



TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2008-2011)**

SEVENTY THIRD REPORT

(Presented on 30th June 2009)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2009

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On

**Kerala State Electricity Board based on the Reports of the
Comptroller and Auditor General of India for the years
ended 31-3-2003 and 31-3-2004
(Commercial)**

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Smt. L. Sailaja, Under Secretary.

* Resigned from KLA w.e.f. 28-5-2009.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2008-2011), having been authorised by the Committee to present reports on their behalf, present this Seventy third Report on Kerala State Electricity Board based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2003 and 31st March 2004 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial) and 31-3-2004 (Commercial) were laid on the Table of the House on 28-6-2004 and 5-7-2005 respectively. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the period 2006-08.

This Report was considered and approved by the Committee at the meeting held on 13-5-2009.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Power Department of the Secretariat and the Kerala State Electricity Board for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Power Department and Finance Department and the officials of the Kerala State Electricity Board who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
30-6-2009.

*Chairman,
Committee on Public Undertakings.*

REPORT

KERALA STATE ELECTRICITY BOARD

AUDIT PARAGRAPH

Government allowed (December 1989) private agencies to undertake small/mini/micro hydel schemes for generation of power and prescribed (December 1990) terms and conditions for granting permission by the Board. As per the guidelines enunciated (paragraph 7), the transmission line required for evacuating power from the captive plant of the implementing agency to the nearest grid sub station had to be built by the Board at the cost of the agency as a deposit work, which should be transferred to the Board without any compensation

Based on the above guidelines, the Board entered into (December 1994) an agreement with Indsil Electrosmelts (Indsil) a private entrepreneur, for setting up a small hydro electric project at Kuthungal with a total capacity of 21 MW, to be implemented in two phases. The project involved construction of transmission line of 15 km length from Kuthungal to Neriya mangalam, by the Board at the cost of Indsil, in line with the guidelines issued by the Government. However, during a meeting held (April 1994) at Government level, the Board accepted the request of Indsil for construction of transmission line beyond 4 km at the cost of the Board, in deviation from the original guidelines and incorporated a provision (clause 9) to that effect in the agreement. The work involving actual transmission line length of 16.477 km was completed (May 2001) at a cost of Rs. 11.35 crore out of which Rs. 8.79 crore relating to 12.477 km length, was borne by the Board. It was noticed in Audit that in respect of another agreement (Maniyar), for execution of small hydro project, entered into by the Board, the entire cost of evacuation line was borne by the private agency.

Thus, the decision to incorporate a provision in the agreement deviating from the prescribed guidelines resulted in undue benefit of Rs. 8.79 crore to the private entrepreneur.

The matter was reported to the Board and Government in August 2003. Their reply is awaited (September 2003).

[Audit Paragraph 4.12 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)]

Notes on the Audit Paragraph furnished by Government is given in Appendix II.

1. The Committee enquired why the Kerala State Electricity Board had acted against the prescribed guidelines to favour a private entrepreneur which resulted in loss of Rs. 8.79 crore to the Board and conferred undue benefit on the private company namely Indsil Electrosmelts. The witness replied that as per the guidelines, the transmission line required for evacuating power from the captive plant of the implementing agency to the nearest grid sub station had to be built by the Board at the cost of the agency itself as a deposit work, which should be transferred to the Board without any compensation. But in 1994, a decision has been taken at Government level that as a promotional measure, the Company should construct 4 km transmission line at its own cost and the remaining construction cost would be borne by the Board, contradictory to the existing Government order. The Government had communicated this decision to the Board. According to this, the Board had entered into an agreement with Indsil Electrosmelts for a small hydro electric project at Kuthungal which involved construction of transmission line of 16.477 km, out of which 12.477 km at a cost of Rs. 8.79 crore was borne by the Board as per the request of Indsil. But when the Accountant General pointed out this objection the Board admitted it and made a decision that the entire construction cost should be borne by the company itself and took steps to recover the amount spent by the Board. But the company filed a writ against this and obtained stay from the Hon'ble High Court. The Committee enquired about the latest position of this suit. The witness remarked that the case is under stay order. The Board is trying to vacate the stay. The Board had initiated action for revenue recovery in 2005. The Company had filed OP and obtained stay in 2006. The Committee expressed its displeasure that the stay order is continuing for two years and remarked that the Board was helping the Company to win its case. The witness admitted that since the agreement was that the Company needs to bear the costs of construction of only 4 km transmission line and the rest would be borne by the Board, there was not much chance of the Board obtaining a verdict in its favour. The Committee enquired under what circumstances Government had taken a decision against the existing guidelines. The witness remarked that as a promotional measure and to encourage private participation Government had taken the decision against the guidelines. But the circumstances that led Government to revoke that decision is not clear. The Committee pointed out that in the case of Maniyar project, the entire cost of evacuation line was borne by the private agency. The Committee desired to be informed whether Government had directed the Board to bear the cost of 12.477 km of the transmission line and if yes, to give a copy of the order. The Committee remarked that the decision taken by Government to give concession to one

private entrepreneur only, against the existing Government order and at the same time on the basis of audit objection to recover the amount of Rs. 8.79 crore from the firm are not justifiable and also wished to know the reason for it.

Conclusion/Recommendation

2. The Committee finds that KSEB had incurred a loss of Rs. 8.79 crore by deviating from prescribed Government guidelines and helped a private entrepreneur, Indsil Electrosmelts to gain an equal amount by bearing construction cost of 12.477 km of transmission line. If the cost was borne by KSEB as a promotional measure, the Committee wants to know why the Government had initiated action for recovery of the amount instead of informing Audit of the reason. The Committee also opines that it is evident that the money could not be recovered due to incorporation of the provision that the Board would bear construction cost of transmission line beyond 4 km in the agreement. The Committee desires to be informed of the reason for this. The Committee also recommends that in future strict vigilance should be taken in such matters.

AUDIT PARAGRAPH

In order to meet the requirement of energy meters in providing new service connections and for replacement of faulty meters, the Board invited (23 July 2002) tenders for the purchase of 50,000 single phase static meters of 5-20 Amps. rating with a delivery period of 45 days. At the time of invitation of tenders, 40,134 meters were available with the Board, which were sufficient to meet the urgent requirements till fresh supplies were received. However, without considering the stock of meters in hand and waiting for the outcome of the tender floated on 23 July 2002, the Board placed orders (24 July 2002) on Electron Energy Equipments (Pvt.) Limited, Noida (EEE) for purchase of additional 25,000 meters against the earlier orders placed with the firm in November 2001 at the earlier rate of Rs. 900.76 per meter (all inclusive). EEE supplied (August 2002) the entire quantity and payment was effected during September 2002 to February 2003.

It was noticed in Audit that the lowest price quoted against the tender invited in July 2002 and opened on 14 August 2002 was only Rs. 506.80 per meter against the rate of Rs. 900.76 per meter at which order were placed on EEE for additional 25,000 meters. The stock position of 40,134 meters in hand in July 2002 and the pending (July 2002) supply of 30,000 meters from the same firm did not justify the procurement of additional quantity at higher rate.

The hasty decision of the Board to purchase 25,000 meters at an exorbitant rate from EEE without considering the stock in hand and waiting for the outcome of the tender already invited, resulted in avoidable extra expenditure of Rs. 98.49 lakh.*

Government stated (July 2003) that the static meters were urgently required for effecting new service connections and for replacement of faulty meters. Hence purchase order for 25,000 nos. was placed with EEE in July 2002 at Rs. 900.76 per meter. It was also admitted that at the time of placement of this order, two tenders, one invited in December 2001 and another in July 2002 were pending and these were opened only in August 2002. The Board was also stated to be conscious of the impending tender and possible scope for reducing price. However, the fact remained that the Company's average monthly requirements of meters was only 16,700 and it had 40,134 meters in stock besides 30,000 meters pending supply against earlier order with the same supplier making the total availability at 70,134, which was sufficient for 4.2 months' requirement. Hence placing orders for additional quantity at exorbitant price was not prudent when supply against earlier order with the same firm was pending and sufficient stock was available in hand.

[Audit paragraph 4.13 (1) contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)]

Notes on the Audit Paragraph furnished by Government is given in Appendix II.

3. The Committee enquired why the Board had invited fresh tenders for single phase static meters of 5-20 Amps. when stock of 40,134 meters were available with the Board to meet the urgent requirements and why the Board had placed orders for 25,000 meters from Electron Energy Equipments (Pvt.) Ltd. Noida at exorbitant rate of Rs. 900.76 on 24 July 2002 without waiting for the outcome of the tender, floated on 23 July 2002. The Committee pointed out that the lowest price quoted against the tender invited was only Rs. 506.80. As a result of this the Board had incurred an avoidable extra expenditure of Rs. 98.49 lakh. The witness explained that the total requirement of meters per month given by the Accountant General as 16,700 was not correct. In July 2002, 62,427 meters were utilised. The Committee pointed out that Audit had calculated on the basis of records provided by KSEB. The witness elaborated that normally price of goods increases. So KSEB stipulates in the purchase order that an additional quantity of up to 25% of the original order be supplied at the same rate, terms and conditions. According to this, purchase order for 25,000 numbers of

* 25,000x (Rs. 900.76—Rs. 506.80)

additional quantity of meters was placed at the price of Rs. 900.76 subject to the condition that the entire quantity should be supplied within the stipulated time.

4. The Committee enquired whether the Board had any system to ascertain the market value of the meters before placing orders for additional quantity and pointed out that the price of meters was showing declining trend.

