³¹ Applicable *w.e.f.* 12.09.2019.

³² Fixed/Demand Charges *plus* Energy Charges (including the time of day rates as applicable to the hour of operation).

Table 2.5: Rate for consumption of electricity

	For supply up to 11 kV	For supply above 11 kV and up to 66 kV	For supply above 66 kV and up to 132 kV	For supply above 132 kV
Demand Charges	₹ 300 /kVA/month	₹ 290 /kVA/month	₹ 270 /kVA/month	₹ 270 /kVA/month
Energy Charges	₹ 7.10/kVAh	₹ 6.80/kVAh	₹ 6.40/kVAh	₹ 6.10/kVAh

It is evident from above table that though the demand charges for supply above 66 kV and upto 132 kV and above 132 kV was same, however the rate of energy charges for these two categories was different.

Executive Engineer, Electricity Urban Distribution Division-I, Noida (Division) of Paschimanchal Vidyut Vitran Nigam Limited (Company) executed (March 2014) an agreement with M/s Uflex Limited, Sector-60, Noida (Consumer), for supply of energy for the purpose of manufacturing of plastic films with the contracted load of 20 MVA and supply voltage on 132 kV.

Audit noticed (December 2021) that the Division applied energy charges at the rate of ₹ 6.10/kVAh (charges applicable for supply of above 132 kV supply voltage) in bills of the Consumer since October 2019 whereas, the energy was supplied on 132 kV supply voltage. The Consumer was being billed correctly prior to revision of tariff in September 2019. Hence, the Consumer should have been charged at the rate of ₹ 6.40/kVAh on account of energy charges as applicable to energy supplied up to 132 kV instead of ₹ 6.10/kVAh.

Thus, due to incorrect application of tariff, the Company short billed revenue of ₹ 1.62 crore during October 2019 to December 2021 (**Appendix-2.8**).

On being pointed out (December 2021), the Management recovered the short billed amount of ₹ 1.62 crore from the consumer in January 2022. The Management stated in its reply (May 2022) that at present, system generated bills are being issued to the consumer.

The fact remains that though the short charged amount has been recovered, wrong billing of the consumer indicates weak internal control mechanism in respect of billing prevalent in the company.

The matter was reported to the Government (March 2022). The reply is still awaited (September 2022).

The company should strengthen its internal control mechanism over Revenue billing and review the bills of other similar category of consumers in other divisions and fix responsibility for incorrect billing.

2.5 Short charging of revenue due to incorrect application of tariff

Paschimanchal Vidyut Vitran Nigam Limited short charged revenue of ₹ 2.77 crore due to billing of consumers under HV-2 category instead of HV-1 category.

Clause 3.7 of the Electricity Supply Code, 2005 provides that the licensee may classify or reclassify consumers into various categories from time to time and may fix different tariffs for different categories of consumers with the approval of the Uttar Pradesh Electricity Regulatory Commission (UPERC).

Rate Schedule³³, approved by UPERC, for High Voltage (HV-1) is applicable to Commercial load, Private Institutions and Non-domestic bulk power consumers, *etc.* with contracted load of 75 kW (100 BHP) and above and getting supply at single point on 11 kV and above voltage levels.

Further, Rate Schedule for HV-2 consumers is applicable to consumers with contracted load of 75 kW (100 BHP) and above for industrial and/or processing purposes as well as to arc/induction furnaces, re-rolling mills, mini steel plants, *etc.*, provide the 'rate' at which a consumer shall be billed.

The rate applicable for HV- 2 (Industrial) was lesser than the rates applicable for HV- 1 (Non-Industrial).

Electricity Distribution Division-II (EDD-II), Moradabad and Electricity Urban Distribution Division-II (EUDD-II), Saharanpur of Paschimanchal Vidyut Vitran Nigam Limited (Company) sanctioned load in favour of four consumers under HV-1/HV-2 category as detailed in the **Table 2.6** below:

Table 2.6 : Sanctioned Load of the consumers

Sl. No.	Name of the Division	Name of Consumer	Supply type	Nature of business	Date of load sanction	Load
1	EDD-II, Moradabad	Shri Rameshwar Saran, Kothiwal Dental College and Research Centre, Moradabad	HV-2	Dental College	9 February 2015	360 kW/ 400 kVA
2		Shri T.C. Pant, Project Director, Moradabad	HV-1	Operation of Toll Plaza	30 June 2014	144 kW/ 160 kVA
3		Kothiwal Institute of Technology and Professional Studies, Moradabad	HV-1	College	27 May 2009	90 kW/ 100 kVA
4	EUDD-II, Saharanpur	Power Grid Corporation of India Limited	HV-1	Light and Fan and mixed load (For construction purpose)	17 February 2012	225 kW/ 250 kVA

Audit noticed (April-May 2022) in test check of records that consumer at Sl. No. 1 was incorrectly categorised under HV-2 category and billed accordingly while other consumers at Sl. No. 2 to 4 were correctly categorised under HV-1 category but billing was made under HV-2 category.

