

**ORISSA ELECTRICITY REGULATORY COMMISSION  
BIDYUT NIYAMAK BHAWAN  
UNIT-VIII, BHUBANESWAR - 751 012**

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**Present :      Shri B. K. Das, Chairperson  
                     Shri K.C. Badu, Member  
                     Shri B. K. Misra, Member**

**Case No. 68, 69, 70 & 71 of 2007**

**In the matter of:      Truing up exercise as per direction in Para 7.24.5 of RST Order  
                                 2007-08 passed by the Commission on 23.03.2007 and in the matter  
                                 of findings from Receivable Audit and Provision for Doubtful debt  
                                 for 2000-05.**

**Case No. 68/2007**

<b>Director (Tariff), OERC</b>	....	<b>Petitioner</b>
<b>Vrs.</b>		
<b>CESU &amp; Another</b>	....	<b>Respondents</b>
<b>AND</b>		

**Case No. 69/2007**

<b>Director (Tariff), OERC</b>	....	<b>Petitioner</b>
<b>Vrs.</b>		
<b>WESCO &amp; Another</b>	....	<b>Respondents</b>
<b>AND</b>		

**Case No. 70/2007**

<b>Director (Tariff), OERC</b>	....	<b>Petitioner</b>
<b>Vrs.</b>		
<b>NESCO &amp; Another</b>	....	<b>Respondents</b>
<b>AND</b>		

**Case No. 71/2007**

<b>Director (Tariff), OERC</b>	....	<b>Petitioner</b>
<b>Vrs.</b>		
<b>SOUTHCO &amp; Another</b>	....	<b>Respondents</b>

**Date of Hearing: 20.09.2010**

**Date of Order : 14.01.2011**

**ORDER**

1.      Shri H.L. Roy, GM(F), CESU, Shri K. C. Nanda, AGM(F), WESCO, Shri P.K. Pradhan, Sr. GM, CSO, Shri G. C. Mahanty, DGM(C), WESCO, Shri P.K Mahanty,

DGM(F), NESCO, , Shri B. N. Mallick, DGM(F), SOUTHCO, Shri R. C. Mishra, Sr. GM (F), GRIDCO are present. Filings made by the parties are taken into record.

2. Commission vide letter No.1201 and 1202 dtd.30.07.2005 communicated the scope of receivable audit to WESCO, NESCO, SOUTHCO and CESU respectively in respect of LT consumers for the period from 01.04.1999 to 31.03.2005. The scope of audit finalized and communicated by the Commission is mentioned below:

3. **Scope of revenue audit of distribution companies (WESCO, NESCO, SOUTHCO and CESU)**

- (a) 100% audit of receivables, i.e. amount payable by the consumers of the Distribution Company under LT category in order to ascertain the amount collectible and non-collectible.
- (b) The audit shall be for the period from 1.4.1999 till 31.03.2005 and report shall be on yearly basis ending 31st March.
- (c) The audit shall be completed by 30.10.2005 so that the ARR which are to be filed by the Distribution Company with the Commission for the year FY 2006-07 shall provide a clear picture on the amount of receivables which are collectible.
- (d) The Transfer Scheme, 1998 made a provision for bad and doubtful debts and stipulated that any collection out of that provisions for bad debts are to be shared between GRIDCO and DISCOMs equally. Therefore, the collection from the provisions made as on 31.03.1999 is to be ascertained by the auditors and if there is any collection out of the provision, whether the collected amount has been shared equally is to be clearly spelt out.
- (e) The Transfer Scheme, 1998 also provides that the receivables from the Depts. of GoO and State PSUs will be cleared by the concerned Depts./ PSUs so as to enable the DISCOM to commence FY 1999-2000 with 'Zero' balance. The amount of any such receivables outstanding as on 31.03.1999 will be reflected in the GRIDCO's balance sheet and will be the receivables by GRIDCO. Any collection by the DISCOM out of the said receivables as on 31.03.1999 will be paid to GRIDCO. The auditors have to ascertain the amount collected by the DISCOMs out of the receivables from Govt. Dept. and State PSUs as on 31.03.1999 and the amount paid to GRIDCO.

