

**THE MEGHALAYA STATE ELECTRICITY
REGULATORY COMMISSION**

NINTH ANNUAL REPORT

2015 – 2016

(As mandated under Section 105 of EA-2003)



**NEW ADMINISTRATIVE BUILDING, 1ST FLOOR, LEFT WING, LOWER
LACHUMIERE, SHILLONG – 793001**

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ANNUAL REPORT

2015-16

1. INTRODUCTION

The Meghalaya State Electricity Regulatory Commission had been notified by the Government of Meghalaya under the provisions of Section 82 of the Electricity act 2003 on the 26 March 2004. The Commission became functional on 6th of June, 2006 on which date the first Chairperson, Shri. Vinay Kohli, IAS (Retd) had assumed charge.

Since that time, the Commission has always endeavoured to set up a fair, transparent and objective electricity regulatory process in the state of Meghalaya. The Eighth Annual Report was sent to Power Department vide letter No. MSERC/AR/11-12/41 dated 29th September 2015 and Power Department vide letter No. POWER.61/2013/39 dated 7th March, 2016 had sent it to Meghalaya Legislative Assembly for placing in the Table of the house. This the NINTH Annual report for Financial Year 2015-16.

2. THE COMMISSION

The Commission was constituted under the provisions of the Electricity Act 2003. The Commission is a body corporate having perpetual succession and common seal with power to acquire, hold and dispose of property both movable and immovable and to contract, and by the said name to sue or be sued. The Commission is a quasi-judicial body.

This Commission is a one member Commission. Recognising the need for multi-disciplinary approach while addressing issues related to independent regulation, the statute prescribes that the Chairman shall be a person of ability, integrity and standing, with adequate knowledge, and should have shown capacity in dealing with problems relating to engineering, finance, commerce, economics, law or management. The Chairman is appointed by the Government of Meghalaya from a panel recommended by Selection Committee constituted as prescribed under the statute. The statute also provides for the appointment of a Secretary to the Commission, whose powers and duties are defined by the Commission.

3. OBJECTIVES OF THE COMMISSION

The objectives of the Commission, in essence, are to:

- (a) Promote reforms in the electricity sector;
- (b) Encourage transparency, competition and economy;

- (c) Regulate the power purchase and procurement process of the distribution utilities.
- (d) Secure the legitimate interests of all stakeholders, including the consumers.

4. FUNCTIONS OF THE COMMISSION

The Commission is vested with the responsibility of discharging the following statutory functions:

- (1) Determine the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail, as the case may be, within the State;
- (2) Regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from generating companies or licensees or from other sources, through agreements for purchase of power for distribution and supply within the State;
- (3) Facilitate intra-State transmission and wheeling of electricity;
- (4) Issue licenses to persons seeking to act as transmission licensees, distribution licensees and electricity traders with respect to their operations within the State;
- (5) Promote cogeneration and generation of electricity from renewable sources of energy by providing suitable measures for connectivity with the grid and sale of electricity to any person, and also specify, for purchase of electricity from such sources, a percentage of the total consumption of electricity in the area of distribution licensee;
- (6) Adjudicate upon the disputes between the licensees and generating companies and, if necessary, to refer any dispute for arbitration;
- (7) Levy fees , as required and mandated by the Electricity Act, 2003;
- (8) Specify the State Grid Code;
- (9) Specify and enforce standards with respect to quality, continuity and reliability of service by licensee;
- (10) Fix the trading margin in the inter-State trading of electricity, if considered necessary;
- (11) Discharge such other functions as may be assigned to it under the Electricity Act, 2003;

- (12) Advise the State Government on all or any of the following matters, namely:-
- (i) Promotion of competition, efficiency, and economy in the activities of the electricity industry,
 - (ii) Promotion of investment in electricity industry,
 - (iii) Reorganisation and restructuring of the electricity industry in the State including, more particularly, matters concerning generation, transmission, distribution and trading of electricity or any other matter referred to the State Commission by the State Government.
- (13) The State Commission shall ensure transparency while exercising its powers and discharging its functions.
- (14) In the discharge of its functions the State Commission shall be guided by the National Electricity Policy, National Electricity Plan and tariff policy published under section 3 and such other statutes and legal directions as applicable from time to time.