5. The witness informed the Committee that the procurement of 25,000 meters was inevitable for new service connections and replacement of faulty meters during the period of late August 2002 to the end of September 2002. The Committee criticised the hasty decision of the Board to place orders for purchase without waiting for the outcome of tender floated on 23 July 2002. So it appears that this purchase was not meant to be beneficial to KSEB. The witness remarked that KSEB does not have a system to ascertain market prices and the Board purchases only through the tender. The Committee enquired why the Board was unable to know beforehand the number of meters it would need each year and pointed out that the Board had failed to prepare correct estimate of its actual requirements and also had not verified the stock position. The witness explained that Kerala State Electricity Board should actually have a planned system to prepare annual estimates for the next year in September itself and should prepare a purchase plan for the whole equipments for the next year. But the Board did not have such a system. The witness further added that the Board had approved the purchase plan for 2006-07 in 2008 January only.

6. The Committee expressed shock and surprise that such a major undertaking with major investment was continuing to function without proper estimates, without regular stock verification and without a well defined purchase plan. Such arbitrariness was in fact causing huge financial loss to the Board by providing opportunity for malpractice. The witness stated that the Board had now taken measures to rectify the system and will develop annual procurement plan well in advance of the year ahead and will henceforth procure the items it needs for the whole year.

Conclusion/Recommendation

7. **The Committee finds that the Board has purchased the meters at an exorbitant rate of Rs. 900.76 per meter without considering the market price at that time which was much lower, resulting in loss of lakhs of rupees to the Board. The Committee expresses its displeasure over the remarks of the witness that requirements of meters per month given by the Accountant General as 16,700 was not correct, as Audit had calculated on the basis of records provided by KSEB. The Committee is shocked to know that even today when information is only a click away, such a major undertaking with huge investment has no system to ascertain the present market prices**

of the materials it requires and only takes into account the tender prices. Also the Board is functioning without proper estimate, without regular stock verification and without a well defined purchase plan. Such arbitrariness is in fact causing huge financial loss to the Board. The Committee finds that KSEB did not have a procurement system and hence had to resort to hasty purchase resulting in loss. Therefore, the Committee observes serious lapse on the part of the Board and recommends that KSEB should evolve a system for effective planning and advance purchase of the items it will need in the succeeding year. In no case should any item be purchased at prices exceeding current market rates. The Committee desires to be informed whether stock verification has been done in all units of KSEB during the years 2006-07, 2007-08 and 2008-09, and whether the purchase plan for 2009-10 has been prepared and approved and if yes the date of approval.

AUDIT PARAGRAPH

In order to meet the requirement of pin insulators to be used in transmission construction works for the year 2000-01, the Board decided (March 2000) to invite tenders for the purchase of 1,80,000 sets of the material. Accordingly, tenders were invited (June 2000) for 1,80,000 sets; While the Board had (May 2000) a stock of 1,18,340 sets of pin insulators and the consumption rate was only 12,850 sets per month, orders were placed (May 2000) on BHEL as continuation of an earlier purchase contract (May 1999) for a total quantity of 1,80,000 sets (90,000 sets each in May and September 2000) @ Rs. 95.48 per set without even waiting for the outcome of fresh tenders invited in June 2000. BHEL supplied (July 2000 to January 2001) 1,79,018 sets at the rate of Rs. 95.48.

It was noticed in Audit that the tender invited in June 2000 was opened by the Board on 20 December 2000 as against the notified date of July 2000 and the lowest rate quoted was Rs. 71.84 per set by Bihar Industrial Corporation. This tender was also cancelled by the Board (August 2002) on the ground that the stock of 98,268 sets available was more than sufficient to meet the requirement (79,500 sets) for the year 2002-03.

Thus, the failure of the Board to process and avail of the advantage of the lowest rate of Rs. 71.84 per set and alternative procurement of 1,79,018 sets of pin insulators from BHEL as additional quantity against earlier contract at exorbitant rate of Rs. 95.48 per set, when there was stock available to meet more than nine months' requirement, resulted in avoidable extra expenditure of Rs. 42.32 lakh.*

* 1,79,018 sets x (Rs. 95.48 – Rs. 71.84).

Management stated (May 2003) that considering the time taken for processing and finalisation of the tenders invited in June 2000 and lead time required for delivery of materials, decision was taken to procure pin insulators from BHEL against the earlier contract. The reply is not tenable since the Board had a stock of more than nine months' requirement when the decision was taken to purchase additional quantity from BHEL and the lead time required for commencement of supply was only two months. The Board also did not open the tender received in July 2000, as stipulated, so as to avail of advantage in price but delayed it up to December 2000 and then cancelled the tender on the ground of availability of sufficient stock.

The matter was reported to Government in June 2003; their reply is awaited (September 2003)

[Audit Paragraph 4.13 (2) contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)]

Notes on the Audit paragraph furnished by Government is given in Appendix II.

8. The Committee enquired the reason for the Board's hasty decision to purchase pin insulators in May 2000 at the rate of Rs. 95.48 per set, when there was sufficient stock available to meet more than nine months' requirement. The Board also did not wait for the outcome of fresh tenders invited in June 2000, opening the tenders only on 20 December 2000 against the notified date of July 2000. This resulted in avoidable extra expenditure of Rs. 42.32 lakh. The witness requested a little concession in this matter and explained that the Board had purchased pin insulators from BHEL for Rs. 95.48 as against Rs. 71.84 from Bihar Corporation taking into consideration only the quality. The pins were to be used for the 11 KV lines. So the Board had decided to take no risks as it was a matter of human lives. That is why the Board had decided to purchase pin insulators from BHEL, as quality was assured and it was a public sector undertaking. The Committee was not satisfied with the reply and enquired for what purpose the Board had placed pre-qualification test and why the Board had not selected the companies who passed pre-qualification test. This showed that companies selected after pre-qualification were quality-wise not so good.

9. The Committee enquired about the need for the hasty purchase. The witness replied that as per available data, the consumption was 1,46,000, 1,54,000 and 1,56,000. Only in 2000-2001, the consumption had fallen to 58,158. Delay had occurred in usage.

10. The witness further stated that BHEL being a public sector undertaking, quality wise its materials are good. So the Board purchased the pin insulators from BHEL.

Conclusion/Recommendation

11. The Committee accepts KSEB's contention that purchase from BHEL ensured good quality, but desires to know whether quality check was done before including Bihar Industrial Corporation in the tender, and what the result of the test was.

AUDIT PARAGRAPH

The payment of bonus/special festival allowance to the employees of the Board was being governed by the guidelines issued by Government each year. Payment in any other form or name, in violation of the guidelines had been expressly prescribed by such orders and the chief executives of Public Sector Undertakings were personally liable for any such over payments.

However, it was noticed (July 1999) in Audit that, in addition to bonus/special festival allowance the Board had been making payment by way of incentive and ex-gratia @ Rs. 200 and Rs. 100 each per financial year respectively to all the regular/contract/part time contingent employees and casual labour rate workers. Apprentices who do not qualify for payment of bonus and pensioners who were paid festival allowance were also granted ex-gratia of Rs. 100 each. Even after the irregular payment was pointed out by Audit in July 1999, Board continued the payment of incentive and ex-gratia in addition to bonus/festival allowance. The ineligible payment made towards incentive and ex-gratia during the five years from 1996-97 to 2000-01 was Rs. 2.24 crore and Rs. 1.20 crore respectively.

Thus the payment of incentive and ex-gratia in violation of Government order resulted in avoidable expenditure of Rs. 3.44 crore. No action had been taken by the Board to fix responsibility on the Chief executive for the above irregular payment.

When the irregularity was again pointed out (October 2001) the management stated (May 2002) that the Board was empowered to make its own rules and regulations which may not be in line with Government rules. The payments were stated to have been made to employees as a gesture of goodwill to maintain industrial peace and harmony. However, as per section 78 A (1) of Electricity (Supply) Act 1948, in the discharge of its function the Board shall be guided by such direction on questions of policy as may be given to it by the State Government. Therefore, the reply is not tenable since the payments made

were irregular in so far as, it circumvented the provisions of Bonus Act and violated the specific directions issued by Government with a view to ensure compliance of such provisions. However, the Board has stated that such payments were dispensed with during the year 2001-02 and 2002-03.

The matter was reported to Government in July 2003; their reply is awaited (September 2003).

[Audit Paragraph 4.14 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (Commercial)]

Notes on the Audit Paragraph furnished by Government is given in Appendix II.

12. The Committee enquired the reason by which the Board had been making payment by way of incentive and ex-gratia @ Rs. 200 and Rs. 100 each per financial year respectively to all the regular/contract/part time contingent employees and casual labour rate workers. A apprentices who do not qualify for payment of bonus, and pensioners who were paid festival allowance were also granted ex-gratia of Rs. 100 each in addition to bonus/special festival allowance for the period of five years from 1996-97 to 2000-01, which resulted in irregular payment of Rs. 3.44 crore. The Committee pointed out that payments of bonus/special festival allowance to the employees of the Board was being governed by guidelines issued by Government each year and payment in any other form or name in violation of the guidelines had been expressly proscribed by such orders and the chief executives of Public Sector Undertakings were personally liable for any such over payments. The Committee wanted to know why, even though such guidelines existed, the Board had violated Government's decision. The witness replied that it was done as a measure of goodwill and gesture in KSEB to maintain industrial relations. However the Board has stopped this irregular payment in 2001-2002.

13. The Committee remarked that Government representatives including the Power Secretary were also Members of the Board. So if Government takes a decision, the Board is bound to obey that decision. If the Board overrules Government decision, the Board should at least obtain ratification from Government. The witness agreed that the Board should have obtained an order from Government to regularise the payments, but the Board had not done it.

14. To a specific query, the witness remarked that the Board is trying to change the existing system of KSEB step by step. The Committee remarked that KSEB can act only in accordance with Government directions. It was wrong on the part of KSEB to make payments against Government guidelines and in spite of Audit pointing out the irregularity in 1999, KSEB continued it till 2000-2001.