- (f) The DISCOMs will provide the list of receivables consumer-wise on yearly basis as on 31.03.2000 to 31.03.2005 (six years). The DISCOMs will also give a list of consumers having no arrear, a list of permanently disconnected consumers (PDC) and a list of ghost consumers to the Auditors. The DISCOMs have to take steps to organise gangs for identifying PDCs and their present status (if some of them have been in the system as hookers) through field verification and furnish the report to audit. This has to be a parallel activity so that the position is known during the course of audit.
- (g) The auditors will certify the list of PDC consumers as correct and authentic. The auditors will scrutinize the status of PDC consumers as to whether on disconnection they have been excluded from the billing fold.
- (h) The audit shall include verification of all the billings made by the DISCOMs consumer-wise and billing period-wise and the Auditors shall certify that the billing made conform to the Supply Regulations or Tariff orders in force from time to time. The Auditors shall prepare information in respect of each consumer in the given format annexed. (Annexure-I).
- (i) In case there is dispute between the DISCOM and the consumer with regard to the amount of billing, the auditors shall give their opinion on the genuineness of the billings made by the licensee.
- (j) The auditors shall give the list of consumers and the consumer outstanding which are pending at various Courts/ Forum for adjudication.
- (k) The auditors will keep the audit process confidential and will not share the information with any outsider. However, they will share the information with the authorized officers.
- (l) The Auditors will submit a draft report to the respective CEOs. The CEOs will offer their comments. The Auditors will submit final report after due consideration of the reply given by DISCOMs on the draft report of the Auditors.
- (m) The CEO will conduct periodical review of the progress of audit to ensure completion of audit by the due date. Asst. Managers (Finance-Commerce) will coordinate the audit and will report the audit progress to GM (Finance) on weekly basis. The concerned J.F.M./D.A. in charge of revenue will make daily review of the progress and report to the G.M. (Finance) on weekly basis

- (n) The officials of DISCOMs will have an interactive session with the audit team in order to appraise them about the rules and regulations, tariff orders etc. based on which the billing are done. The copies of the supply regulation, tariff orders as applicable during the period of audit will be given to the auditors during the interactive session.
  - (o) The remuneration shall be Rs. 5/- (Rupees five) only all inclusive per consumer covered under the audit report. No TA/ DA or any other out of pocket expenses will be paid to the Auditors for the assignment. 50% of the fees shall be released on submission of the draft report and balance 50% on submission of final report to the DISCOMs.
  - (p) In case of WESCO, NESCO and SOUTHCO the draft report is to be submitted by 15th October, 2005. The CEOs will give their comments by 25th October, 2005. The Auditors will submit final report to the DISCOMs with copy to Secretary, OERC by 31.10.2005. A soft copy of the report along with consumer format is to be submitted in CDs.
  - (q) In case of CESU the draft report is to be submitted by 15th September, 2005. The CEO & Administrator will give his comments by 25th September, 2005. The Auditor will submit final report to CESCO with copy to Secretary, OERC by 01.10.2005. A soft copy of the report along with consumer format is to be submitted in CDs.
  - (r) The Auditors will also provide the age-wise analysis of the receivables consumer category-wise as per the format enclosed vide Annexure-II.
  - (s) The Auditors should also identify the reasons of differences between the balance in the general ledger and the balance in the consumer ledger in each year end and provide the reason of the same.
  - (t) In case of unsatisfactory programme by any firm detected during periodical review by the CEOs, the assignment can be terminated by the CEOs and fresh auditor may be appointed to carry out the job.
4. In the scope of audit the final date of submission of report was scheduled by 30.10.2005 for WESCO, NESCO & SOUTHCO and by 01.10.2005 in respect of CESU. All the four companies submitted their reports on the dates mentioned below:

WESCO	-	6 <sup>th</sup> February, 2008
NESCO	-	12 <sup>th</sup> February, 2008
SOUTHCO	-	3 <sup>rd</sup> March, 2008
CESU	-	12 <sup>th</sup> October, 2009

5. The principle adopted by the auditors for identifying the receivables as un-collectible are noted below:

**(i) WESCO**

- A) Outstanding of permanently disconnected consumers has been treated as non receivable on the basis of list provided and certified by the JE & SDOs and subsequent field visit by the audit staff. The auditor also verified and certified that billing has already been stopped after they have been disconnected.
- B) Consumers who have not paid since last one year and having balance of more than Rs.20,000/-, Rs.15,000/-, Rs.10,000/- etc area wise & division wise and certificate by field staff along with sample field visit has been treated as non receivables.
- C) All the disputed cases and court cases has been treated as non receivables.
- D) In case of consumers whose downward bill revision has been done, the quantum so reduced has been treated as non receivables.
- E) Consumers those who have not paid a single rupee since last six years (1-4-99 to the date of reporting).