5. CHAIRPERSONS

Shri. Vinay Kohli, IAS (Retd) – joined on the 06-06-2006 and demitted on 11-01-2009

Shri. P J Bazeley, IAS (Retd) – joined on the 01-07-2009 and demitted on 22-02-2011

Shri. Anand Kumar – joined on the 02-08-2011 and demitted on 04-04-2016

6. CONSULTATIVE BODIES

The Chairman of the Commission is a member of the Forum of Regulators (FOR), a statutory body established in accordance with the provisions of sub-section 2 of section 166 of the Electricity Act, 2003. During the period under review several meetings of the Forum and its sub-committees were held. These meetings have helped in coordinating and aligning regulatory matters, policies and practices as followed by different States.

The Chairman is also a member of the Forum of Indian Regulators (FOIR). This is a registered society which predates the Forum of Regulators. The membership of this body is not confined only to regulators in the Power sector. Several members of this forum have a wealth of experience of regulatory processes and procedures and the deliberations provide an opportunity for wide ranging in-depth examination of technical, legal and implementation issues.

7. HUMAN RESOURCE.

Under the Electricity Act 2003, the Secretary of the Commission assists the Chairperson in all statutory matters, and in personnel, administration, accounts/Finance, where the Secretary is supported by the Finance and Accounts Officer and other support staff. The Commission has also been utilising, from time to time, need based services of consultants in the disciplines of law, finance and electrical engineering.

8. OFFICE ACCOMODATION

In September 2007, the State Government allotted one wing of the 1st floor of the New Administrative Building at Lower Lachumiere, Shillong. The Commission moved to these new premises in December, 2007.

9. LAN & WEBSITE:

The computers in the Commission's office are connected through networking to local area network (LAN). The system is useful for access of any information. The commission has its own website, www.mserec.gov.in, which is regularly maintained and updated by the NIC. The website is used for informing all concerned about hearing schedules, news, tariff related issues, meetings, inviting comments on concept papers, regulations, petitions, tenders, job vacancies, etc. It also provides information on Consumer Grievances Redressal Forum and Ombudsman and guides the consumer for redressal of their grievances. Further Regulations, Tariff Orders and Reports are also available for download from the website.

10. STATE ADVISORY COMMITTEE

In exercise of the powers conferred under section 87 of the Electricity Act, 2003, the Commission, under a notification dated 5th February 2007, constituted the Meghalaya State Electricity Advisory Committee to advise on questions of policy, protection of interest of consumers, and other matters relating to supply and distribution of electricity in the State. This Committee has been reconstituted by the Commission on 17 March 2010 with the following members:

- | | | | |
|------------------------|----|---|--|
| Chairperson Ex-officio | 1. | : | The Chairman, Meghalaya State Electricity Regulatory Commission |
| Member Ex-officio | 2. | : | The Principal Secretary/Commissioner and Secretary, Food, Civil Supplies and Consumer Affairs Department, Government of Meghalaya. |
| Members | 3. | : | Shri. Macmillan Byrsat, Pyndegrei Village,
PO: Nongstoin-793119, W K Hills. |

5. : Shri. E.N.Marak, MCS(retired)
Matchakolgre, New Tura Araimile
West Garo Hills, Tura-794101
6. : Shri. S.K. Lato, Jowai;
7. : Shri. Ramesh Bawri, President Confederation of
Industries, Meghalaya, Bawri mansion,
Dhankheti.
8. : Chairman, the Institution of Engineers (India),
Meghalaya Centre, Barik Point, L. Lachumiere,
Shillong – 793001
9. : Director (E&M) HQ,CE Shillong Zone,
SE Falls, Shillong-11, Phone: 2534847
10. : GM, Commercial, NEEPCO Ltd
11. : Vice President (BD), IEX, New Delhi).

