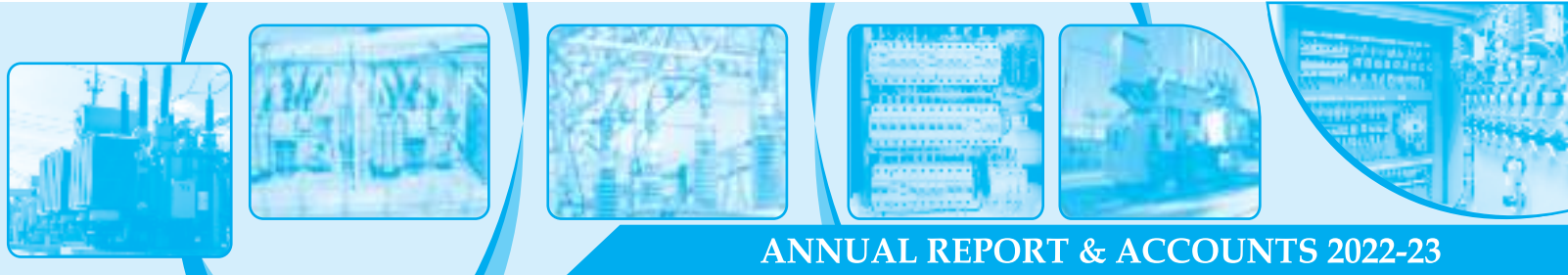
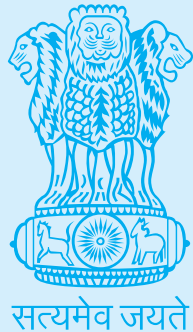


FINANCIAL STATEMENTS



By Speed post



कार्यालय महालेखाकार
(लेखापरीक्षा -II)
पश्चिम बंगाल

OFFICE OF THE
ACCOUNTANT GENERAL
(AUDIT-II)
WEST BENGAL

No.: OA(AMG-IV)/Accounts/WBSEDCL/2022-23/ 306

Date : 09.08.2023

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

Sub: Comments of the Comptroller and Auditor General of India under Section 143(6)(b) of the Companies Act, 2013 on the Standalone Financial Statements of West Bengal State Electricity Distribution Company Limited for the year ended 31 March 2023.

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 Standalone Financial Statements of West Bengal State Electricity Distribution Company Limited for the year ended 31 March 2023.

Encl: As stated.

Yours faithfully,

Sd/-
Senior Deputy Accountant General
(AMG-IV)

सी. जी. ओ. कमप्लेक्स, 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 STANDALONE FINANCIAL STATEMENTS OF WEST BENGAL STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED FOR THE YEAR ENDED 31 MARCH 2023

The preparation of financial statements of West Bengal State Electricity Distribution Company Limited for the year ended 31 March 2023, 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) of the Act are responsible for expressing opinion on the financial statements under section 143 of the Act, based on independent audit in accordance with the standards on auditing prescribed under section 143(I0) of the Act. This is stated to have been done by them vide their Audit Report dated 24 May 2023.

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 2023 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.

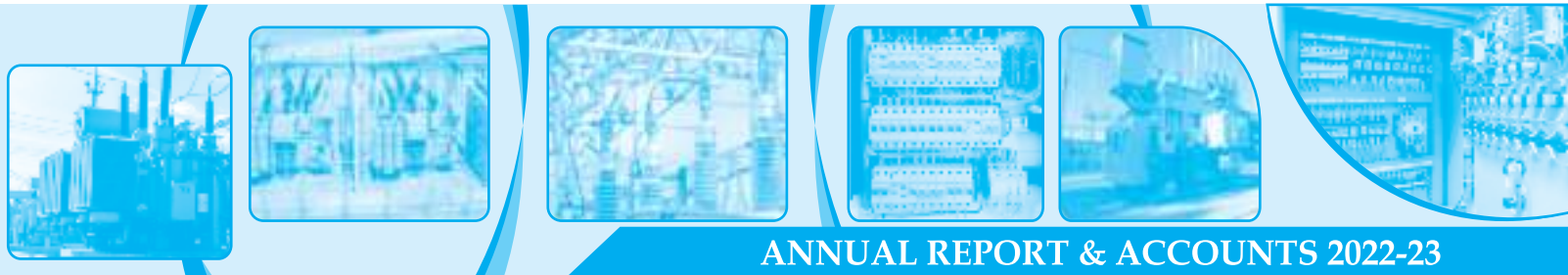
Based on my supplementary audit, I would like to highlight the following significant matters under section 143(6)(b) of the Act which have come to my notice and which, in my view, are necessary for enabling a better understanding of the financial statements and the related audit report:

A. Other Comments

Standalone Balance Sheet as on 31 March 2023

Regulatory Deferral Account Debit Balance (Note-14): ₹ 20,014.06 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 future years. Accordingly, based on their understanding and interpretation of regulations notified and past tariff/ APR orders issued by WBERC, the



ANNUAL REPORT & ACCOUNTS 2022-23

Company estimates the quantum of Regulatory Assets (RAs) to be reflected in their financial statements every year. The accumulated balance of RAs at the end of the year 2022-23 is ₹ 20,014.06 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 trued-up by the WBERC up to the financial year 2021 - 22.