**(ii) NESCO**

- A) Outstanding of permanently disconnected consumers has been treated as non receivable on the basis of list provided and certified by the JE & SDOs and subsequent field visit by the audit staff. The auditor also verified and certified that billing has already been stopped after they have been disconnected.
- B) Consumers those who have not paid since last one year/six months and the balance as on 31.03.2005 has increased thereafter due to non-payment has been treated as non receivable. However, in some cases some portion has been shown as receivable based on the information made available by the field officials and duly verified by the auditors.
- C) All the disputed cases and court cases has been treated as non receivables.

- D) In case of consumers whose downward bill revision has been done, the quantum so reduced has been treated as non receivables.
- E) Consumers those who have not paid a single rupee since last six years (01.04.99 to the date of reporting).

**(iii) SOUTHCO**

- A) Outstanding of permanently disconnected consumers has been treated as non receivable on the basis of list provided and certified by the JE & SDOs and subsequent field visit by the audit staff. The auditor also verified and certified that billing has already been stopped after they have been disconnected.
- B) Consumers those who have not paid since last one year and having balance of more than Rs.20,000/-, Rs.8,000/-, Rs.6,000/-, Rs.5,000/- etc. area wise & division wise and certificate by field staff along with sample field visit has been treated as non receivables.
- C) All the disputed cases and court cases has been treated as non receivables.
- D) In case of consumers whose downward bill revision has been done, the quantum so reduced has been treated as non receivables.
- E) Consumers those who have not paid a single rupee since last six years (1-4-99 to the date of reporting).

**(iv) CESU**

- A) All the long disconnected/ permanently / bill stopped consumers are treated as “non-recoverable”.
- B) Where the consumers have made no payment against the outstanding dues for at least two years, the amounts outstanding from those consumers have been treated as “non-recoverable”.
- C) The amount outstanding in case have disputed and suit filed cases, 50% of outstanding has been treated as “non-recoverable”.
- D) In the cases of three phase consumers all DPS (Delay Payment Surcharge) amount has been treated as “non-recoverable”.
- E) In case of other consumers, total “recoverable” amount has been limited to last two years actual collection. Rest of the audit is treated as non-recoverable.

6. Total outstanding from Govt. consumers have been treated as recoverable by the Auditors of WESCO, NESCO & SOUTHCO and entire outstanding other than DPS has been treated as collectible in CESU.
7. Based on the above principles adopted by the auditors of different companies, the abstract of the final figure arrived in the report is depicted in tabular form as follows:

	<b>(Rs. in crore)</b>				
	<b>WESCO</b>	<b>NESCO</b>	<b>SOUTHCO</b>	<b>CESU</b>	<b>Total</b>
Total amount outstanding with consumers as on 31.03.2005 (including Govt. / PSU arrear)	685.00	464.08	296.15	1082.85	2528.08
Recoverable amount	203.00	143.14	88.21	239.11	673.46
Non-Recoverable amount	481.00	320.94	207.94	843.74	1853.62
% of recoverability	30.00%	30.84%	29.78%	22.08%	26.64%

Since the audit report submitted by the licensee got delayed by more than two years in case of (WESCO, NESCO & SOUTHCO) and more than four years in case of CESU, Commission directed for sample check of 10 to 15% with reference to the latest figure as on 31.03.2009. In addition to that Commission directed GRIDCO to offer their comments on the audit report being stake holder and as they are entitled to certain dues as on 01.04.1999.