Conclusion/Recommendation

15. **The Committee finds that Kerala State Electricity Board is of the conviction that it is empowered to make its own rules and regulations which may not be in line with Government rules. Hence, even after the irregular payment of ex-gratia and incentives was pointed out by Audit in July 1999, the Board continued the payment till 2000-2001. The Committee desires to be informed why Power and Finance Departments remained silent towards this irregularity and grave violation of Government guidelines, without even obtaining Government ratification. Since Government guidelines specifically state that the Chief executives of Public Sector Undertakings would be personally liable for overpayments in any other name or form, in violation of Government guidelines. The Committee may be informed of the steps taken by Government in this case.**

AUDIT PARAGRAPH

Board entered (March 1998) into a turnkey contract with Bharat Heavy Electricals Limited (BHEL) for setting up a 128 MW diesel power plant at Kozhikode. Wartsila NSD India Limited Mumbai (Wartsila) was the main sub-contractor of BHEL for supply of equipment.

As Per Article 2.2 of the agreement with BHEL, the scope of supply included special tools and spares for 12,000 hours of operation of the plant and also such items which were not specifically mentioned in the contract documents but were needed for the successful operation of the plant. Based on this provision, BHEL had to supply to Board all spares and tools required for operation of the plant. While the Board had to deal with BHEL only, as per contract, they directly approached (March 2000) Wartsila, (the original equipment manufacturer) for procurement of consumable spares and tools during the period of 12,000 hours of operation of the plant, when supply was to be made free of cost. Board procured (July 2001 to May 2002) spares and tools valued at Rs. 2.33 crore.

On noticing the omission after placing the orders, the Board approached (January 2001) BHEL and Wartsila to procure the spares free of cost. They however, refused to bear the cost of consumable spares. BHEL agreed (February 2001) to replenish only special tools utilised during the period of 12,000 hours of operation of the plant. Accordingly, against Rs. 1.11 crore worth spares consumed during the period July 2001 to March 2004, replenishment was made for spares valued at Rs. 34.81 lakh only. The expenditure on consumable spares valued at Rs. 76.28 lakh had to be borne by the Board through the same were also to be supplied free of cost by BHEL as per contract. Further, materials worth Rs. 1.57 crore (including stores worth Rs. 0.35 crore replenished by BHEL) were idling in stock from July 2001.

Thus the failure of the Board to obtain spares and tools free of cost as per contract resulted in avoidable expenditure of Rs. 76.28 lakh on consumable stores not replenished. Further, idle investment of Rs. 1.57 crore for the period from July 2001 led to interest loss of Rs. 40.90 lakh for the period from May 2002 (date on which payment was made for last batch of spares) to May 2004.

Government stated (July 2004) that BHEL had agreed to replenish the balance consumable spares of Rs. 76.28 lakh and items worth Rs. 102.68 lakh were retained as spares for break down maintenance. It was also stated that the Board had 5 per cent retention money as well as bank guarantee given by BHEL and on final settlement of disputed spares pending replenishment could be taken care of.

The reply is not correct since on verification Audit noticed that BHEL had not agreed to replenish the balance consumable spares of Rs. 76.28 lakh. Moreover, the fact remained that the Board failed to procure the spares free of cost as per contract resulting in locking of funds and avoidable interest loss.

[Audit paragraph 3.7 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2004 (Commercial)]

Notes on the Audit Paragraph furnished by Government is given in Appendix II.

16. The Committee enquired why the Board had approached the sub-contractor for procurement of consumable spares and tools during the period of 12,000 hours of operation of the diesel power plant at Kozhikode instead of dealing with BHEL. As per the agreement, the supply was to be made free of cost by BHEL. But the Board procured the spares and tools on its own which resulted in avoidable expenditure of Rs. 76.28 lakhs. Further spares worth Rs. 1.57 crore were idling for nearly 4 years resulting in interest loss of Rs. 40.90 lakh. The witness replied that BHEL was bound to supply all spare parts beyond 12,000 hours of operation of the plant. But 12,000 hours was not exceeded when Audit took place. BHEL had later supplied items worth Rs. 4.96 crore. Government has been informed of this. The witness further agreed to give the details of this supply as desired by the Committee.

Conclusion/Recommendation

17. The Committee finds that the Board directly approached the sub contractor, instead of dealing with BHEL with whom the Board had signed a contract and noticed the omission only after placing the orders. This shows utter carelessness on the part of the KSEB.

The Committee is not satisfied with the reply of the Board that BHEL was bound to supply spare parts beyond 12,000 hours of operation of the plant, but 12,000 hours was not exceeded when audit took place. The Committee desires to be furnished with the details of the items supplied by BHEL, free of cost, for this project and recommends that the Board has to develop an effective system for procurement of spares.

AUDIT PARAGRAPH

As a part of the tripartite agreement between Government of India, the State Government and the Reserve Bank of India for securitisation of dues of State Electricity Boards to Central Public Sector Units, Government of India notified (May 2002) a one time settlement scheme. Under this scheme, for the purpose of settlement of current dues of the National Thermal Power Corporation Limited (NTPC) the Kerala State Electricity Board (Board) was to open an irrevocable letter of credit (LC) for an amount equal to 105 per cent of the average monthly billing for the preceeding 12 months and the LC limit was to be revised every six months.

As per terms agreed to with NTPC, the Board was eligible for a rebate of 2.5 per cent on full settlement of monthly bills against LC within one month of presentation of bills. For weekly payment the rebate of 2.5 per cent was allowed for the first week and for the remaining weeks the rebate was only 1.5 per cent. For delay in payment beyond last day of the month following the month in which the bill was raised, surcharge at 2 per cent per month was to be levied by NTPC till November 2002 and @ 1.25 per cent thereafter.

In line with the above terms and conditions NTPC fixed (May 2002) an LC limit of Rs. 85 crore for the Board, taking into account the average monthly billing for the year 2001-02. At the request (June 2002) of the Board the LC limit was, however, lowered and revolving irrevocable LC was opened with Canara Bank for Rs. 60 crore only.

Audit observed that the actual average monthly net payment to NTPC during the period from July 2002 to June 2003 was Rs. 89.53 crore. This indicated that the decision to maintain a lower LC limit in deviation from the statutory obligations prescribed by Government of India deprived the Board of the benefit of rebate on the payment of Rs. 25 crore made outside the LC limit. Subsequently the LC limit was raised to Rs. 81 crore with effect from June 2003. Actual loss of benefit during the period from July 2002 to June 2003 worked out to Rs. 4.49 crore. The delayed payment of Rs. 25 crore also attracted levy of surcharge to the extent of Rs. 4.03 crore. After adjusting the overdraft interest (Rs. 6.43 crore) and LC charge (Rs. 0.49 crore) payable for

enhancing the LC limit, the net loss due to Board's failure to maintain adequate LC limit worked out to Rs. 1.60 crore.

Thus, the failure of the Board to maintain the LC limit for payment of dues as prescribed by Government of India resulted in avoidable loss of Rs. 1.60 crore.

Government stated (September 2004) that in view of the critical financial position and incapacity of the Board to borrow freely from open market in the first half of 2002-03, it was necessary that the LC was kept at optimum level. It was also stated that though the LC could be revised once in six months, it was not enhanced subsequently due to liquidity problems. The reply is not correct since the Board limited the LC amount to Rs. 60 crore on the ground that the drawal of power from NTPC would be limited to that extent. In June 2003 when there was severe liquidity problems the Board enhanced the limit from Rs. 60 crore to Rs. 81 crore indicating that the same prudent measure would have been possible in June 2002 also.

AUDIT PARAGRAPH

The Rural Electrification Corporation Limited (REC) had been financing transmission and distribution system improvement schemes undertaken by the Board for conservation of energy. During the period from 1997-98 to 1999-2000 REC sanctioned loans aggregating Rs. 163.62 crore for 10 such schemes at 13.5 to 14.5 per cent interest per annum against which the first instalment of Rs. 31.15 crore was disbursed up to March 2000.

As per terms and conditions prescribed by REC, the Kerala State Electricity Board (Board) had to complete the work within a period of two years from the release of first instalment of loan failing which no further amount would be disbursed. Due to inordinate delay in identifying sites for the schemes, the Board could not utilise the amounts disbursed, within the stipulated period of two years. REC, there upon, declared the schemes as 'non-starter/slow progress' and directed (June 2001) the Board to remit the outstanding loan balance of Rs. 30.82 crore in lump sum within one month, failing which the refundable amount would attract penal interest of 2.75 per cent per annum on compounding basis. The Board did not pay back the amount and REC recovered (September 2001 to January 2002) Rs. 30.82 crore together with Rs. 1.49 crore towards penal interest, by way of adjustment from other loans released to the Board.

Thus, failure to utilise the funds in time resulted in avoidable payment of penal interest of Rs. 1.49 crore.

Government stated (May 2004) that the Board had to utilise the REC loan temporarily to meet inevitable expenditure of very urgent nature and the Board could not avail of overdraft facility to repay the REC loans recalled. The reply is not acceptable since the Board did not make any effort to avail of overdraft facility from banks at lower rate of interest on recall of the loan by REC in June 2001 on the assumption that the demand would be withdrawn. The fact, however, remains that the OD facility of Rs. 50 crore granted (August 2001) by Canara Bank could have been availed of in June 2001 itself to pay off the dues of REC and payment of penal interest of Rs. 1.49 crore avoided.