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. Recovery of outstanding RAs along with carrying cost of RAs should be time bound and within a period not exceeding seven years.

WBSEDCL had continued to account for RAs over the years 'under business as usual' conditions and as of 31 March 2023, an aggregate amount of ₹ 20,014.06 crore appeared as recoverable which includes :

- ◆ carrying cost of ₹ 5,582.70 crore for the financial year 2013-14 to 2021-22, which was disallowed by WBERC in its APR Orders. However, as WBSEDCL preferred to appeal before APTEL for disallowance of carrying cost, there remains the inherent risk of the appeal not being disposed of in favour of the Company,
- ◆ income realisable through regulatory mechanism for the year 2022-23 of ₹ 4,932.08 crore, subject to application made before WBERC through APR petition and acceptance of the income realisable by WBERC through APR orders, however, there remains the regulatory risk and statutory risk of the amount not being realised by the Company, and
- ◆ withheld amount of ₹ 1,662.30 crore for the financial year 2013-14 to 2017-18, with recoverability of the same depending on submission of required compliance report to WBERC.

Further, WBERC had introduced Monthly Variable Cost Adjustment (MVCA) in April 2011 to avoid accumulation of RAs. However, the Company had not revised MVCA rate for the last six years since July 2016. Statutory Auditor in their 'Emphasis of Matter' paragraph stated that recovery of excess power purchase cost through MVCA is not being exercised by the Company.

1 Amount admitted in APR order and Tariff Order ₹ 7,356.98 crore, Carrying cost under Appeal at APTEL (2013-14 to 2021-22)- ₹ 5,582.70 crore, Withheld in APR orders (2013-14 to 2017-18)- ₹ 1,662.30 crore, Claim for the year 2022-23- ₹ 5,412.08 crore (NI-IPC Bill discounting instalment paid in 2022-23- ₹ 480.00 crore and income realisable through regulatory mechanism for the year 2022-23- ₹ 4,932.08 crore).



ANNUAL REPORT & ACCOUNTS 2022-23

WBERC had increased average tariff in the past nine years from ₹ 6.56/- per unit in 2014- 15 to ₹ 7.12/- per unit in 2022-23, i.e., an increase of 56 paisa per unit. Moreover, amounts admitted by WBERC and their recovery through tariff mechanism have not been commensurate with the claims booked by the Company, resulting in increasing amounts of RAs recoverable in every successive year.

Besides, the State Government had intimated (July 2021) WBERC that current scale of regulatory receivables was so large that it was beyond their means to liquidate RA as they had done before.

The Company has recognised RAs without reasonably considering past trends of WBERC. Moreover, contrary to WBERC's directions, it had not revised the rate of MVCA since 2016. The State Government has also expressed their inability to liquidate RAs. Consequently, recovery of aggregate accumulated RAs of ₹ 20,014.06 crore entirely either through tariff mechanism or from Government grants is uncertain. Therefore, the depiction of RAs in the financial statements as receivables appears not reasonable.

**Dated at Kolkata
09/08/23**

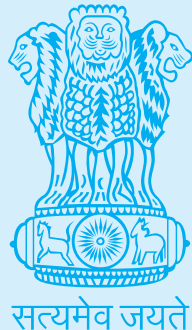
**For and on behalf of the Comptroller &
Auditor General of India**

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



ANNUAL REPORT & ACCOUNTS 2022-23

By Speed post



कार्यालय महालेखाकार
(लेखापरीक्षा -II)
पश्चिम बंगाल

OFFICE OF THE
ACCOUNTANT GENERAL
(AUDIT-II)
WEST BENGAL

No.: OA(AMG-IV)/Accounts/WBSEDCL(CFS)/2022-23/ 307

Date : 09.08.2023

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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 2023