Convenor : Secretary, MSERC

CGRF

MeECL vide notification No. MeECL/GA.II/270/2007/280 dated 20 January 2012 & MeECL/GA.II/270/2007/292 dated 18 April 2012, constituted the Consumer Grievances Redressal Forum with Headquarter at MeECL corporate office, Lumjingshai with the following members:

- 1 Smti. Mildred Iawphniaw
Post Master General (Retd) - Chairperson
- 2 Shri. Jitendra Sarma
CAO (Retd) MeECL - Member
- 3 Shri. P. Lyngdoh
Director (D) (Retd), MePDCL - Member

Powers and function of the Forum:

- (a) The Forum shall examine and consider all complaints that it receives and pass orders for the corporation to remedy the fault or defect within such time as it may decide.
- (b) In exercising its function the Forum shall have powers to call for information from the Corporation or any other person concerned and to hear him.
- (c) In dealing with any matter, the Forum may engage or consult a person having special knowledge or skill in the field.
- (d) A complaint shall be disposed of within a maximum period of fifteen days from the date of receipt and the complainant consumer and the Corporation shall be informed of the decision taken.

Under the said Regulations, the grievances may relate to:-

- (a) Voltage fluctuation.
- (b) Erratic supply of Electricity.
- (c) Defective billing.
- (d) Defective meters.
- (e) Defective street lights.
- (f) Default in attending to routine complaints.
- (g) Any other fault or defect which the licensee is duty bound to attend and rectify.
- (h) Non giving or delay in giving electricity connection to an applicant.

The Hon'ble Appellate Tribunal has directed that, "all the State Commissions/ joint Commissions and Licensees shall send quarterly written status report regarding the functioning and performance in the approved format (complaints received/adjudicated or settled) to the Secretary, Forum of Regulators who will comply and post the said information online. He would also file a status report in this Tribunal once in 03 months in the Format already approved through our order dated 15-04-2010."

The monthly status is being conveyed by the MSERC to the Secretary FOR in the said Format by 15th of each month so that APTEL can be apprised of.

12. OMBUDSMAN

Powers and functions

- (1) If the licensee fails or neglects to remove or set right the fault or defect complained of by the consumer or if the Forum neglects or is otherwise unable to deal with the complaint made to it the aggrieved consumer may, within ten days from the last day of the time set for under sub-regulation 91) of regulation 6 or from the date of seeking redress from the Forum under sub-regulation (1) of regulation 4, as the case may be, make a representation to the Ombudsman for redresses of the grievance.
- (2) On receiving a representation, the Ombudsman shall after due examination and consideration settle the grievance of the consumer.
- (3) In exercising its function the Ombudsman shall have the powers to call for reply, information date, records and other related documents from the licensee or from any other person who may be concerned with and to hear them.
- (4) The Ombudsman may, if necessary, engage or consult a person having special knowledge or experience in the matter under consideration for this opinion or advice.
- (5) Notwithstanding anything contained in his regulation the Ombudsman may *suo- moto* take up any matter which is a subject of general grievance by consumers relating to supply of electricity in any area in the State.

In exercise of the power under section (2) of section 181 read with sub – section (5) and (7) of section 42 of the Electricity Act 2003 and the regulations framed there-under, the Meghalaya State Electricity Regulatory Commission presently Shri Karmel Marbaniang, is the Electricity Ombudsman.

The Hon’ble Tribunal has directed that, “all the State Commissions/ joint Commissions and Licensees shall send quarterly written status report regarding the functioning and performance in the approved format (complaints received/adjudicated or settled) to the Secretary, Forum of Regulators who will comply and post the said information online. He would also file a status report in this Tribunal once in 03 months in the Format already approved through our order dated 15-04-2010.”

The monthly status is being conveyed by the SERC’s to the Secretary FOR in the said Format by 15th of each month so that APTEL can be apprised of.

13. FINANCIAL RESOURCES

Section 103 of the Electricity Act, 2003 provides for the creation of a State Electricity Regulatory Commission fund. Section 102 of the Act provides for grants and loans to be

extended to the Commission by the State Government. In addition any revenue arising out of collection of fees by the Commission is also to be credited to this fund. Against this background the situation for the period under review is as follows:-

1. This Commission received ₹ 75.21 Lakhs as grants-in-aid from State government in 2015-16.
2. In terms of fees the Commission has so far received ₹19,24,700.00 (Rupees nineteen lakhs twenty four thousand and seven hundred) only from the Me.ECL & others for the tariff applications/petitions filed by them during the period.