[Audit Paragraphs 3.8 and 3.9 contained in the report of the Comptroller and Auditor General of India for the year ended 31-3-2004 (Commercial)]

Notes in the Audit Paragraph furnished by Government is given in Appendix II

18. The Committee enquired about the failure on the part of the Board to maintain LC limit as prescribed by Government of India for payment of dues to NTPC which resulted in avoidable loss of Rs. 1.60 crore. Also the injudicious management of funds by the Board resulted in avoidable payment of penal interest of Rs. 1.49 crore to the Rural Electrification Corporation Limited. The witness replied that unfortunately the year turned out to be one of the bad monsoon years. The Board was reeling under severe financial constraints and was not in a position to mobilise the fund by borrowing. Once LC is opened, the supplier gets payments by presenting the bills in the bank. There is no freedom available to the Board to stop such payments. Then it would not be possible to ensure availability of fund for salary payments, payment of Provident Fund dues, repayment of past debts etc.

19. To a specific query the witness remarked that, at that time the Board could not utilize the fund in time due to difficulties in purchasing the land required for the schemes. Land acquisition procedure was time consuming. The Board was also struggling hard to borrow and pay the dues to retired employees, power suppliers and debtors. So it could not refund the amount recalled by REC and also the amount due to NTPC. The witness admitted the Board's mistakes and stated that the KSE Board's financial condition had greatly improved.

Conclusions/Recommendations

20. The Committee finds that not enhancing the limit of letter of credit (LC) for the period from July 2002 to June 2003, based on the wrong assumption that the power to be drawn from NTPC, was indeed a lapse.

Though paucity of funds to meet urgent requirements is cited by KSEB as the reason for not enhancing LC limit, it had prudently enhanced the limit from Rs. 60 crore to Rs. 81 crore in June 2003, in spite of severe liquidity problems. This would have been possible in June 2002 also.

21. In the case of the loan from Rural Electrification Corporation Limited (REC), the Committee does not agree with the Board's remarks that at that time it was reeling under severe financial constraints and was not in a position to mobilise funds by borrowing because the Board made no effort to avail the OD facility of Rs. 50 crore granted by Canara Bank which could have been availed in June 2001 to pay off the dues of REC, to avoid payment of penal interest of Rs. 1.49 crore. The Committee realizes that the Board's injudicious management of funds led to a huge financial loss and that there is lack of planning and foresight on the part of the Board. The Committee recommends that the Board must rectify its past mistakes, fix responsibility of the finance managers and develop a better system of financial control.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
30-6-2009.

*Chairman,
Committee on Public Undertakings.*

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

| <i>Sl.No.</i> | <i>Para No.</i> | <i>Department Concerned</i> | <i>Conclusions/Recommendations</i> |
|---------------|-----------------|---------------------------------|---|
| (1) | (2) | (3) | (4) |
| 1 | 2 | Power | The Committee finds that KSEB had incurred a loss of Rs. 8.79 crore by deviating from prescribed Government guidelines and helped a private entrepreneur, Indsil Electrosmelts to gain an equal amount by bearing construction cost of 12.477 km of transmission line. If the cost was borne by KSEB as a promotional measure, the Committee wants to know why the Government had initiated action for recovery of the amount instead of informing Audit of the reason. The Committee also opines that it is evident that the money could not be recovered due to incorporation of the provision that the Board would bear construction cost of transmission line beyond 4 km in the agreement. The Committee desires to be informed of the reason for this. The Committee also recommends that in future strict vigilance should be taken in such matters. |
| 2 | 7 | „ | The Committee finds that the Board has purchased the meters at an exorbitant rate of Rs. 900.76 per meter without considering the market price at that time which was much lower, resulting in loss of lakhs of rupees to the Board. The Committee expresses its displeasure over the remarks of the witness that requirements of meters per month given |

| (1) | (2) | (3) | (4) |
|-----|-----|-------|---|
| | | | <p>by the Accountant General as 16,700 was not correct, as Audit had calculated on the basis of records provided by KSEB. The Committee is shocked to know that even today when information is only a click away, such a major undertaking with huge investment has no system to ascertain the present market prices of the materials it requires and only takes into account the tender prices. Also the Board is functioning without proper estimate, without regular stock verification and without a well defined purchase plan. Such arbitrariness is in fact causing huge financial loss to the Board. The Committee finds that KSEB did not have a procurement system and hence had to resort to hasty purchase resulting in loss. Therefore, the Committee observes serious lapse on the part of the Board and recommends that KSEB should evolve a system for effective planning and advance purchase of the items it will need in the succeeding year. In no case should any item be purchased at prices exceeding current market rates. The Committee desires to be informed whether stock verification has been done in all units of KSEB during the years 2006-07, 2007-08 and 2008-09, and whether the purchase plan for 2009-10 has been prepared and approved and if yes, the date of approval.</p> |
| 3 | 11 | Power | <p>The Committee accepts KSEB's contention that purchase from BHEL ensured good quality, but desires to know whether quality check was done</p> |

| (1) | (2) | (3) | (4) |
|-----|-----|-------|--|
| | | | before including Bihar Industrial Corporation in the tender, and what the result of the test was. |
| 4 | 15 | Power | The Committee finds that Kerala State Electricity Board is of the conviction that it is empowered to make its own rules and regulations which may not be in line with Government rules. Hence, even after the irregular payment of ex-gratia and incentives was pointed out by Audit in July 1999, the Board continued the payment till 2000-2001. The Committee desires to be informed why Power and Finance Departments remained silent towards this irregularity and grave violation of Government guidelines, without even obtaining Government ratification. Since Government guidelines specifically state that the Chief executives of Public Sector Undertakings would be personally liable for overpayments in any other name or form in violation of Government guidelines. The Committee may be informed of the steps taken by Government in this case. |
| 5 | 17 | „ | The Committee finds that the Board directly approached the sub contractor, instead of dealing with BHEL with whom the Board had signed a contract and noticed the omission only after placing the orders. This shows utter carelessness on the part of the KSEB. The Committee is not satisfied with the reply of the Board that BHEL was bound to supply spare parts beyond 12,000 hours of operation of the plant, but 12,000 hours was not exceeded |

| (1) | (2) | (3) | (4) |
|-----|-----|-------|--|
| | | | <p>when audit took place. The Committee desires to be furnished with the details of the items supplied by BHEL, free of cost, for this project and recommends that the Board has to develop an effective system for procurement of spares.</p> |
| 6 | 20 | Power | <p>The Committee finds that not enhancing the limit of letter of credit (LC) for the period from July 2002 to June 2003, based on the wrong assumption that the power to be drawn from NTPC was indeed a lapse. Though paucity of funds to meet urgent requirements is cited by KSEB as the reason for not enhancing LC limit, it had prudently enhanced the limit from Rs. 60 crore to Rs. 81 crore in June 2003, in spite of severe liquidity problems. This would have been possible in June 2002 also.</p> |
| 7 | 21 | ,, | <p>In the case of the loan from Rural Electrification Corporation Limited (REC), the Committee does not agree with the Boards remarks that at that time it was reeling under severe financial constraints and was not in a position to mobilise funds by borrowing because the Board made no effort to avail the OD facility of Rs. 50 crore granted by Canara Bank which could have been availed in June 2001 to pay off the dues of REC to avoid payment of penal interest of Rs. 1.49 crore. The Committee realizes that the Board's injudicious management of funds led to a huge financial loss and that there is lack of planning and foresight on the</p> |

| (1) | (2) | (3) | (4) |
|-----|-----|-----|--|
| | | | <p>part of the Board. The Committee recommends that the Board must rectify its past mistakes, fix responsibility of the finance managers and develop a better system of financial control.</p> |

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON AUDIT PARAGRAPH

| <i>Sl.No.</i> | <i>Para No.</i> | <i>Action Taken by the Government on the Audit Paragraph</i> |
|---------------|-----------------|---|
| 13 | 4.12 | As per para 7 of the G.O. (Ms.)No.23/90/PD. dated 7-12-1990, the transmission line required for transmitting power from the captive plant of the agency to the nearest grid sub station has to be built at the cost of the agency by KSE Board, as a deposit work and after construction it has to be transferred to the Board without any compensation. The length of the line constructed at Board's cost is 12.477 kms. The line work was completed in February 2002 and the same has been commissioned. M/s. INDSIL remitted an amount of Rs. 256.29 lakhs being the cost of construction of the transmission line for 4 kms and KSEB incurred Rs. 875.71 lakhs towards the cost of 12.477 kilometers of line. Thereafter Government has directed the KSEB to take necessary action for recovering the cost of 12.477 KM of transmission line for the evacuation of power generated from Kuthungal HEP and interest thereon from INDSIL Electromelts. |

Department : Power (B) Department

Subject/Title of the Review/
Para : Procurement of single phase static meters and pin insulators at exorbitant rates without considering the stock in hand and waiting for the outcome of the tenders floated, resulted in avoidable extra expenditure of Rs. 1.41 crore.

Para No. : 4.1, 3.1

Report No. and year : 31-3-2003

Date of receipt of the Draft
Para/Review in the Department : 18-6-2003

Date of Department's reply : 30-7-2003

Gist of Paragraph/Review : Procurement of single phase static meters at exorbitant rates without considering the stock in hand and waiting for the outcome of the tenders floated, resulted in avoidable extra expenditure of Rs. 98.49 lakh.

Does the department agree :
with the facts and figures
included in the paragraph ?

if not, please indicate the : Remarks given in ANNEXURE I
areas of disagreement and
also attach copies of relevant
documents in support

ANNEXURE I

The Board invited tenders for the purchase of 50,000 numbers of single-phase static meters on 23-7-2002 and the price bid was opened on 14-8-2002. On finalization of the tender, purchase order for the said quantity was issued on 9-9-2002. The supply was to be effected within 45 days from the date of purchase order.