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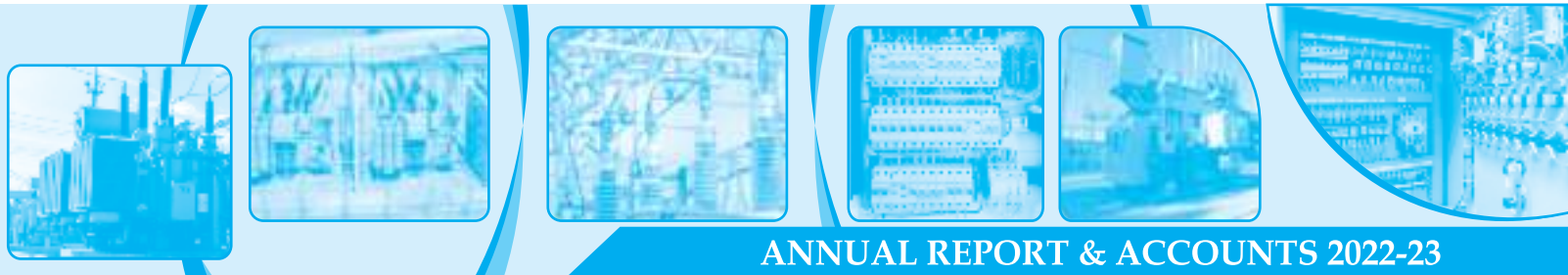
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ANNUAL REPORT & ACCOUNTS 2022-23

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ANNUAL REPORT & ACCOUNTS 2022-23

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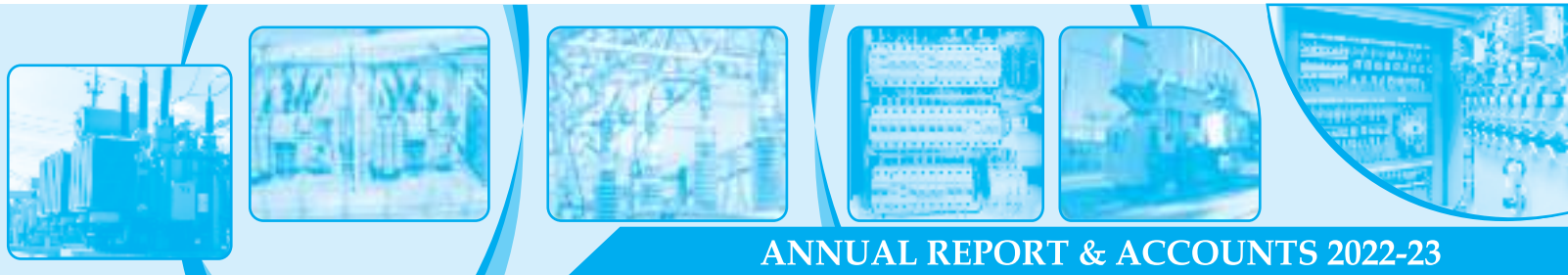
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**Dated at Kolkata
09/08/23**

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

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



Management Reply on the Comments of Comptroller and Auditor General of India under Section 143(6)(b) of the Companies Act 2013 on the Standalone Financial Statements of WBSEDCL for the year ended 31st March 2023.

WBSEDCL operates within a Rate Regulated environment, adhering to both the financial reporting standards outlined in Ind AS 114 and a comprehensive Regulatory framework encompassing regulations, orders from Regulatory commissions, National Electricity Policy, National Electricity Plan, and Tariff Policy.

As far as Recoverability of aggregate regulatory Receivables of Rs. 20014.06 Crore is concerned, it is imperative to analyze the components, nature, scope, value and associated risk element. Accordingly, out of Rs. 20014.06 crore, Rs. 7356.98 Crore stands principally admitted and accommodated in subsequent Tariff orders. Out of this Rs. 7356.98 Crore, Rs. 5506.38 Crore is already subsumed in the MYT order for 2023-24 to 2025-26. This indicates that a portion of the regulatory assets has been released and incorporated into the tariff structure.

The carrying cost of Rs. 5,582.70 Crore, being a component permitted by the National Tariff Policy and Tariff Regulation to account for the delayed crystallization of Regulatory Assets, is currently under appeal at Hon'ble APTEL. In The order dated 20th April, 2023 of APTEL the claim of Carrying cost by utilities has been upheld by Hon'ble APTEL. A recent development in this regard is the inclusion of a regulation on Carrying cost by Hon'ble WBERC through Notification : 76/WBERC dated 13.03.2023. This new regulation specifies that Carrying cost shall be applied to Revenue Gap or Revenue surplus as determined in the APR and FPPCA order. Additionally, Hon'ble WBERC has already considered carrying cost as a legitimate cost element in their MYT orders for 2023-24 to 2025-26, signaling a positive trajectory for potential resolution at appropriate forum.

As far as withheld amount of Rs. 1662.30 Crore is concerned, the figure pertains to elements like unpaid terminal liabilities as on 31.03.2018 against which company is supposed to make a compliance document corroborating the proof of discharge of payment to the Trust fund. Earlier the figure stood at 2556.60 crore after the issuance of APR order up to 2017-18. A significant portion of these payments has already been made to the Trust fund, and company is diligently working on submitting the required compliance report to corroborate the proof of payment discharge after which the withheld amount is likely to be released by the Regulator, as it was done by the Regulator in its Order dated 23.11.2022 for Rs. 1293.58 Crore.