14. TARIFF ORDER FOR TRANSMISSION & SLDC

The Commission on 31st March 2016 issued Tariff Order for MePTCL for fiscal year 2016-17 after due publicity, public hearing and consultation. While issuing the Tariff order the Commission gave number of new directives to the MePTCL to comply with.

COMMISSION DIRECTIVES

New Directives

1. As per Tariff Order dated 31st March 2016, MePTCL shall submit its investment plan proposed to be implemented in the control period to the Commission for its approval well in time and along with the audited accounts with statutory auditor reports for FY 2014-15. Regulation 8 of MYT requires the licensee to file the business plan latest by 3 months prior to date of filing of the petition for truing up. Accordingly the Commission directs the licensee to file the business plan by 30th August, 2016.
2. The Commission directs the transmission company to study the open access procedure, evaluate the spare capacity, demand of the state while allowing NOC to Open Access consumers. They are further being directed to adhere to the Commission's Regulations and orders while recovering their charges from such Open Access consumers strictly.
3. While allowing open access, the STU shall ensure that the availability capacity of the line on which open access shall take place is sufficient. In no case it should hinder the power flow to the distribution licensee. It is further directed that STU, while computing the spare capacity in the transmission lines, shall include the evacuation of power from new central generating stations that are being allocated to Meghalaya in the control period. Any failure of the grid on account of over utilization of the present capacity by Open Access shall be investigated.

4. STU shall also ensure the compliance of provision of Grid Code; CERC Regulations while allowing Open Access and shall recover the charges as allowed by the Commission and its regulations.
5. The Commission directs the licensee to get C & AG certificate of statement of accounts for FY 2012-13, FY 2013-14 & FY 2014-15 before filing of the next ARR.

15. TARIFF ORDER FOR GENERATION

The Commission on 30th March, 2016 issued Tariff Order for MePGCL for fiscal year 2016-17 after due publicity, public hearing and consultation. While issuing the Tariff order the Commission gave number of new directives to the MePGCL to comply with.

COMMISSION DIRECTIVES

1.1 New Directives:

1. Filing of Petition for Leshka Project:

The Commission directs MePGCL to file the petition of the ensuing year at the earliest along with the expenses incurred in the Leshka Project after complying with the directives as given to MePGCL for final determination of Tariff. The true up of Leshka Project shall be done thereafter.

2. Improvement of Performance:

The Commission directs MePGCL to submit an action plan for implementation of efficiency improvement and manpower rationalisation measures giving target dates for completion of each milestone of proposed plan within three months of issuance of this Order. The information of the plant availability, availability of the water and Generation report need to be submitted in every quarter in the first week of the following month regularly.

3. Financial Statements of Accounts:

The Commission directs MePGCL to get their accounts audited by C&AG up to FY 2015-16 and submit the same along with the next tariff petition filing.

4. Control on Expense

The Commission directs MePGCL to prepare an annual budget for FY 2016-17 for every plant and submit the same to the Commission within one month of the issuance of this Order so that expenses are made within the provision of Tariff Order and Regulations.

16. TARIFF ORDER FOR DISTRIBUTION

16.1 Compliance of Last Order's Directives

Direction

1) Reduction in AT&C losses

- (i) Reduction in T & D losses
- (ii) Reduction in commercial losses
- (iii) Improvement in metering, billing and collection

Status of report

MeECL submitted that targets and action plans for the reduction of the commercial losses in all the circles have been fixed for AT &C loss reduction.

MeECL further submitted that checking of pilferages/thefts is being conducted by the MTI & Vigilance Sub Division of the respective circles.

MeECL submitted that the replacement of defective meters is being carried out continuously.

They further submitted that online collection system has already been implemented in Shillong, Jowai, Nongpoh, Sohra, Mairang and Nongstoin. Collection is also being made through CSC-SPV's in different areas throughout the State. The total number of collection centres (through CSC-SPV's) as on 15.06.2015 is 53 (fifty three). Separate counters for women and senior citizens have been introduced in Shillong and facilities provided.

MeECL stated that 132/33 KV & 33/11 KV substations including incoming and outgoing feeders in Shillong have been metered and monitored.