As on the date of invitation of tender i.e. 23-7-2002, the stock of single phase static meters was only 40,134 numbers. The total number of faulty meters in KSEB system as on 1-4-2002 was 8.2 lakhs numbers. During 2002-03, the average requirement of static meters per month for effecting new service connections and for the replacement of faulty meters was around 62,000 and not 16,700 as mentioned in the audit para the number of fresh connections effected during 7/2002 and 8/2002 was 25,036 and 28,119 respectively and the number of faulty meters replaced were 37,391 and 28,078 respectively as summarized below:—

| Stock position as on 23-7-2002 | July 2002 | August 2002 | Period for which the stock of 40134 numbers could be used | Date of opening of the tender dated 23-7-2002 | Delivery period as per the tender dated 23-7-2002 |
|--------------------------------|--|----------------------------------|---|---|--|
| 40134 Numbers | Number of service connections effected:— 25036 Number of faulty meters replaced:— 37391 Total 62,427 | 28119 28078 56,197 | 20 days i.e. from 23-7-2002 to 14-8-2002 | 14-8-2002 | 45 days from the date of purchase order. The purchase order was issued on 9-9-2002. The firm supplied the meters between 3-10-2002 and 8-10-2002 |

From the above, it can be seen that the available stock of 40,134 numbers of meters on 23-7-2002 was sufficient only to meet the requirement up to mid August 2002 and not up to fresh supplies as alleged by audit. The delivery period as per the tender dated 23-7-2002, which was opened on 14-8-2002, was

45 days from the date of placing the purchase order i.e. 9-9-2002. The firm completed delivery by 8-10-2002. It is quite evident that for effecting new service connections and for replacement of faulty meters during August 2002 and September 2002 the stock at the end of July 2002 and pending supply was inadequate at least 25,000 numbers of meters were to be procured urgently, without waiting for the supply of meters against the tender opened on 14-8-2002. Otherwise, the Board would have been forced to stop giving new service connections and replacement of faulty meters during the period of late August 2002 to the end of September 2002. Had the Board not taken the decision to procure 25,000 meters pending finalization of the tender dated 23-7-2002, it would not only have failed to give connections but also would have suffered loss of revenue.

It was against this backdrop and after conscious decision that the purchase order for the additional quantity of 25,000 numbers of static meters was placed on 24-7-2002 with M/s. Electron Energy Equipments Ltd. (NOIDA), who had earlier supplied one lakh numbers static meters as per the purchase order dated 29-11-2001. As per the conditions stipulated in the purchase order dated 29-11-2001, an additional quantity up to 25% of the original order (that is 25,000 numbers) can be procured at the same agreed rate, terms and conditions. Accordingly, purchase order for 25,000 numbers of additional quantity of meters was placed with the firm at the then existing price of Rs. 900.76 subject to the condition that the entire quantity should be supplied before 31-8-2002. The firm commenced the supply on 10-8-2002 and completed the supply of 25,000 meters by 27-8-2002. If this emergent purchase was not resorted to, the Board would not have been in a position to give the connections during late August and September 2002. Thus the procurement of 25,000 numbers of meters was inevitable and could not be deferred till finalization of the pending tender. Had it been deferred the loss would have been much more.

The price bid of the tender (No.Ele.13/2001-02) invited in December 2001 for the supply of 2 lakh static meters was opened on 9-8-2002 and the lowest quoted price in this tender was Rs. 645.40 per meter. There was delay in opening the tender due to the following circumstances:—

Before opening the pre-qualification bid, an additional clause to the technical specifications was decided to be introduced to get the meters with anti-tampering feature, i.e. the meter should register consumption even when the neutral wire from supply side/load side is removed or disconnected by way of tampering. This was considered necessary as at that point of time some other State Electricity Boards started purchasing meters with anti-tampering features. As this feature was not specified in the original technical specifications, all the

23 firms who participated in the tender were asked to supply new samples of meter with the newly introduced feature before 27-6-2002 along with the sealed cover containing the price details for the additional neutral; missing facility. The samples supplied by the firms had to be tested and approved. After testing the samples and evaluating the pre qualification bid, the price bid was opened on 9-8-2002 and the new price of Rs. 645.40 per meter was decided only in August 2002. The finalization of this tender was delayed due to the facts mentioned above and the delay was not avoidable.

To sum up, the procurement of the add on quantity of 25,000 meters in August 2002 without waiting for finalization of the tender dated 23-7-2002 was necessitated for want of adequate stock in hand to meet the requirement before the supply against the tender dated 23-7-2002 could start. The purchase was resorted to after taking into account the stock & emergent requirement. Had the Board not taken this conscious decision, the Board would have suffered greater loss.

The audit observation is based on the incorrect statements that Board's average monthly requirement of meters was only 16,700. The total number of service connections and faulty meters replaced on 2002-03 was 803,532 (new service connection 381,816 + replacement of faulty meters 421,716), which worked to an average of 66,961/month. The details of utilization of single phase static meters from 7/02 to 10/02 alone is given below:—

| <i>Month</i> | <i>Utilization of Meters</i> | | <i>Total</i> |
|--------------|------------------------------|---|--------------|
| | <i>For new connection</i> | <i>For replacement of faulty meters</i> | |
| 7/02 | 25036 | 37391 | 62427 |
| 8/02 | 28119 | 28078 | 56197 |
| 9/02 | 20472 | 38308 | 58780 |
| 10/02 | 20213 | 38452 | 58665 |

In view of the above facts, the audit observation that the Board has not considered the stock while procuring the add on quantity from then existing supplier is not correct. The Audit has also not taken into account the revenue gain as a result of replacement of faulty meters.

| <i>Sl.No.</i> | <i>Paragraph No.</i> | <i>Action Taken by the Government on the Audit Paragraphs</i> |
|---------------|----------------------|---|
| (1) | (2) | (3) |
| 1 | 4.13.2 | <p>In April 1999 the KSE Board entered into a rate contract with M/s. BHEL for the supply of 1,80,000 Nos. of 11 KV Pin Insulators at an all inclusive price of Rs. 95.48 per set. This rate was decided after negotiations with the firm which quoted a rate of Rs. 103.18 . The supply envisaged in the rate contract was to meet the requirement of 1999-2000.</p> <p>The tender for the supply of 1,30,000 Nos. of Pin Insulators was invited in March 2000 for meeting the requirement of 2000-01. As no firm had satisfied the tender condition of supplying material with ISI marking, the tender was cancelled. Fresh tender was invited in June 2000. Meanwhile, the rate contract with M/s. BHEL was extended for further period of six months as per the decision of the Purchase Committee dated 22-4-2000 and 90,000 Nos. of 11 KV Pin Insulators were ordered in May 2000. The firm supplied the Insulator between June to December 2000. Considering the requirement pending processing and finalisation of the tender invited in June 2000 and the lead time required for delivery of the ordered quantity etc., the Purchase Committee in its meeting dated 16-8-2000 decided to place orders for the procurement of another lot of 90,000 Pin Insulators from M/s. BHEL at the same price, terms and conditions of the rate contract. Accordingly, Orders for 90,000 numbers of Pin Insulator was placed with M/s. BHEL on 20-9-2000 i.e. three months before opening of the price bid of the tender invited in June 2000. The price bid was opened on 20-12-2000 and no further order was placed with M/s. BHEL or any other firms after opening of the price bid.</p> |

(1)

(2)

(3)

The stock position of the 11 KV Pin Insulators for the period from 1998-99 to 2001-02 is given below:

| <i>Financial Year</i> | <i>Opening Balance</i> | <i>Receipts</i> | <i>Issues</i> | <i>Closing Balance</i> |
|-----------------------|------------------------|-----------------|---------------|------------------------|
| 1998-99 | 4379 | 177966 | 146044 | 36301 |
| 1999-2000 | 36301 | 226295 | 154206 | 108390 |
| 2000-01 | 108390 | 179473 | 156975 | 130888 |
| 2001-02 | 130888 | 39874 | 58518 | 112244 |

It may be noted that on an average, consumption of the Pin Insulators during 1998-99 to 2000-01 was 1.52 lakhs/year. During 2000-01, the opening balance of Insulator available in stock was 1.08 lakh as against the assessed requirement of 1.80 lakh and actual use of 1.56 lakhs. Thus there was a necessity to procure fresh quantity of Insulators during 2000-01.

During 2001-02 also, the requirement of Insulators was assessed as 1.80 lakhs. During 2001-02 due to shortage of PSC Poles and Conductors, progress of the targeted work was very slow. The tender invited during 2000-01 for the purchase of Conductors could not be finalized as there was a case filed by the contractors before the Hon'ble Court. As the targeted works could not be completed due to the shortage of the above mentioned materials, the Pin Insulators couldnot be utilized to the extent of normal use during 2001-02. It may be noted that the Pin Insulators utilized during 2001-02 was only 58,518 numbers as against the average annual utilization of 1.52 lakhs, but, now that the tender for the purchase of conductors has been fianalized and supply of the same commenced, the requirement for Pin Insulators which is a fast moving item has increased. As on 15-9-2003 the stock of Pin Insulators was 20768 only.