Moreover, the component recognized in the financial statements of 2022-23 as income realizable through the regulatory mechanism amounting Rs. 5412.08 Crore is inherently cyclical



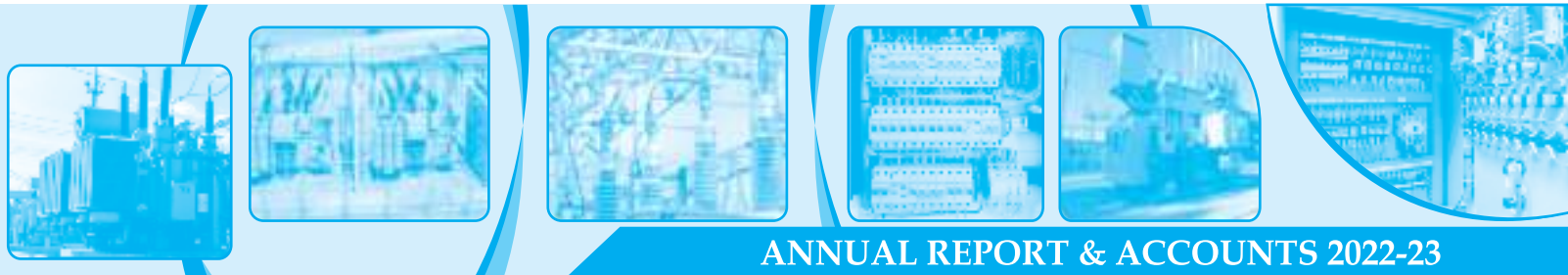
ANNUAL REPORT & ACCOUNTS 2022-23

in nature due to the statutory requirement of submitting the APR petition by the utility by subsequent financial year's 30th November. The accounting of Regulatory Receivables of Rs. 5412.08 crore (Including NHPC bill Discounting Amounting Rs. 480 Crore) was done based on theory of conservatism and as per the requirement of Ind AS 114. It is likely that WBERC will release the entire amount in due course.

Additionally, State Generator WBPDCCL has started to use coal from its captive mines from 2018-19 onwards and WBPDCCL is utilizing major part of coal from its captive coal mines. The cost of captive coal is expected to be substantially lower than the price of coal of Coal India Limited (CIL), the transfer price of which has not yet been finalized by WBERC. The APR Orders of WBPDCCL have been issued only till 2017-18. Accordingly, power purchase cost of the State Generation Company is likely to be rationalized. As a result, regulatory assets are likely to be liquidated to a significant extent.

In this context it may be emphasized that financial practices of WBSEDCL is aligned with Ind AS 114 and the regulatory framework. Meticulous and conservative consideration of claims, assessment of likely disallowances ensures that regulatory deferral balances are maintained in line with the trend of claims admitted by the regulator. Moreover WBSEDCL strives to ensure proper impairment testing & disclosure so that regulatory deferral balances are carried at not more than their recoverable amount, going by the past trend. The situation is being actively monitored and company is working towards a concrete resolution roadmap for managing and addressing the Regulatory Assets issue.

In conclusion, it may be stated that there is apparent alignment between the amounts considered in the accounts of WBSEDCL, Regulatory Receivables acknowledged by WBERC and their subsequent recovery through the tariff mechanism, which validates the accuracy, likely sustainability and reasonableness of Regulatory Assets in the Financial Statement of WBSEDCL.



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ANNUAL REPORT & ACCOUNTS 2022-23

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ANNUAL REPORT & ACCOUNTS 2022-23



R. GOPAL & ASSOCIATES

CHARTERED ACCOUNTANTS

1/1A, Vansittart Row,

1st Floor Room No. 6,

Kolkata- 700 001

Tel.: +91-33-2248-0021/3135

COMPLIANCE CERTIFICATE

We have conducted the Statutory Audit of West Bengal State Electricity Distribution Company Limited (WBSEDCL) for the year ended 31st March, 2023 in accordance with directions / sub-directions issued by the Comptroller and Auditor General (CAG) of India, under section 143(5) of the Companies Act 2013 and certify that we have complied with all the directions / sub-directions issued to us.

For R. Gopal & Associates.
Chartered Accountants
FRN : 000846C

Sd/-
Sandeep Kumar Sawaria
Partner
Membership No. 061771

Place : Kolkata
Dated : 24th May, 2023

Office at : Jamshedpur ♦ New Delhi ♦ Rourkela ♦ Bhubaneswar ♦ Ranchi
Website: www.rgopal.in ♦ Email: ssawaria@rgopal.in