Energy audit of 11 KV feeders and commercial complex distribution transformers in Shillong is being done regularly and the report of the same is being submitted monthly.

2) Energy procurement

MeECL submitted that the major procurement of power is from the State generation sources and Central Generating Stations as per allocation. Adequate provision for availability has been made for three years.

3) Investment plan

MeECL submitted that the Rural electrification and BPL connections are being carried out through RGGVY and will continue under DDUGJY.

4) Financial Planning

The MePDCL Management has taken steps to segregate the Accounting system for working capital and capital financing. Recently the Corporation has improved its credit rating to “B” as per the grading of Ministry of Power and the same has reduced our eligible interest rate from Financial Institution like REC, PFC. We have availed Working Capital Loan (3 years MTL) for REC with a discount of 50 basis point on their card rate applicable for “B” rated entity. Another restructured REC loan exists with an interest of 8% per annum. The other project loans availed by the Corporation (e.g. R-APDRP, RGGVY) from PFC and REC are at competitive rate decided by MOP.

Now, to avail more competitive interest rate, the financials of the Corporation are required to be improved, which will enable to further improve the credit rating.

In respect of payment of dues, the Corporation is facing challenge to repay the outstanding power purchase liability of NEEPCO. The management has taken steps to avail assistance from financial institution to clear the above dues. In the Review tariff petition, the Corporation has again requested for approving the said proposal which will enable it to comply the directives of the Commission in this regard.

The cheaper loan is available for tariff gap against the “Regulatory Assets” and/or State Government Guarantee, which are also not currently available with the Corporation.

It may be mentioned here that the present interest rate for all existing borrowings are equal or below the rate of interest/card rate of the Power Finance Institutions (PFC & REC), which is an accepted benchmark for borrowing rate.

For creation of security, in spite of the difficulties due to the local land laws, the Management has taken steps to provide Hypothecation / Mortgage of Assets rather than waiting for the State Government Guarantee.

It may be mentioned that the Management of other utilities under MeECL have successfully swap loan for NUHEP project and also exploring the possibilities for some of the loans availed for MLHEP, the same will be possible only after the approval of final project cost of MLHEP.

5) Demand Side Management

MeECL submitted that the energy consumption by HT consumers having KVAH billing system as compared to the total consumption within the State (including ASEB) is as follows

Consumption	2012-13	2013-14	2014-15
Consumption of KVAH billed consumers, MU	504.44	476.02	456.08
Total consumption within the State (including ASEB), MU	1061.07	1072.53	1040.93
% Consumption	47.54	44.38	43.81

MeECL submitted that while studying the impact from a group of consumers it was found that the peak and off peak demand difference for industries is too low to be controlled through implementation of ToD tariff. A more detailed study is being made regarding the benefits of implementing the ToD billing and the same shall be submitted to the Commission.

They further submitted that the rebate for using solar water heating system has been allowed in the tariff order dated 20.01.2012 for the period from 1st February 2012 to 31st March, 2013. However, there was no claim from the consumer for the rebate.

6) Performance review of each circle

MeECL submitted that the performance of all the six circles is being monitored to help reducing the AT&C losses. The targets for each circle have been fixed and the performance reviewed in September 2015.

All EHT consumers are being billed at the injection point only. Energy audit for Byrnihat circle is being carried out.

7) Time of Day Tariff

MeECL submitted that while studying the impact from a group of consumers it was found that the Peak and off peak demand difference for industries is too low to be controlled through implementation of ToD tariff. A more detailed study is being made regarding the benefits of implementing the ToD billing and the same shall be submitted to the Commission.

8) Computerized billing

MeECL submitted that the consumers in Shillong, Jowai, Nongpoh, Sohra, Mairang and Nongstoin can deposit their payments at any collection centre where SAP billing system is being implemented. Also with the opening of the collection centre's through CSC-SPV the consumers can make payment from any of these counters throughout the State.

9) Energy audit of high revenue yielding centres

MeECL submitted that the energy audit in Byrnihat Industrial Area through third party is being done.

10) Revenue audit by Independent auditor

MeECL submitted that the revenue audit is being done internally by Accounts Wing and externally by CAG.

11) Improvement in supply

MeECL submitted that the same is being done.