| (1) | (2) | (3) |
|-----|-----|--|
| | | <p>Purchase of 11 KV Pin Insulators from M/s. BHEL during 2000-01 is due to the following reasons:</p> |
| | | <p>(1) As detailed above, the tender invited in March 2000 had to be cancelled. To meet the requirement for 2000-01 the Board had to place an additional order for 90,000 Insulators with M/s. BHEL, in May 2000. Though fresh tender was invited in June 2000, it could be opened in December 2000 only. In the meanwhile, in September 2000, the Board had to place further order for 90,000 Insulators with M/s. BHEL to meet the requirement of 2000-01. Despite no procurement in 2001-02 the material became surplus in 2001-02 due to under utilization resulting from poor progress of work and not due to excess purchase.</p> <p>(2) The quality of 11 KV Pin Insulators supplied by M/s. BHEL was very good. But, the quality of the same item supplied by other companies in the past was very poor resulting in frequent interruption in power supply, flash over of Insulators, etc. several accident cases were reported on snapping of 11 KV lines caused by flashing over of the Pin Insulators. Thus, the quality of the Pin Insulator is a very important aspect to be considered while placing orders for the supply of this item. M/s. BHEL is a Central Public Sector Undertaking and they had been uninterruptedly supplying 11 KV Pin Insulators of good quality from 1996-97 onwards. They have satisfied all the condition stipulated in the rate contract with the KSE Board.</p> |

| (1) | (2) | (3) |
|-----|-----|--|
| | | <p>On Knowing the availability of surplus stock resulting from Under utilization in the previous year (2001-02), the KSE Board cancelled the tender (of June 2000) in August 2002 and avoided further purchase. As on September 2003 the stock has been reduced to 20,768. In the light of the facts explained above the objection raised by the Audit may be dropped.</p> |

| <i>Sl.No.</i> | <i>Paragraph No.</i> | <i>Statement of Action taken on the Audit para</i> |
|---------------|----------------------|---|
| (1) | (2) | (3) |
| 1 | 4.14 | <p>The payment of bonus to the employees of Board is governed by the Bonus Act, 1965 and Government instructions. During the period 1996-97 to 2000-01, those who were not eligible for bonus were paid festival allowance of Rs.1,000. In addition to Bonus/ Festival Allowance, ex-gratia amounting to Rs. 100 and incentive of Rs. 200 were granted as a measure of good will and incentive. It had been the practice in KSE Board that all employees who were eligible for bonous/festival allowance were paid ex-gratia of Rs. 100 from 1988-89 onwards and incentive of Rs. 200 from 1993-94 onwards.</p> <p>The KSE Board is a public utility service enjoying monopoly in so far as Generation. Transmission and Distribution of power are concerned. In such an organisation, the goodwill and co-operation of the employees count very much in ensuring smooth functioning of the organisation. It was with the sole objective of cultivating better industrial relations that the Board granted ex-gratia and incentive apart from bonus/festival allowance during the years in question.</p> <p>An important factor to be noted in this connection is that out of 26,000 employees, only a very small percentage of employees was eligible for the minimum bonus. The payment of ex-gratia & incentive to the rest who are not eligible for bonus was aimed at generating goodwill and positive motivation.</p> <p>In this background of payment of minimum bonus, only to few eligible persons, the payment of ex-gratia and incentive to the others to the tune of Rs. 60 lakhs/ year made as a measure of goodwill and gesture may not be construed as undue benefits extended to the employees.</p> |

| (1) | (2) | (3) |
|-----|-----|---|
| | | <p>However, in view of these observations and in view of severe financial crisis of the Board, the practice of paying ex-gratia and incentive was stopped in 2001-02. During 2002-03 and 2003-04 also ex-gratia and incentive were not paid. Only the statutory minimum bonus and festival allowance was given to the employees as per eligibility during 2001-02, 2002-03 and 2003-04. Thus the issue has been contained at present.</p> |

| <i>Para No.</i> | <i>Statement of Action Taken</i> |
|-----------------|---|
| (1) | (2) |
| 3.7 | <p>KSE Board had entered into an agreement with BHEL for the supply of various equipment for setting up a 128 MW Diesel Power Plant at Nallalam, Kozhikode.</p> <p>In the Agreement No. 242/97-98 entered by KS.E.B. and BHEL, clause 2.2 & 2.3 read as:</p> <p>2.2 The scope of supply covers the design, engineering manufacturing, procurement, testing, packing, forwarding, supply, on CIF Indian port of embarkation basis for imported supplies and on Ex-works basis for indigenous supplies, of the equipment and materials for power plant and switchyard including supply of special tools and spares for 12,000 hours of operation. The scope of work shall also include supply of all such items which are not specifically mentioned in the Contract documents, but which are needed for successful efficient, safe and reliable operation of the equipment unless otherwise specifically excluded in the Contract documents.</p> <p>2.3 The scope of supply and specification of the said equipment has been agreed between the Supplier & Owner as detailed in Section III</p> <p>Section III A & B deal with Technical specifications of the equipments, (C) power house facilities, (D) Quality assurance programme, (E) List of tools & lab equipment and (F) list of spares. Section III (F) details the spare parts agreed to be supplied by BHEL. "Spare parts" has been defined in the contract as spare parts listed in section III. Thus, the spare parts required to be supplied as part of the contract is listed and quantified in Section III (F).</p> |

| (1) | (2) |
|-----|--|
| | <p>In clause 2.2, the wordings, “The scope of work shall also include supply of all such items which are not specifically mentioned in the contract documents, but which are needed for the successful, efficient, safe and reliable operation of the equipment” was added to protect the power plant from stopping due to failure of a component not listed in Section III (F).</p> <p>Initially the Board had decided to maintain the stock of spares at the Board’s cost and get them physically replenished by BHEL as and when utilised upto 12,000 hrs of operation. Subsequently, as it was considered safe to realise the cost of spares from M/s. BHEL rather than waiting for the physical replenishment of the same from the firm, the Board ordered to procure the spares including consumables from M/s. Wartsila and other original manufacturers under intimation to BHEL and recover the cost of such procurement from M/s. BHEL.</p> <p>As per contract, BHEL was bound to supply spares and tools during 12,000 hrs of the plant free of cost and the procurement of any spares found necessary by KSEB over and above what BHEL supplied as per contract, during this period, was to be borne by the Board. It was only due to long gestation period between ordering for a spare part and obtaining at site from FINLAND that KSEB decided to buy and stock spares of emergent nature (break down spares) in advance.</p> <p>BHEL agreed to KSEB’s demand to supply spare parts, but not consumables. Consumables are items like fuel, lubricants, chemicals, cotton waste, O-ring, gaskets, hoses etc. Consumables are to be procured by KSEB as per contract, after Provisional Performance Acceptance (November 1999) and cannot be expected to be supplied free of cost by BHEL.</p> <p>It is noted in the audit para that “BHEL agreed to replenish only special tools utilised during the period of 12,000 hours of operation of the plant”. The word ‘special tools’ is a wrong usage for spare parts. Special tools are not the ones to be replaced during the course of operation of the engines; it is</p> |

| (1) | (2) |
|-----|---|
| | <p>wearing out spare parts that are to be replaced during the scheduled maintenances and breakdowns.</p> <p>From the spare parts costing Rs. 2,13,75,190.00 (excluding packing, taxes etc.) purchased by KSEB, spares worth Rs.1,11,07,980.00 were used up for maintenance works by February 2004. The balance spare part worth Rs.1,02,67,210 is kept in store as stock to be used beyond 12,000 hours of operation. The necessity for keeping spare parts in a generating station like KDPP is explained in the subsequent paragraphs. Though BHEL/Wartsila had agreed to replenish free of cost all the spare parts required to be supplied, in order to limit the customs duty and avoid stocking of slow moving spares, it was decided to request BHEL/Wartsila to supply only one set of urgently required free spares. Thus, BHEL/Wartsila supplied spares costing Rs.34,80,260.00 by 2/2004. Later KSEB requested BHEL/Wartsila to supply the remaining free spare parts also. All the spare parts costing Rs. 1.11 Crore, which have been used by KSEB for maintenance work, have been replenished (supplied) by BHEL/Wartsila. Out of Rs. 76.28 lakhs mentioned in the audit para as cost of spares to be supplied by BHEL/Wartsila free of cost, an item costing Rs. 71,575.00 is a consumable chemical and need not be replenished by BHEL/Wartsila. The balance spares worth Rs. 75.56 lakhs have been replenished by them.</p> <p>So there was no failure on the part of KSEB to obtain from BHEL/Wartsila all the spare parts which BHEL/Wartsila should have supplied free of cost as per the contract.</p> <p>A tabulation of the cost of spares purchased and used by KSEB and subsequently replenished by BHEL/Wartsila is attached herewith as Annexure 1.</p> <p>KDPP being a plant with reciprocating machine, possibility of breakdowns is more as compared to the hydroelectric plants or gas-turbine plants. In order to ensure continuous availability of</p> |

(1)

(2)

machines i.e. to keep them in the state of readiness at all time, it was thought prudent to keep a minimum stock of breakdown spares too. M/s. BHEL was contractually obliged to replenish breakdown spares during the warranty period only. The spares purchased by the Board were for meeting contingency like breakdown and the spares for normal operation beyond the warranty period also. Had the breakdown spares been arranged through BHEL, in the normal way, a delay of 3 to 4 months for supply from Wartsila, Finland would have taken place leading to unpreparedness. This could result upset in the generation schedule and consequent power purchase from other sources. Hence, it was decided, by the Board, to procure minimum spares including the breakdown spares and keep in stock.

The K.D.P.P. & B.D.P.P. plants designed to run at PLF of 85 per cent are vital plants to the power system (though cost of power generated is high) in the state as they are amenable for easy switch on and off particularly during peak hours requirement for power. Therefore, in order to ensure all time availability of the machines in K.D.P.P., it is essential to keep minimum stock of breakdown spares. For example, the timely action taken to stock the breakdown spares had reduced the outage period in July 2001. During the major component failure in DG#5 that occurred on 6-7-2001, spares amounting to about Rs.45 lakh could be utilized to put back the DG#5 into operation, at the shortest period.