Thus, due to incorrect categorisation and billing of these consumers on lower tariff, the Company short charged revenue of ₹ 2.77 crore during January 2018 to April 2022 (**Appendix-2.9**).

The Division replied (April and May 2022) that the billing category of three consumers (Sl. No. 1 to 3 of Table) has been changed from HV-2 to HV-1 and difference of revenue are being charged by adding the same in their bills and in respect of one consumer, notice has been served for deposit of short charged amount.

The fact remains that recovery of short charged amount is still pending (June 2022).

The matter was reported to the Government (June 2022). The reply is still awaited (September 2022).

³³ Applicable w.e.f. 9 December 2017, 2 February 2019 and 12 September 2019.

Madhyanchal Vidyut Vitran Nigam Limited**2.6 Short recovery of revenue****Madhyanchal Vidyut Vitran Nigam Limited short recovered applicable charges from consumers amounting to ₹ 1.17 crore.**

Clause 4.6 of the Electricity Supply Code, 2005 (Supply Code) provides that for releasing the connection, an estimate shall be prepared and the related work will be executed either by licensee after recovery of full amount of estimate or by the consumer on payment of supervision charges on estimated amount. It further provides that if the work is to be done by the applicant, the licensee shall charge supervision charges in the estimate at the rate of 15 *per cent* for release of load upto 3,600 kW (4,000 kVA), eight *per cent* upto 9,000 kW (10,000 kVA) and five *per cent* on above 9,000 kW (10,000 kVA). Madhyanchal Vidyut Vitran Nigam Limited (Company) sanctioned (February 2014) electricity load of 4,600 kW (5,111 kVA) under low medium voltage category (LMV-1) to M/s Shalimar Corp. Ltd. (consumer). For releasing connection, Electricity Distribution Division-I, Barabanki (Division) prepared estimate valuing ₹ 4.35 crore and issued (7 July 2014) demand for depositing the supervision charges of ₹ 34.77 lakh at the rate of eight *per cent* as the work was being executed by the consumer. The consumer deposited the above supervision charges on 11 July 2014. Further, Company approved (17 November 2017) release of load in a phased manner by April 2021. The first phase load of 460 kW (511 kVA) was released to the consumer in June 2018.

Audit noticed (December 2021) that the consumer could avail only 1,379 kVA load and failed to avail remaining load of 3,732 kVA in permissible period by April 2021³⁴. In this situation, earlier issued demand of supervision charges should have been revised at the rate of 15 *per cent* by the Division but it failed to do so. This resulted in short recovery of supervision charges of ₹ 30.44 lakh from the consumer.

Similarly, in case of the other consumer M/s Shalimar Mannat Township, the Company revived (6 July 2019) the earlier sanctioned electricity load of 3,700 kW (4,111 kVA) under LMV-1 category. The condition of the revival order provided that if above mentioned electrical load was not used by the consumer within period of two years from the date of issue of this order, this acceptance will be deemed to be cancelled automatically. The Division prepared estimate valuing ₹ 3.69 crore and issued (19 July 2019) demand for depositing the supervision charges at the rate of eight *per cent* as the work was being executed by the consumer. The consumer deposited the above supervision charges on 20 July 2019.

Audit noticed that consumer could avail only 1,306 kVA load in permissible period which indicates that consumer surrendered the remaining sanctioned load of 2,805 kVA. In this situation, earlier issued demand of supervision charges should have been revised at the rate of 15 *per cent* by the Division but it failed to do so. This has resulted in short recovery of supervision charges of ₹ 25.82 lakh³⁵ from the consumer.

³⁴ Due date of release of load of 4,600 kW.

³⁵ Excluding GST.