12) Submission of audited record

It is submitted that the accounts for FY 2012-13 have already been finalized and placed before the statutory auditors for auditing. The accounts for FY 2013-14 are yet to be finalized.

13) Settlement of past dues

MeECL submitted that action has been taken to see that there is no power regulation to the consumers. Efforts are being made to clear the outstanding power purchase dues. Accordingly, in light of the power purchase dues of NEEPCO, MePDCL has approached Power Finance Corporation Limited (PFC) for sanction of medium term loan to pay off its outstanding dues of power purchase and has sought approval of MSERC.

14) Energy conservation and DSM

MeECL submitted that in fact the Government has observed that CFL is to be phased out and consumers are encouraged to use LED bulbs for lighting purpose. It may be mentioned that the M/s Energy Efficiency Services Limited is being engaged as consultant to assist MePDCL to implement energy conservation and DMS.

15) Creation of Energy Management Cell

MeECL submitted that a dedicated Energy Management office for power sale, etc is already in existence.

16) Open access

MeECL submitted that the proposal for additional surcharge is carried out by the MePDCL and the report shall be submitted before the Commission accordingly.

17) Man power utilization study

MeECL submitted that the Manpower mapping is being done by Corporate Affairs.

16.2 New Directives

1. The Commission directs the Licensee to take prior permission from the Commission before procurement of power from other than approved sources and advises the Licensee to follow the Regulations for such purchases. This is necessary to protect the interest of the consumers. The Commission further directs the Licensee that payable/receivable towards UI are to be scrutinized accurately so that any excess allowed in the power purchase cost due to difference in scheduling and actual drawal by the open access consumer should not be collected from the consumers.
2. The Commission directs the Licensee to place the details of transaction of pension, terminal liabilities and status of the Trust made for disbursement of the retired employees in its next ARR so as to make any necessary adjustments, if any, in accordance with the Regulations.
3. The Commission directs the Licensee to go for independent audit for receivables for which the Commission has been allowing provisions towards bad debts from FY 2007-08 onwards in its various Tariff Orders. The study of the same shall be submitted to the Commission at the time of next filing.
4. The Commission directs that the Petitioner shall furnish the complete report on the implication of the Hon'ble Supreme Court Orders dated 28.08.2012 along with the report of C&AG on Statement of Accounts of FY 2012-13. It should be filed as a separate petition along with the proposal of benefit to be given to the other category of consumers during the same period as indicated in the Hon'ble Supreme Court order. Thereafter the Commission shall take a final view.
5. The Commission directs the Licensee that there should be an independent audit of power purchases from FY 2011-12 up to FY 2014-15 wherein the study should be made on current bill for each year, the delayed payment surcharge and supplementary bills because of revision of tariffs separately. This report should be

given to the Commission along with the C&AG audit report along with the next true up petition.

6. The Commission directs the Licensee to fulfill the RPO requirement as set out in the Tariff Order dated 31.03.2015 in chapter 7 and submit a report to the Commission by 30.09.2016. The Commission is reviewing its RPO Regulations so as to meet the requirements as set out in the new Tariff Policy and Guidelines of Govt. of India.
7. The Commission directs the licensee to give a report on realization of dues as per the Commission's Order for the past period from OA consumers by 30.09.2016. The Commission would like to clarify that NOC for open access shall only be given to those who have no pending dues against them as per the Regulations.
8. The Commission directs the Licensee to ensure efficient management of sale and drawal so that the revenue should not be less than the approved rate.
9. In accordance with the Hon'ble APTEL's Order, the Licensee is directed to utilize the R-APDRP fund for improvement of the system including network and sub-stations so as to reduce the losses. Similarly, the commercial losses should be reduced in at least HT category of the consumers immediately. The report of energy audit of Byrnihat Area should be submitted to the Commission within 3 months.
10. The Commission instructs the Licensee to segregate the Technical & Commercial losses and submit the report to the Commission from the revenue yielding area. This report should be submitted latest by 30.09.2016. The Commission advises the management to go for third party verification in Industrial areas and in Shillong Urban.
11. The Commission directs the Licensee to initiate a study for simple formulation taking into account the major cost elements and work out the voltage wise cost of supply as directed by Hon'ble APTEL and the Commission's Order dated 11.12.2015. The report should also cover the extent of cross subsidy among all the category. This report should be submitted by 30.09.2016.
12. As directed by the Commission in its letter dated 21.12.2015, the Licensee needs to submit petition for additional surcharge for FY 2016-17 in accordance with the Regulations and National Tariff Policy, 2016.
13. The complete details of the commercial losses in 33 kV feeders, losses of top 10 feeders in Shillong should be submitted to the Commission by 30.09.2016.