As mentioned above, the plant has been designed to operate at a PLF of 85%. But in actual situation, due to high cost of fuel, the plant has been run sparingly to maintain power supply at peak hours only. Thus, the plant is run at a much lower PLF than envisaged and hence the spares consumed are correspondingly less. The idling of breakdown spares mentioned in the audit para is inevitable and a necessary evil so as to keep the plant in a state of readiness.

| (1) | (2) |
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| | <p data-bbox="853 209 1563 443">The stock of spare parts for a power plant, especially since they are not “off the shelf” type, should not be treated as locking of funds. So the calculation of loss of interest for such an expenditure is only notional and not a real loss. The loss that would result from break down and non-availability of spares could be more than the notional interest loss mentioned in the para.</p> <p data-bbox="853 467 1563 523">Considering the above facts the audit objection may kindly be dropped.</p> |

ANNEXURE 1

| <i>Sl. No.</i> | <i>Particulars</i> | <i>P.O. No. 8/2000 Rs.</i> | <i>P.O. No. 9/2000 Rs.</i> | <i>P.O. No. 10/2000 Rs.</i> | <i>P.O. No. 21/2000 Rs.</i> | <i>P.O. No. 23/2000 Rs.</i> | <i>Total</i> |
|----------------|---|--------------------------------|--------------------------------|---------------------------------|---------------------------------|--|--|
| 1. | Total cost of spares excluding cost of packing, handling taxes etc. | 74,25,845.00 | 70,27,675.00 | 10,91,365.00 | 27,29,800.00 | 31,00,505.00 | 213,75,190.00 |
| 2. | Cost of spares used by 2/2004 | 42,25,650.00 | 51,15,720.00 | 2,30,190.00 | 8,89,100.00 | 6,47,320.00 (Consumable Rs. 71,575.00) | 111,07,980.00* (Includes consumable Rs. 71,575.00) |
| 3. | Cost of spares replenished by BHEL as on 2/2004 | 3,72,295.00 | 23,09,015.00 | Nil | 7,61,100.00 | 37,850.00 | 34,80,260.00 |
| 4. | Cost of balance spares to be replenished by BHEL as pm 2/2004 | 38,53,355.00 | 28,06,705.00 | 2,30,190.00 | 1,28,000.00 | 6,09,470.00 (-) 71,575.00 | 75,56,145 (Excluding consumable of 71,575.00) |
| 5. | Cost of spares replenished by BHEL after 2/2004 | 38,53,355.00 | 28,06,705.00 | 2,30,190.00 | 1,28,000.00 | 5,37,895.00 | 75,56,145.000 |

* Spare parts worth Rs. 1,02,67,210 is kept as stock.

| <i>Sl.No.</i> | <i>Paragraph No.</i> | <i>Action taken by Government</i> |
|---------------|----------------------|--|
| (1) | (2) | (3) |
| 1 | 3.8 | <p>The audit objection is that the KSE Board failed to maintain the prescribed Letter of Credit limit to pay the power purchase dues to M/s. NTPC and this resulted in avoidable loss of Rs. 1.60 crore during the period July 2002 to June 2003.</p> <p>The Board's inability to increase the L.C. limit beyond Rs. 60 crores during the said period was due to the following reasons:—</p> <p>Prior to July 2002, the existing L.C. limit was Rs. 42 crores. As in the beginning of any year, the Board expected that there would be normal monsoon during 2002-03 and the power purchase cost would be more or less at the same level (Rs. 1,451.55 Crores) of 2001-02. Therefore, it was felt that it would not be necessary to enhance the L.C. limit beyond a reasonable limit.</p> <p>But unfortunately, 2002-03 turned out to be one of the bad monsoon years. As against an average hydel generation of 6700 Million units in a normal rainfall year, the actual hydel generation in 2002-03 was only 4819.36 Mu due to severe deficit in rainfall in that year. The normal hydel/thermal mix of about 50:50 changed adversely to 39:61 in that year. As a result, the Board had to buy and generate additional costly thermal power to the tune of Rs. 502 crores in 2002-03 as compared to the year 2001-02. When the Board was otherwise reeling under severe deficit, it had to borrow heavily for meeting the additional power purchase too.</p> <p>Even after securitisation of the outstanding amount of Rs.1,158 crores as of September 2001 due to the central Power Generating utilities, the Board had a liability of Rs. 311 crores, being the power purchase</p> |

| (1) | (2) | (3) |
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| | | <p>dues to NTPC from December 2001 to May 2002. The firm was insisting the Board either to pay the dues or to face curtailment of power supply etc. as envisaged in the Tripartite Agreement Due to severe financial problems of the Board. Government of Kerala and the Board had to negotiate with NTPC to pay the dues in instalments. It was agreed that Rs. 90 crores would be paid to NTPC in March 2003 by way of collecting the arrears of electricity charges payable by the Government Departments to the Board and that the balance would be paid to NTPC in 18 installments. It was in this context of the agreed payment schedule for Rs. 311 crores that NTPC agreed to fix the L.C. limit at Rs. 60 crores for payment of the routine power purchase bills. The limit was fixed taking into account the anticipated capacity of the Board to pay the above mentioned instalments, besides the expected regular monthly power purchase bills</p> <p>In addition to the liabilities mentioned above, as of July 2002, the Board had the following committee liabilities to be liquidated:</p> <ul style="list-style-type: none"> (a) Pension and other retirement benefits of the Board employees could not be paid even after 10 to 15 months after their retirement. The retired employees resorted to court cases for timely settlement of their dues and the Hon'ble High Court directed the Board to set apart Rs.15 crores every month for payment of pension to the retired employees. (b) Similarly, the Provident Fund loan/final payments were in arrears for months together. (c) Establishment claims, payments against land acquisition, contractors' bills etc. totalling to Rs. 97.63 crores were pending as on 14-7-2003 for want of fund. |

| (1) | (2) | (3) |
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| | | <p>Due to the severe financial crisis, the Board had to borrow about Rs. 100 to 120 crores per month to meet the cash deficit towards repayment of Past loan, interest and to bridge the revenue gap resulting from heavy purchase of thermal energy. It may be noted that the L.C. was securitised by the Board's revenue collected through the Banks. It was not possible for the Board to block its revenue by way of opening of LC. in excess of a limit, when the Board had to discharge a number of other pressing liabilities mentioned above.</p> <p>While the Board's financial crisis was strained and aggravating day, by day, it was not in a position to mobilize the fund by borrowing etc. The Board floated a bond issue for Rs. 250 crores in May 2002 with a green shoe option of Rs. 150 crores. But even after extending the period for subscription the board was not able to mop up more than Rs. 190.61 crores by October 2002 and hence had to foreclose that issue and resorted to mobilizing fund through the Kerala Power Finance Corporation. Thus, when the Board was struggling to borrow, it Was not possible to open L.C. in excess of manageable limit</p> <p>Once L.C. is opened, the supplier gets payments by presenting the bills in the Bank. There is no freedom available to the Board to stop such payments. Thus it would not be possible to ensure availability of fund for salary payments, repayment of past debts etc. once L.C. for an unnecessarily higher amount is opened. In view of the critical financial position and incapacity of the Board to borrow freely from the open market, in the first half of 2002-03, it was necessary to keep L.C. at optimum level. Had the L.C. been more than the manageable level, at times, the Board would have found it difficult to pay salary etc. Thus, it was a necessity to limit the L.C. within a manageable limit and pay the additional power purchase bills outside the L.C. Scheme.</p> |

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As mentioned, Power Purchase in excess of the L.C. limit had to be made had to acute shortage of hydel generation in 2002-03. The Board had an option either to limit the power purchase from NTPC within the L.C. limit of Rs. 60 crores or to buy power in excess of that limit and pay the excess dues separately outside the L.C. scheme of payment. Had the Board resorted to buy power within the L.C. limit, it would have resulted in, large scale power cut and load shedding involving huge consequences to the state and public in a drought year. Therefore, despite odds, the Board and Government decided to avoid power cut and load shedding (other than half an hour load shedding) by purchasing power in excess of the L.C. limit. The L.C. limit though could be revised once in 6 months, was not enhanced subsequently due to the liquidity problems mentioned above.

The following table gives the details of payment made to NTPC against bills for each of the month from 6/02.

| Month | Bill Amount (Rs. In Crores) | Payments made during the month by L.C. (Rs. in crores) | Arrear (Rs. In crores) Excluding rebate | Amount & Date of Payment of Arrear (Rs In Crores) | |
|-------|-----------------------------|--|---|---|------------------------|
| | | | | | Cheque dated |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 6/02 | 87.44 | 60.00 | 26.39 | 10.00 16.39 | 31-8-2002 30-9-2002 |
| 7/02 | 88.60 | 60.00 | 27.55 | 27.55 | 30-10-2002 |
| 8/02 | 94.46 | 60.00 | 33.41 | 33.41 | 30-11-2002 |
| 9/02 | 102.97 | 60.00 | 41.92 | 41.92 | 30-12-2002 |
| 10/02 | 107.16 | 60.00 | 46.11 | 46.11 | 30-1-2003 |

| (1) | (2) | (3) | | | | | |
|-----|-----|-------|--------|-------|-------|-------|-----------|
| | | 1 | 2 | 3 | 4 | 5 | 6 |
| | | 11/02 | 97.15 | 60.00 | 36.10 | 36.10 | 28-2-2003 |
| | | 12/02 | 111.66 | 60.00 | 50.44 | 50.44 | 31-3-2003 |
| | | 1/03 | 97.64 | 60.00 | 34.27 | 34.27 | 30-4-2003 |
| | | 2/03 | 80.28 | 60.00 | 19.07 | 19.07 | 31-5-2003 |
| | | 3/03 | 89.86 | 60.00 | 26.94 | 26.94 | 30-6-2003 |
| | | 4/03 | 73.52 | 60.00 | 10.26 | 10.26 | 7-7-2003 |

It may be noted from the above that payment in excess of L.C. could not be made promptly. The balance amount due in each month could be paid only after a gap of about 90 days. It was due to the difficult financial position of the Board.