8. The summary of the findings of the sample audit conducted by the officers of the OERC in case of WESCO, NESCO & SOUTHCO is indicated below:
  - (a) Variance of percentage between the status of receivable/non-receivable given by the auditors and the present status observed by OERC found to be within 1%.
  - (b) It is observed that in case of 3-phase Pani Panchayat (formerly OLI) consumers almost 90% to 95% of the billing amount has not been collected. These consumers constitute a major chunk of non-receivable amount. Discussion with field officers and staff revealed that they have been unable to collect both current and arrears from them since they do not find anybody to whom they can serve the notice for collecting the amount. Moreover the consumption pattern of the Pani Panchayat is seasonal and line is disconnected when the season gets over. Even after disconnection these arrears pile up since billing is continued with MMFC. The consumers are mostly unmetered.

- (c) It has been observed that many of the Govt. departments have not cleared their dues although they are shown as receivable by auditors. The biggest defaulters in Govt. departments are NAC and Municipalities utilizing power for the street light and water supply.
  - (d) It is observed that in many cases bills of consumers have been revised after 31.03.2005. After revision of the bills those consumers have been observed to be regularly paying their current dues.
9. The summary of the findings of the sample audit conducted by the officers of the OERC in case of CESU is indicated below:
- (a) The sample audit was done in respect of three phase LT consumers only where it is found out that in some cases the auditors pointed the status of consumer as disconnected as on 31.03.2005 where as it is now showing OK as on 31.03.2009.
  - (b) In many cases it was observed that the total payment was more as against the bill served between 01.04.2005 to 31.03.2009 which means that the consumers have paid some amount towards arrear. But the position as on 31.03.2005 in respect of such consumers was treated as non-recoverable by the auditors.
  - (c) In some cases it was found that the total amount which were disputed in court/forum is treated as non-receivable although the final award is not yet received.
  - (d) The CESU has notified one time settlement scheme wherein it is most likely that some part of the non-receivable as shown in audit report might have been collected.
10. GRIDCO on 18.08.2008 submitted their comments on the receivable audit reports of WESCO, NESCO & SOUTHCO. The comments of GRIDCO in respect of the receivable audit of CESU have been submitted to the Commission on 05.02.2010. The salient points of the comments of the GRIDCO on the audit report of WESCO, NESCO, SOUTHCO and CESU are indicated below:
- (a) The audit reports do not comply fully the scope and purpose. All such audit reports are therefore subject to prudent check.



- (b) As per the scope of the work report shall be on yearly basis which has not been given by the auditors for which it was not possible to analyze the trend of non-recoverable amount.
- (c) According to transfer scheme 1998, any collection made out of provision for bad and doubtful debts as on 31.03.1999 are to be shared between GRIDCO and respective DISCOMs. But the auditors have reported that the since the provisions has been made on global basis, it is not possible to ascertain the amount collected from the consumers out of the provisions to which GRIDCO objects.
- (d) Regarding receivable from Govt. department, GRIDCO pointed out the relevant provisions of the transfer scheme, 1998 as mentioned below:

“The receivables from the Departments of Government of Orissa and Government of Orissa Public Undertakings will be cleared by the concerned departments and undertakings so as to enable DISCOM to commence financial year 1999-2000 with a zero balance. The amount of any such receivables outstanding at 31<sup>st</sup> March, 1999 (if any) will be reinstated as an asset in the GRIDCO balance-sheet and will be receivable by GRIDCO.”

In context of the above provision, GRIDCO is of the view that the figures of remittance which has been given in the report seems to be very much on the lower side as the consumption by the consumer in the month of March, 1999 for which the billing would have been done in April, 1999 should have been collected by the DISCOM after 01.04.1999. GRIDCO therefore does not accept the figure given by the auditor on this account and request the Commission for special audit of the billing and collection in respect of Govt. Department and PSU which remain outstanding as on 31.03.1999.

- (e) The auditors have stated that all LD, PLD and ghost consumers are not recoverable on the basis of certificate given by the concerned SDOs. But the auditors have not submitted the details of such consumers as verified in the field visit.
- (f) The basis adopted by the auditors for declaring the dues as non-recoverable are not uniform in all cases.
- (g) Treatment of all disputed cases stated by the auditor to be non-recoverable cannot be accepted without going through the merit of the dispute made by the consumer.
- (h) The consumer wise statements do not reflect about the reason for assuming the dues as recoverable or non-recoverable.