17. FINANCIAL DISCIPLINE

In terms of sub-section (1) of section 104 of the Electricity Act 2003, the Commission is required to maintain accounts and other records and prepare Annual Statement of Accounts in such forms as may be prescribed by the State Government in consultation with Comptroller and Auditor General of India (CAG). Under the provisions of sub-section (2) of Section 104 of the Act *ibid*, such Accounts are to be audited by the CAG.

18. AUDIT REPORT

The Commission engaged CAG empanelled statutory auditor M/s Randall & Co. Chartered Accountant for internal auditing to audit the accounts of the Commission for the 2006-07 to 2009-10 and M/s R. Pal & Co. Chartered Accountant for auditing the accounts of the Commission for 2010-11 to 2014-15.

Fund & Accounts Rule of MSERC was vetted by Controller & Auditor General of India and duly notified in the gazette of Meghalaya on 10th April 2014.

CAG has already audited the accounts of the Commission from 2006-07 to 2013-14 and the report printed as Compendium of CAG Report was furnished to Commissioner and Secretary Power, Government of Meghalaya. Copies of Compendium of Report were also furnished to CAG. CAG Audit Report for FY 2014-2015 received and attached with this report.

19. CONCLUSION

Commission will be monitoring the action taken on the directives issued to MeECL on submission of performance reports. During the period under review, the Commission received considerable support and encouragement from the Government, the Meghalaya Energy Corporation Ltd. and from all sections of the public of Meghalaya. It is confident that this support will continue during the coming years and the Commission would be in a position to consolidate the work done so far and take further strides towards establishing sustainable electricity regulatory and reform process in Meghalaya.

**OFFICE OF
THE ACCOUNTANT GENERAL (AUDIT)
MEGHALAYA SHILLONG -793001**

EPABX-0364-2228861/62/63; FAX-2223494
Ltr. No. ES-II/4-22/2016-17/486

Email: agauMeghalaya.gov.in
Date: 24th October 2016

To,

The Secretary,
Meghalaya State Electricity Regulatory Commission (MSERC),
Lower Lachumiere,
Shillong-793001.

Sub: Separate Audit Reports of the Comptroller and Auditor General of India on the accounts of the Meghalaya State Electricity Regulatory Commission for the years ending 31st March 2016.

Sir,

I am forwarding herewith the Separate Audit Reports of the Comptroller and Auditor general of India on the accounts of the Meghalaya State Electricity Regulatory Commission for the years ending 31st March 2016.

2. The date of placing of the Separate Audit Report and annual accounts on the table of the State Legislature may please be intimated in due course and ten copies of the Report, placed before the Legislature, may please be sent to the office for record.
3. The Separate Audit Report may please be treated as **Confidential** till it placed before the Legislature.
4. Receipt of the letter along with the enclosures may pleased be acknowledged.

Encl: As stated above

Yours faithfully,

Sd/-
**Sr. Deputy AccountantGeneral
Economic Sector-II**

**Separate Audit Report of the Comptroller and Auditor General of India
on the Accounts of the Meghalaya State Electricity Regulatory
Commission,
Shillong for the year ended 31st March 2016**

We have audited the attached Balance Sheet of the Meghalaya State Electricity Regulatory Commission, Shillong as at 31st March 2016, the Income and Expenditure Account and Receipt and Payment Account for the year ended on the date under section 19(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of the service) Act, 1971, read with section 104(2) of the Electricity Act, 2003 and Rule 9 of the MSERC (Fund) Rules, 2013. These financial statements are the responsibility of the Commission. Our Responsibility is to express an opinion on these financial statements based on our audit.