During 2002-03, the Board had to borrow Rs. 1327.09 crores out of which Rs. 1058 crores was utilized for repayment of past loan and the rest for meeting capital expenditure. Borrowing was also seasonal and could not be resorted to every month. Therefore, it would not be possible to honour the L.C. commitments every month had the L.C. been opened more than the manageable limit. As mentioned above, the Board could manage to borrow significantly only in the latter part of 2002-03 i.e. after opening of the L.C. and the L.C. could not be enhanced in due course due to difficult liquidity problems.

Letter of credit was opened for Rs. 60 crores for purchase of power from NTPC after high level discussion with NTPC official on 14-6-2002 and 21-6-2002 anticipating generation of more hydel power. Also expected was a tariff hike and release of aid from the Government of Kerala for enhancement of L.C. limit if needed within 6 months. But due to poor monsoon, the Board was forced to purchase more thermal power especially from Kayamkulam Station.

| (1) | (2) | (3) |
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| | | <p>The State Government could also not provide any assistance due to financial constraints. The Board was struggling hard to clear the dues of every month in order to avoid the dire consequences in pursuance of the terms of Tripartite Agreement including the reduction in the supply of electricity. Had there been any source for enhancing the L.C. amount for effecting payment for the excess drawal, it would have been decided accordingly. It is the stringent financial position of the Board that forced the Board to limit the L.C. to Rs. 60 crores, at the same time the commitment as a public utility forced the Board to purchase more thermal power which caused the additional liability. The decision to limit the L.C. to Rs. 60 crores in 2002-03 was a conscious decision taking into consideration the pathetic financial position of the Board at that point of time. The L.C. limit of Rs. 60 crores was fixed anticipating a normal monsoon. But in due course of 2002-03, the Board had to import huge quantity of costly thermal power due to severe drought and financial position of the Board did not allow enhancement of L.C. limit in tune with the additional power purchase in that year. The limit of Rs. 60 crores was fixed with reference to the financial position of the Board and not on the assumption that the Board would limit the power purchase to that amount.</p> <p>In the Audit Report it has been stated that the LC limit was subsequently enhanced to Rs. 81 crores in June 2003 when there was severe liquidity problem. But during March 2003, the Government had released an amount of Rs. 90 crores which enabled the Board to clear the major portion of NTPC dues. The improvement made by the Board in 2003-04 could not have been expected in 2002-03 for the reasons/ circumstances in 2002-03, elaborately discussed above.</p> |

| (1) | (2) | (3) |
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| | | <p>To sum up while the Board had huge payment liabilities on account of poor monsoon, heavy repayment of past loans and other outstanding dues, it had huge requirement of borrowing but difficult to borrow fund from the market. It was not prudent to tie its hand by opening L.C. in excess of manageable limit Subsequent event of heavy power purchase in excess of L.C. had to be resorted to in order to avoid massive power cut. Had the Board resorted to power cut so as to manage within the L.C. limit its implications would have been much more than the avoidable loss of rebate pointed out by audit. In a normal situation, the audit objection is true and relevant. But in an abnormal situation of drought and chronic financial crisis, the Board's priority was to ensure power supply even at high cost. In spite of these difficulties the Board's overall deficit was brought down from Rs.1316.43 crores in 2001-02 to Rs.1015.57 crores in 2002-03 Rs. 1007.43 crores in 2003-04 and Rs. 342.76 crores in 2004-05 due to improvement in many areas of activities.</p> <p>In view of the above mentioned facts and circumstances, the loss of rebate mentioned in the para is unavoidable and hence the objection may be dropped.</p> |
| 2 | 3.9 | <p>The Rural Electrification Corporation Limited (REC) had been financing transmission and distribution system improvement schemes of KSEB to facilitate electrification particularly in rural areas. At times, the Board could not utilize the fund in time due to difficulties in purchasing the land required for the schemes. Either appropriate land near the load centre was not available or the land owners were demanding exorbitant cost for the land. The land owners were objecting the electricity line to pass through their property Land acquisition procedure was also time</p> |

| (1) | (2) | (3) |
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| | | <p>consuming. Therefore, the Board could not start the schemes in time and REC demanded to refund the amount released to the Board.</p> <p>It is a well known fact that the Board was in serious financial crisis in the past. The Budget Estimate of KSE Board for 2001-02 envisaged a revenue gap of Rs.1025.34 crores. Though capital works were planned to the tune of Rs. 649 crores only the Board in the Budget Estimate for the year 2001-02 had to make provision to borrow Rs. 1574.34 crores.</p> <p>Thus a substantial portion of the borrowings was for meeting the revenue expenditure and to repay the loans availed in the past. This was inevitable when major portion of energy was, supplied at subsidized rates to the consumers in the categories of domestic, agriculture and industrial as per policy of the Government. Arrears from Government Departments and PSUs were also mounting up, widening the revenue gap. One of the main reasons for the utilization of borrowed funds for revenue expenses was that the Government could not release the subsidy to achieve 3% Rate of Return by the Board as stated in the G.O.(Ms.) No.13/95/PD dated 16-5-1995. In order to bridge the revenue gap and to run the Board, the Board was compelled to borrow heavily at very high interest rate. Thus the revenue gap further increased to the extent of additional burden of interest liability resulting in the vicious circle of debt trap.</p> <p>The first instalment of loan released by REC on each scheme is 20% of the sanctioned amount meant for meeting the initial expenses such as acquisition of land purchase of materials and equipments etc. It is true that as per agreement conditions, the fund released by Rural Electrification Corporation is to be utilized for the purpose for which it was sanctioned. At the same time Board cannot incur expenditure on a scheme, for</p> |

| (1) | (2) | (3) | | | | | | | | | | | | |
|--------------|----------------------|--|--------------|----------------------|------|-------|------|-------|------|-------|------|-------|------|------|
| | | <p>which the very initial expense such as land acquisition expenditure could not be incurred due to the above mentioned practical difficulties in acquisition of land. Nor could the Board keep the fund idle when it was borrowing from all possible sources with great difficulties to meet the day-to-day expenses. The liquidity problem was so acute that the Board could not even pay dues to retiring employees in time which invited intervention from the Hon'ble High Court. It may be noted that in March 2002, the Board could settle the dues of those retired upto 31-12-2000 only and the retirement benefits including Provident Fund due upto 31-8-2001 was Rs. 35 Crores. Besides this, the Board could not meet the full dues to NTPC towards power purchase. The monthly bills pending upto 8/01 in respect of NTPC is given below :</p> <table><tr><th><i>Month</i></th><th><i>Rs. In Crores</i></th></tr><tr><td>4/01</td><td>52.75</td></tr><tr><td>5/01</td><td>61.13</td></tr><tr><td>6/01</td><td>37.60</td></tr><tr><td>7/01</td><td>11.92</td></tr><tr><td>8/01</td><td>5.41</td></tr></table> | <i>Month</i> | <i>Rs. In Crores</i> | 4/01 | 52.75 | 5/01 | 61.13 | 6/01 | 37.60 | 7/01 | 11.92 | 8/01 | 5.41 |
| <i>Month</i> | <i>Rs. In Crores</i> | | | | | | | | | | | | | |
| 4/01 | 52.75 | | | | | | | | | | | | | |
| 5/01 | 61.13 | | | | | | | | | | | | | |
| 6/01 | 37.60 | | | | | | | | | | | | | |
| 7/01 | 11.92 | | | | | | | | | | | | | |
| 8/01 | 5.41 | | | | | | | | | | | | | |
| | | <p>Thus, when the Board was struggling hard to borrow and pay the dues to retired employees, power suppliers and debtors, it can't be expected to priorities refunding of the amount recalled by REC. The Board had also taken up with REC to withdraw the demand for refunding the unutilized amount and penal interest. When this request was pending, it was not appropriate to refund the amount. But, REC did not agree to the Board's request.</p> <p>It is not correct to state that the Board did not try to repay the REC loan by availing Overdraft from Banks. The Board did try to avail loan from wherever</p> | | | | | | | | | | | | |

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| | | <p>possible. In fact, the Board approached Canara Bank, State Bank of Travancore, State Bank of India, Union Bank of India, South Indian Bank, Syndicate Bank, Vijaya Bank and Karnataka Bank. Though SBT and Karnataka Bank evinced interest in the beginning to lend money to the Board eventually it did not materialise. Further, Vijaya Bank, State Bank of India, Union Bank, Syndicate Bank and Indian Bank did not respond to the Board's request.</p> <p>Even though the State Bank of Travancore had intimated their willingness to lend Rs. 50 crores to the KSE Board, later on the Bank had withdrawn their offer. In June 2001, the Canara Bank Cantonment Branch recommended to their Head Office for sanctioning of Rs. 50 crores as temporary overdraft to the KSE Board. It may be noted from the Board Order No.1783/2001 (Estt. VI/4491/2001) dated 25-8-2001, that the sanction of Rs. 50 crores as temporary O.D. from Canara Bank was obtained only in the last week of August 2001. The amount was badly required to meet the commitment towards early salary and bonous payments during the Onam season of 2001, besides meeting the urgent claims of contractors during the festival season and hence could not be utilized to redeem the recalled loan of REC.</p> <p>It may be seen from the above that though the Board had requested Rural Electrification Corporation to withdraw the claim for penal interest etc., simultaneously it had made attempts to borrow from the banks for refunding the loan amount released by the REC in June 2001 itself But the poor financial position of the Board at that time had prevented the banks from lending to the Board. Whatever the loan it could mobilize had to be used for emergent payments such as salary to the employees and contractors. So the Board had no option but to incur the penal interest levied by Rural Electrification Corporation. If the</p> |

| (1) | (2) | (3) |
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| | | <p>Board had not such a huge revenue gap as pointed out above, it would not have utilized the capital borrowings for meeting daily revenue expenditure. Thus, payment of penal interest was inevitable and may be viewed in the background of serious financial position of the Board at the relevant point of time.</p> <p>The Board has since improved its financial position by effective economy measures, management techniques and financial controls.</p> |