11. The comments of the GRIDCO were duly complied by WESCO, NESCO & SOUTHCO and submitted to the Commission on 27.09.2008. Some of the important replies of DISCOMs are given below:

- (a) Regarding Permanently Disconnected Consumers (PDC), the officers of WESCO, NESCO & SOUTHCO had identified the PDC consumers individuals by organizing gangs separately and submitted the report to the Auditors. The Auditors also have made sample checking of the consumers through field visits and accordingly submitted their report. Therefore, GRIDCO's contention that the Auditors have treated all LD, PLD and ghost consumers on the basis of certificate given by concern SDO and not made any independent check is not correct.
- (b) As regards by various assumption taken by the Receivable Auditor, WESCO, NESCO & SOUTHCO clarified that the Audit firms are different and they have operated in different areas of licensee. Depending upon the areas (Rural or Urban) consumer base, paying potential etc. the basis of assumption have been arrived and it can not be uniform as pointed out by GRIDCO in its comment.
- (c) As regards collection from Govt. outstanding, the consumer wise outstanding, billing and collection have been analyzed by the auditors and they have submitted the list separately which was also submitted to GRIDCO.
- (d) GRIDCO's comment on non-securitization of the disputed and Court cases are not correct. Each case files were provided for the Auditor for scrutiny. The Auditors have submitted their comments based on their scrutiny of past records and the cases which is under sub-judice.
- (e) CESU has not replied to GRIDCO's comment.

12. The Commission has dealt the issue of audit in last RST Order in FY 2010-11 the relevant para is given below:

472. *The receivable audit report of all the four DISCOMs have now been received by the Commission along with the comments from GRIDCO on such reports. Commission is of the opinion that since the receivable audit has been conducted upto 31.03.2005, it would be of much less relevance at such a belated time in the year 2010 and assessing of receivables to a nearer date would be more purposeful. Commission therefore directs the following in the matter of receivables of DISCOMs:*

- 1) *The licensee shall up-date the receivable audit report upto 31.03.2009, in respect of LT consumers since on the basis of audit report submitted*

*upto 31.03.2005 it is difficult to assess the exact quantum of recoverable and non-recoverable debt at present.*

- 2) The report should clearly exhibit the dues of the permanently disconnected consumer and ghost consumers.*
- 3) The up-dating of the report shall be done by the same auditor, who were assigned the job of receivable audit; and submitted their report.*
- 4) Licensee shall submit the report in abstract form to the Commission within 31.07.2010.*
- 5) In the context of receivable from Govt. departments, the Commission in their Business Plan order dtd.28.02.2005 have stated the following: -  
“(i)(b)(ix) The Commission directs that a suitable tripartite mechanism involving the individual DISTCOs, GRIDCO & Government of Orissa may be in place to monitor the payment made against the Government consumers, PSUs & simultaneously adjustment in the books of accounts of GRIDCO & DISTCOs.”*

*The Commission while inviting suggestions/views/comments of State Govt. on providing subsidy/subvention and other important matters having a direct bearing on fixation of tariff for the year 2010-11 in Lr. No. JD (F)-175/02/3074 dtd. 31.12.2009 observed the following regarding electricity dues of Govt. departments:*

*“It has been frequently brought to the notice of the Commission that most of the State govt. departments/institutions and even in certain cases Police Stations are not paying the electricity dues in time. This was earlier brought to the notice of the State govt. Govt. department or organizations or the autonomous organizations under their control should show an example to other private consumers to pay the electricity dues in time. For practical purposes and keeping the sensibility of the issue of disconnection of power to water supply, hospitals, police stations, street light etc., government may think of a suitable mechanism like advance deposit/pre-paid meter system etc. to ensure timely realization of Electricity dues from govt. organisations/Local Bodies/Public Undertakings/Educational Institutions etc. The concrete action taken by the State govt. or proposed to be taken to ensure payment of electricity dues in time by all govt. departments, urban local bodies, rural local bodies, co-operatives, public sector undertakings, and autonomous organizations working under the control of the State govt. may be indicated.”*

*In response to the above matter Govt. of Orissa in its Letter No. 1577/EN, dtd. 23.02.2010 at para 4 replied the following regarding payment of Electricity dues by the Government Department.*

*It is relevant to mention that the Govt. in the Energy Department have from time to time impressed upon the Departments of Govt. to pay their electricity dues for which budgetary provisions have been made by the Govt. commensurate with the requirement of the respective Govt. offices.*