2. This Separate Audit Report contains general comments of the Comptroller and Auditor general of India (CAG) on the accounting treatment only with regard to classification, conformity with the best accounting practices, accounting standards and disclosure norms etc. Audit observations on financial transactions with regard to compliance with the Law, Rules and Regulations (Propriety and Regularity) and efficiency-cum-performance aspects, etc., if any, are reported through Inspection Reports/ CAG's Audit Reports separately.

3. We have conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

4. Based on our audit, we report that:

- i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- ii. In our opinion, Proper books of accounts and other relevant records have been maintained by the Commission as required under Rule 7(4) of the MSERC Annual Accounts. Audit and Budget) Rules, 2013 as far as it appears from our examination of such books, subject to the observations made in subsequent paras.
- iii. We further report that;

A. Income & Expenditure Accounts
Other Administrative Expenses etc (Schedule E)

Legal Expenses-₹2.56 lakh

This includes an amount of -₹1.33 lakh paid to the Advocate in respect of Legal expenses. Out of which -₹1.23 lakh was paid to the Advocate as the fee of appearance in court in respect of WPC 356 of 2012 prior to April 2015. As such, it should have been booked and depicted separately as prior Expenses.

B. General

- a) The Annual Accounts were authenticated by the Chairman as well as Secretary of the Meghalaya State Electricity Regulatory Commission (MSERC) without dated signature.
- b) The Significant Accounting Policies of the Annual Accounts for the year 2015-16 were not attached and produced to Audit.
- c) The Commission has not made provision for retirement benefits (Gratuity and Earned Leave) to the employees as required under Accounting under Accounting Standard-15. However, the monetary impact of the issue could not be quantified in absence of complete information.
- d) The Commission is maintaining its annual accounts on Accrual System. For that purpose it is necessary to maintain the Journal Books and also to prepare Journal Vouchers which has not been done.
- e) Confirmations of balance in banks and fixed deposits as well as interest accrued on MOD as on 31st March 2016 were not obtained from financial institution, hence the authenticity of the Bank balance and Fixed Deposit balance could not be ensured.

C. Grant-in -aid:

As against the Government Grants of ₹75.21 lakh due for receipt for the year 2015-16, the Commission did not receive any grant from the Government of Meghalaya during the Year 2015-16. However, out of ₹164.78 lakh (received for 2014-15 ₹106.40 lakh + balance as on 31st March 2015 ₹58.38 lakh) the Commission spent ₹105.53 lakh as on 31st March 2016 leaving an unspent balance of ₹ 59.25 lakh.

- iv. Subject to our observation in preceding paragraphs, we report that the Balance Sheet, Income and Expenditure Account and Receipts and Payments account dealt with by this report are in agreement with the books of accounts.
- v. In our opinion and to the best of our information and according to the explanations given to us, and subject to the significant matter stated above the said financial statements, and other matter mentioned in **Annexure-1** to this Audit

Report, give a true and fair view in conformity with accounting principles generally accepted in India:

- (a) In so far as it relates to the Balance Sheet, of the State of affairs of the Commission as at 31st March 2016 and
- (b) In so far as it relates to Income and Expenditure Account, of the 'Excess of Income over Expenditure' for the year ended on that date.

For and on behalf of the Comptroller and Auditor General of India.

**Place: Shillong
Date: 24th October 2016**

**Sd/-
(Stephen Hongray)
Accountant General (Audit),
Meghalaya**

Annexure

1. Adequacy of Internal Audit System.

The Commission does not have its own Internal Audit wing. However, the Internal Audit for the year was outsourced to a Chartered Accountant Firm. The scope of internal audit covered all the expenses and receipts of the Commission during the year.

2. Adequacy of Internal Control System

The following observations are made on the Internal Control System of the Commission:

- The cash balances were certified by the competent authority.
- Surprise checks of cash had not been carried out during the year.
- Bank Reconciliation Statement were not prepared bank account wise.

3. System of Physical Verification of Fixed Assets.

Physical Verification of Fixed Assets was conducted as on 31st March 2016.

4. System of Physical Verification of Inventory.

Physical Verification of Inventory was conducted as on 31st March 2016.

5. Regularity in Payment of Statutory Dues.

No instances of delay in remittance and payment of statutory dues were noticed in audit.

Sd/-
Audit Officer/ES-II