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08 SEP 2022

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लोकहितार्थ सत्यनिष्ठा
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सत्यमेव जयते

Memo NO. GVF/AMG-IV/1071
9/9/22
Date To:

The Chairman & Managing Director,
West Bengal State Electricity Distribution Company Limited,
Vidyut Bhavan, Bidhannagar,
Block DJ, Sector-II, Kolkata-700 091

कार्यालय महालेखाकार
(लेखापरीक्षा - II)
पश्चिम बंगाल
OFFICE OF THE
ACCOUNTANT GENERAL
(Audit-II)
West Bengal

No.: OA(AMG-IV)/Accounts/WBSEDCL(CFS)/2020-21/466
Date:- 07.09.2022

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Sub: Comments of the Comptroller and Auditor General of India under Section 143(6)(b) of the Companies Act, 2013 on the Consolidated Financial Statements of West Bengal State Electricity Distribution Company Limited for the year ended 31 March 2021

Sir,

I am to forward herewith the Comments of the Comptroller and Auditor General of India under Section 143(6)(b) of the Companies Act, 2013 on the Consolidated Financial Statements of West Bengal State Electricity Distribution Company Limited for the year ended 31 March 2021.

Encl: As stated.

Yours faithfully,

[Handwritten signature]

Deputy Accountant General (AMG-IV)

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9/9/22

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9.9.22

ACM(F&A)
B2B

सी. जी. ओ. कम्प्लेक्स, डी. एफ. ब्लॉक, साल्ट लेक, कोलकाता - 700 064

3rd MSO Building, 5th Floor, CGO Complex, DF Block, Salt Lake, Kolkata - 700 064.
Phone: (033) 2337-4916; FAX: (033) 2334-7854, e-mail: agauwestbengal2@cag.gov.in

**COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
UNDER SECTION 143(6)(b) READ WITH SECTION 129(4) OF THE COMPANIES
ACT, 2013 ON THE CONSOLIDATED FINANCIAL STATEMENTS OF WEST
BENGAL STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED FOR THE
YEAR ENDED 31 MARCH 2021**

The preparation of consolidated financial statements of West Bengal State Electricity Distribution Company Limited, for the year ended 31 March 2021 in accordance with the financial reporting framework prescribed under the Companies Act, 2013(Act) is the responsibility of the management of the company. The Statutory Auditors appointed by the Comptroller and Auditor General of India under section 139(5) read with section 129(4) of the Act are responsible for expressing opinion on the financial statements under section 143 read with section 129(4) of the Act, based on independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. This is stated to have been done by them vide their Audit Report dated 13.07.2022.

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit of the consolidated financial statements of West Bengal State Electricity Distribution Company Limited for the year ended 31 March 2021 under section 143(6)(a) read with section 129(4) of the Act. We did not conduct supplementary audit of the financial statements of West Bengal Green Energy Development Corporation Limited for the year ended on that date. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and company personnel and a selective examination of some of the accounting records.

Based on my supplementary audit, I would like to highlight the following significant matters under section 143(6)(b) read with section 129(4) of the Act which have come to my notice and which, in my view, are necessary for enabling a better understanding of the financial statements and the related audit report:

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A. Other Comments

Consolidated Balance Sheet as on 31 March 2021

Regulatory Deferral Account Debit Balance (Note-14) - ₹ 19,580.57 crore

The Company's business is rate-regulated. The annual tariffs (or rates) are to be notified in advance by the West Bengal Electricity Regulatory Commission (WBERC) before commencement of each year. These rates are subsequently reviewed through Annual Performance Reviews (APRs) and adjusted in the future years. Accordingly, based on their understanding and interpretation of regulations notified and past tariff/ APR orders issued by WBERC, the Company estimates the quantum of regulatory assets (RAs) to be reflected in their financial statements every year. The accumulated balance of RAs, as at the end of the year 2020-21, is ₹ 19,580.57 crore.

RAs have arisen primarily due to time lag between submission of petitions for Fuel and Power Purchase Cost Adjustment (FPPCA) and APRs, by the Company, to WBERC, and their acceptance, either in part or in full, by WBERC. It is seen that APRs of the Company have been pending with WBERC since FY 2015-16.

Para 8.2.2 of The National Tariff Policy 2016 provides that creation of Regulatory Assets would not be allowed under 'business as usual' conditions. In addition, WBERC tariff regulations provide that any amount admitted as RAs shall be extinguished within a period of not more than three years from being admitted. WSEDCL has continued to account for RAs over the years 'under business as usual' conditions and, as of 31 March 2021, an aggregate amount of ₹ 19,580.57 crore, which included RAs since June 2010, has been shown as being recoverable.

Further, WBERC had introduced Monthly Variable Cost Adjustment (MVCA) in April 2011, to avoid accumulation of RAs. In July 2014, it directed licensees to compute MVCA, taking into consideration the related costs, failing which WBERC would not allow adjustments of RAs in full, during truing up in subsequent APRs. However, the Company has not revised the MVCA rate for the last five years, i. e. since July 2016.

WBERC had increased the average tariff, in the past six years, from ₹ 6.56 per unit in 2014-15, to ₹ 6.98 per unit in 2019-20, i.e., an increase of 42 paise per unit. Moreover, the claims booked by the company have not been commensurate with the amounts admitted by WBERC

and their recovery through the tariff mechanism, resulting in accumulation of amounts of RAs recoverable in successive years.

Even if RAs of ₹ 19,580.57 crore were to be admitted in full by WBERC and WBSEDCL were to adjust it over three years as permissible, tariffs would increase by 201.95 paisa per unit per annum for three years, based on the projected sale of power for 2021-22. This would be in addition to the regulatory assets that will continue to be accounted in every year from FY 2021-22, which would also have to be either settled through tariff rise or absorbed by WBSEDCL.

Besides, the State Government has intimated (July 2021) to WBERC that the current scale of regulatory receivables was beyond its means to liquidate them, as has been done earlier.

The Company has recognised RAs without reasonably considering the past trends in regard to the amounts admitted by WBERC. Moreover, contrary to WBERC's directions, it has not revised the rate of MVCA since 2016. The State Government has also expressed its inability to liquidate the RAs. Consequently, recovery of aggregate accumulated RAs of ₹ 19,580.57 crore, either through the tariff mechanism or from Government grants, is uncertain. Therefore, the depiction of RAs, in the consolidated financial statements, as receivables, appears not reasonable.

**For and on behalf of the Comptroller &
Auditor General of India**



**(Anadi Misra)
Accountant General (Audit-II)
West Bengal**

07 SEP 2022

Dated at Kolkata