*The DISCOMs should not take the plea of non-payment of arrears by different Govt. Departments. The so called arrears have not been assessed correctly and this fact has been pointed out to the DISCOMs. The DISCOMs are also lagging behind in reconciliation of arrears to expedite payment of defaulting consumers.*

*The defaulting consumers of various Department and other local bodies, corporation are like any other individual consumers. DISCOMs are free to*

*resort to disconnection of power supply. Moreover the outstanding against the Govt. consumers is less than 10% of the total arrears.*

*The DISCOMs should also resort to other modes of collection available under Section 126 of the Electricity Act, 2003.*

473. *In the light of the above order, the Commission directs the DISCOMs to submit a detailed report on the action taken for realization of the arrears from Govt. departments / Govt. PSUs. Time and again the Commission in different meetings advised DISCOMs to make effort for reconciliation of the arrear dues with the Govt. departments and PSUs. If in the meantime the DISCOMs have reconciled the arrears with the Govt. PSUs the joint reconciliation statement of arrears may be submitted to the Commission for further action.*
474. *The Commission is aware that CESU notified a One Time Settlement scheme for collection of the arrear dues from the defaulting consumers. In view of having carried out such a scheme, CESU is directed to submit a report, detailing consumer category wise total receivable amount (arrears) prior to implementing one-time settlement and after granting one-time settlement. Any other DISCOMs which undertake one time settlement with the consumers for collection of the arrear dues would also be required to submit a report (consumer category wise) of total receivable amount before one-time settlement and after one-time settlement.*
13. WESCO, NESCO and SOUTHCO in their letter on 10.06.2010 expressed their inability to update the receivable audit upto FY 2009 as directed by the Commission within 31.07.2010. Based on their request on 25.06.2010, commission extended the dateline of submission of final receivable audit report upto 31.10.2010. Subsequently WESCO, NESCO and SOUTHCO vide Lr. No. CSO/Fin/1173, dtd. 28.06.2010 requested for deferment of the exercise as the consequential quantitative change may not be so significant, as some past non-collectable arrears upto March, 2005 may have been recovered and some collectable arrears may have become non-collectable during the intervening period upto March, 2009. The major objective was to make an assessment of the receivables for creating Regulatory Asset for the equivalent non-collectable arrears/receivables. Accordingly, the licensees requested the Commission to factor the impact of non-collectable receivables for the period April, 2005 to March, 2009 on best estimation basis. They also requested that regulatory assets for non-collectible receivables may kindly be considered, based on the finding of the receivable audit upto 31.03.2005.
14. The Commission then fixed hearing on 20.09.2010 and the passed the following orders in Suo motu Case Nos.68, 69, 70 & 71 of 2007 and Case Nos.29,30 & 31 of 2007.

Commission heard the parties at length and observed the following:

- (i) The case is pending since long, because of delay in submission of the audit report beyond the scheduled date.
- (ii) The auditors have treated this receivable as non-recoverable based on the certification given by SDOs without going through the merit of the case.
- (iii) The DISCOMs have not done detailed analysis of the report of the auditors.
- (iv) Once the case Nos.68, 69, 70 & 71 are disposed of. Commission will take up the Case No.29, 30 & 31 of 2007 (Truing up) for hearing.
- (v) Commission finally directed the licensees to comply to the queries of Director (Tariff) item wise, before 10<sup>th</sup> October, 2010 which was circulated to them at the time of hearing.

**15. Queries raised on Receivable Audit at the time of hearing**

- a. As reported by DISCOMs, gross receivables, the recoverable amount, non-recoverable amount as on 31.03.2005 are given below:

**Position as on 31.03.2005**

**(Rs. in Cr.)**

<b>Name of the Company</b>	<b>Gross Receivable</b>	<b>Amount recoverable</b>	<b>Amount not recoverable</b>	<b>Provision for bad debt allowed by Commission in tariff order</b>
WESCO	685.00	203.00	482.00	88.86
NESCO	464.08	143.14	320.94	59.57
SOUTHCO	296.15	88.21	207.94	40.65
CESU	1082.85	239.11	843.74	104.01
<b>Total</b>	<b>2528.08</b>	<b>673.46</b>	<b>1854.62</b>	<b>293.09</b>

- b. The DISCOMs may furnish how much from the recoverable amount reported by DISCOMs have been actually recovered as on date?
- c. Out of the gross receivables mentioned in the table above, how much is towards permanently disconnected consumers.
- d. DISCOMs may quantify the amount of outstanding against ghost consumers as on 31.03.2005.
- e. The Commission is aware that CESU has collected some amount of outstanding arrear dues by implementing one time settlement scheme. CESU may submit the details of such collection. How much from the outstanding amount as on 31.03.2005 has been collected through OTS scheme.