(b) Clause 4.43 (b) of Supply Code provides that if the system and voltage of supply do not change as a result of requested enhanced load, the load enhancement shall be sanctioned by the concerned Executive Engineer within 30 days from the date of acceptance of application³⁶.

M/s Shalimar Corp Ltd. requested (8 July 2019) to extend load by 920 kW (1,022 kVA). Since, related apparatus was to be changed, the consumer deposited required charges (security deposit and cost of apparatus) on the same date. Audit noticed that extended load was released to the consumer on 30 August 2020 against the prescribed period up to 8 August 2019. Thus, load was released with a delay of about 13 months which resulted in loss of potential revenue of ₹ 9.76 lakh³⁷ on account of fixed charges³⁸. It was also noticed that Division did not raise bills as per total load of 1,533 kVA (first phase load *plus* extended load) from 30 August 2020. However, it arbitrarily raised bills to the consumer for 511 kVA load in the month of September 2020 and for 1,379 kVA from October 2020 to November 2021. This has resulted in short recovery from the consumer of revenue of ₹ 2.62 lakh³⁹. Thus, Company suffered total loss of revenue of ₹ 12.38 lakh (₹ 9.76 lakh + ₹ 2.62 lakh).

(c) Audit noticed that Current Transformer (CT)/Potential Transformer (PT) of M/s Shalimar Corp Ltd. was changed by the Electricity Test Division, Barabanki on 30 August 2020 due to enhancement of load. As a result Multiplying Factor⁴⁰ (MF) was changed from 30 to 60. The billing of the consumer was to be done on the basis of revised MF but the division billed the consumer with old MF till 4 December 2021 which resulted in short recovery of revenue of ₹ 38.61 lakh.

(d) As per the provisions of the Cost Data Book, for recovery of fixed line charges from the consumers in releasing the load above 3 MVA to 4 MVA, labour and overhead charges at the rate of 30 *per cent* of cost of material is to be charged.

Audit noticed that estimate for recovery of line charges of the consumer M/s Shalimar Mannat Township was prepared and approved after including 10 *per cent* labour and overhead charges instead of 30 *per cent*. Thus, estimate was prepared on lower side by ₹ 64.16 lakh. As a result, supervision charges was short recovered by ₹ 9.62 lakh (₹ 64.16 lakh x 15 *per cent*) from the consumer.

³⁶ Applicable in cases where the metering and related apparatus needs to be changed, after deposition of additional security, system loading charges and cost for new meter, if supplied by Licensee.

³⁷ (920 kW x 75 *per cent* x ₹ 95/kW x 1 month) + (920 kW x 75 *per cent* x ₹ 110/kW x 12 months).

³⁸ ₹ 95/kW/month applicable *w.e.f.* 2 February 2019 and ₹ 110/kW/month applicable *w.e.f.* 12 September 2019.

³⁹ (1,533 kVA x 15 months) *minus* (511 kVA x 1 month + 1,379 kVA x 14 months) = 3,178 kVA x 75 *per cent* x ₹ 110/kW/month.

⁴⁰ Where consumer's load is more than 60 A or supply voltage is higher than 440 Volts, Current and voltage transformers are used in metering circuit to restrict the current and voltage to the rated capacity of meter. These transformers reduce the voltage and current applied to meter in certain proportion which is called transformation ratio. The consumption recorded by the meter is therefore less than the actual consumption of the consumer in the same proportion. To arrive at actual consumption of consumer, consumption registered by meter is multiplied by proportionality factor which is called Multiplying Factor.

Thus, the Company extended undue benefit to the consumers in violation of provisions of Supply Code and Cost Data book and short recovered revenue amounting to ₹ 1.17 crore⁴¹.

In reply, the Division accepted (June 2022) the audit observations (except in case of delayed release of extended load) and raised demand for short recovered amount against which ₹ 26 lakh has been recovered from the Consumer M/s Shalimar Corp Ltd. For delayed release of extended load (*Point b*), it was stated that transformer of appropriate capacity was to be installed before release of extended load and the same was not available in the store.

The recovery of remaining amount is still pending. Further, the reply in case of extended load is not acceptable as the extended load should have been released within one month of acceptance of application as per Clause 4.43 (b) of Supply Code which was not done.

The matter was reported to the Government (July 2022). The reply is still awaited (September 2022).

⁴¹ (a) ₹ 56.26 lakh + (b) ₹ 12.38 lakh + (c) ₹ 38.61 lakh + (d) ₹ 9.62 lakh.