- f. DISCOMs may furnish the amount of energy charges outstanding against State Govt. Departments and State Govt. corporations as on 31.03.2005. Steps taken by DISCOMs to reconcile the arrear dues with Govt. Departments and the payments received from them may be mentioned.
- g. DISCOMs may quantify the amount of receivables outstanding as on 31.03.2005 which are held up due to the following types of court cases.
- Arbitration
  - Supreme Court
  - High Court
  - Lower Court
  - Certificate Case

In obedience of the Commission's order WESCO, NESCO and SOUTHCO have submitted their reply on 23.10.2010, 09.12.2010 and 10.12.2010 respectively. CESU have submitted interim reply on certain items on 09.12.2010. Regarding information on PDC and ghost consumers CESU requested the Commission for extension to time by end of January, 2011. Finally, CESU submitted the report on 27.12.2010.

16. The figuritical analysis of the reply submitted by the Licensees are indicated in a tabular form:-

<b>(Rs. in crore)</b>						
<b>Name of the company</b>	<b>Amount recoverable as reported by auditors</b>	<b>Amount actually recovered (including collection through OTS by CESU) as on date</b>	<b>Amount not recoverable as reported by auditors</b>	<b>Outstanding in respect of PDC consumer as on 31.03.2005</b>	<b>Outstanding in respect of ghost consumer as on 31.03.2005</b>	<b>Total amount PDC and Ghost consumers</b>
<b>WESCO</b>	203.00	20.93	482.00	144.88	119.86	264.74
<b>NESCO</b>	143.14	16.49	320.94	109.17	113.38	222.55
<b>SOUTHCO</b>	87.67	24.32	208.62	78.75	48.19	126.94
<b>CESU</b>	239.29	119.81	844.88	17.27	130.59	147.86

17. The Commission took note of the above observation and heard the parties at length. The issue before the Commission is
- whether to treat entire non-recoverable amount as bad debt.
  - whether to consider the bad debt in truing up exercise and pass and recognize the same as regulatory asset to be passed on to tariff.

Regarding item (a) Commission is of the opinion that a debt can be considered bad on the occurrence of the following events:

- (i) The death of the debtor without leaving any assets from which the debt can be recovered.
- (ii) The debtor is bankrupt or in liquidation and there are no assets from which the debt can be recovered
- (iii) The debt is barred by statute
- (iv) The debtor is not traceable despite various attempts and there are no assets from which the debt could be recovered
- (v) Attempts at negotiation or arbitration of a disputed debt have failed.
- (vi) There exists any other circumstances where there is no likelihood of a cost effective recovery of the debt.

However, the above observations are illustrative but not exhaustive.

Commission is also of the opinion that to declare a debt as bad the licensee should take reasonable steps based on commercial consideration for recovery of the debt. Such steps would include the following:

- (a) issuing reminder notice to the debtor
- (b) negotiation or arbitration of the disputed debt
- (c) legal action
- (d) decision not to take legal action should be considered to be reasonable if it can be shown that the anticipated cost of any legal action is much more than that amount of debt.

18. From the auditors' comments, it is observed that the auditors have not thrown any light on the above mentioned points. The auditors have not scrutinized the details of dispute but have only treated as non-recoverable based on the certification given by the SDOs. Therefore, treatment of all disputed cases as non-recoverable cannot be accepted without going through the merit of the dispute made by the consumers.

In this context Section 56(2) of the Electricity Act, 2003 may be referred; which is reproduced below:

“Notwithstanding anything contained in any other law for the time being in force, no sum due from any consumer, under this section shall be recoverable after a period of two years from the date when such sum becomes first due unless such sum has been

shown continuously as recoverable as arrear of charges for electricity supplied and the licensee shall not cut off the supply of the electricity.

Commission finds that the licensee continued to show the arrears in the bills and they have not disconnected the power supply. Hence the licensee can collect the arrears which have been shown as arrears in the current bills.

19. With the above observation, Commission finds it justified to treat as bad debts to those receivables which were un-recoverable beyond doubt and the same is removed from the consumers account. Hence Commission decides in principle to consider the following receivable as bad debt completely.

- i) Receivables of all LD/ permanently disconnected consumers.
- ii) Receivables of ghost consumers

As regards the other receivables except the categories mentioned above, Commission is of the opinion that there is nothing on record which might show that all these debtors were either financially not in a position to pay the debt or had ever refused or expressed their desire not to pay. So long as there is a ray of hope to recover the debt, however, deem it may be, and so long as the debt is in the process of realization, it cannot be said that it has become irrecoverable.

Hence, Commission does not find any justification to declare the entire non-recoverable amount as bad debt excepting the two categories of consumers as mentioned above.

On an analysis of the receivable outstanding against LD, PDC and ghost consumers Commission finds that the percentage of the LD, PDC and the ghost consumers to total non-recoverable amount as mentioned in the table above works out to be 54.93%, 69.34% and 60.85% for WESCO, NESCO & SOUTHCO respectively, which appears to be of tall order. In case of CESU the percentage of LD, PDC and the ghost consumer to total non-recoverable amount works out to 17.50%. Therefore, the Commission before finally deciding the amount to be written off from the Book of Account of the licensee has to be satisfied on the authenticity of the data provided by the licensee. Hence, the licensees are directed to furnish the consumer wise list of LD, PDC and ghost consumers in a soft copy along with hard copy duly certified by the concerned SDO & respective Auditors. The exercise should be completed and report should be submitted to the Commission on or before **28.02.2011**. In absence of



the reply from the licensee as stated above, it will be difficult on the part of the Commission to consider the same in the truing up exercise.

20. Regarding issues at item (b) **that is whether to consider the bad debt in truing up exercise and recognize the same as regulatory asset to be passed on to tariff**, the Commission would like to address the controllable and uncontrollable parameters of distribution licensees in line with National Tariff Policy. A table below explains the position: -

<b>Controllable</b>	<b>Uncontrollable</b>
Distribution losses and AT&C losses technical and commercial losses.	Power purchase expenses due to increase in fuel costs and change in sales quantum.
Collection efficiency and provisioning for bad and doubtful debts	Sales quantum
O&M expenses	Sales mix
Capital expenditure	Interest rate on long-term loan
Normative percentage of working capital	Interest rate on working capital
	Increase in expenses due to force majeure

Every year in the revenue requirement the Commission as per the accepted accounting practices allows certain percentage towards provision for bad and doubtful debt. In the LTTS order of the Commission, the benchmark set for provision for bad and doubtful debt is 2.5% of the revenue from sale of power. Normally, when actual bad debt is identified and written off it is adjusted against the provision created and shall not be charged to revenue again. Commercial accounting system demands such a procedure especially due to the fact that when write off is effected in a year, the expenses for the particular year would be abnormal provided the requisite provision had not been made in the books of account every year. Hence, the Commission is of the opinion that after getting the consumer wise details of LD, PDC & ghost consumers from the DISCOMs as stated above, analysis will be carried out to find out the unrecoverable amount which shall be set off against the bad and doubtful debt allowed by the Commission.

21. To summarise the Commission decides and directs as follows:
- i. The Commission decides in principle to consider the following receivable as bad debt completely:
    - (a) Receivables of all LD/ permanently disconnected consumers.
    - (b) Receivables of ghost consumers

- ii. Licensees are directed to furnish consumer-wise list of all LD, PDC and ghost consumers in a soft copy along with hard copy duly certified by concerned SDOs and respective auditors.
  - iii. The list should be submitted to the Commission on or before **28.02.2011**.
  - iv. The final truing up exercise in respect of bad debt shall be carried out after the licensees submit the data within the scheduled date as stated above.
22. Accordingly, the cases are disposed of.

Sd/-  
**(B.K. Misra)**  
**Member**

Sd/-  
**(K.C. Badu)**  
**Member**

Sd/-  
**(B.K. Das)**  
**Chairperson**