

©  
Kerala Legislature Secretariat  
2013

KERALA NIYAMASABHA PRINTING PRESS.



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2011-2014)**

**SIXTEENTH REPORT**

(Presented on 17th December, 2012)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2012

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2011-2014)**

**SIXTEENTH REPORT**

**On**

**Kerala State Electricity Board based on the Report of the  
Comptroller and Auditor General of India for the year  
ended 31st March, 2005 (Commercial)**

## CONTENTS

	<i>Page</i>
Composition of the Committee ..	v
Introduction ..	vii
Report ..	1
Appendix I	
Summary of main Conclusions/Recommendations ..	12
Appendix II	
Notes furnished by Government on the Audit Paragraphs..	14

COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2014)

*Chairman:*

Shri K. N. A. Khader

*Members:*

Shri Abdurahiman Randathani

„ A. A. Azeez

„ P. K. Gurudasan

DR. N. Jayaraj

Shri Elamaram Kareem

„ T. N. Prathapan

„ Palode Ravi

„ S. Sarma

„ P. Thilothaman

„ P. C. Vishnunadh.

*Legislature Secretariat:*

Shri P. K. Muraleedharan, Secretary-in-charge

„ K. Priyadarsanan, Joint Secretary

„ C. Jos, Deputy Secretary

Smt. Lima Francis, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings 2011-2014 having been authorised by the Committee to present the Report on their behalf, present this Sixteenth Report on Kerala State Electricity Board based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2005 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31st March 2005, was laid on the Table of the House on 13-2-2006. 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 years 2008-11.

This Report was considered and approved by the Committee at the meeting held on 12-7-2012.

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 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 and Finance Department and Officials of Kerala State Electricity Board who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,  
17th December, 2012.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*

## **REPORT**

### **KERALA STATE ELECTRICITY BOARD**

#### **AUDIT PARAGRAPH**

4.7.1 Government of India (GOI) approved (February 2001/June 2003) the Accelerated Power Development and Reforms Programme (APDRP) to leverage reforms in the power sector through the State Governments and State Electricity Boards (SEBs) during the period from April 2000 to March 2012. The salient features of APDRP were upgradation of sub-transmission and distribution networks including energy audit and computerisation of billing with a view to reducing transmission and distribution (T&D) loss and cost of energy sold. The nodal agency for the implementation of APDRP was Power Finance Corporation Limited (PFC). Central Power Research Institute (CPRI) and National Thermal Power Corporation Limited (NTPC) were engaged as Advisor-cum-Consultants for the finalisation of detailed project reports (DPRs)/snap shots for the Circle/Town Scheme. Three circles\* and seven towns† were approved by GOI (August/November 2002) and the Kerala State Electricity Board (Board) (May/September 2003) for implementation of APDRP in Kerala by 2003-04 and 2004-05 respectively.

A Memorandum of Understanding (MOU) was signed (August 2001) between GOI and the State Government which was followed by two Memoranda of Agreement (MOA) in October 2002/July 2003 between GOI and the Board detailing the funding, administration, commercial and technical parameters under APDRP.

Deficiencies and irregularities noticed in audit on the basis of evaluation of the funding and implementation of the APDRP with reference to the parameters fixed in the MOA are discussed in the succeeding paragraphs.

---

\* Kasaragod, Manjeri and Pathanamthitta.

† Alappuzha, Kollam, Kochi, Kozhikode, Kannur, Thalassery and Thiruvananthapuram.

### Project cost and finance

4.7.2 The details of funds (excluding consultancy fee) received from GOI against the Circle and Town schemes by March 2005 were as given below:

*(Rupees in crore)*

<i>Sl. No.</i>	<i>Scheme</i>	<i>Revised project cost excluding consultancy</i>	<i>Total share of GOI (25 per cent each as grant and loan)</i>	<i>Amount received/ allocated</i>	<i>Eligible amount of reimbursement by March 2005</i>	<i>Excess amount allocated/ received</i>	<i>Percentage of Excess amount</i>
<i>i</i>	<i>ii</i>	<i>iii</i>	<i>iv</i>	<i>v</i>	<i>vi</i>	<i>vii (v-vi)</i>	<i>viii</i>
1	Circle	148.24	74.12	90.79	74.12	16.67	22.49
2	Town	160.72	80.36	70.43	60.27	10.16	16.86
	Total	308.96	154.48	161.22	134.39	26.83	19.96

in this regard, following deserve mention:

4.7.3 Government of India released excess funds aggregating ₹ 26.83 crore over and above the amounts due for release under the provisions of Memorandum of agreement (MOA) Circle Scheme (₹ 16.67 crore) and Town Scheme (₹ 10.16 crore).

4.7.4 As per the MOA, the State Government should transfer GOI loan to the Board within a week of its receipt on the same terms and conditions. Audit analysis revealed that ₹ 48.92 crore out of funds amounting to ₹ 80.61 crore, were transferred (March 2003-March 2005) to the Board after delay of up to 11 months. GOI loan carried interest rates ranging from 9 to 12 per cent. But the State Government transferred the funds to the Board at higher rates of interest in violation of the MOA which resulted in excessive burden of interest of ₹ 1.15 crore to the Board.

4.7.5 The Board had been furnishing utilisation certificates at the DPR rates, which were at variance with the actual rates in respect of static meters, 11 kV lines, distribution transformers etc. As the DPR rates were higher than the actual procurement rates, there was diversion of funds by ₹ 17.70 crore and the penal interest payable during the two years ended 31st March 2005 worked out to ₹ 1.64 crore (April 2005).

4.7.6 Rural Electrification Corporation (REC) which was providing counterpart funding for the schemes, released (March 2003-March 2005) ₹ 115.31 crore for the Circle (₹ 66.01 crore) and Town (₹ 49.30 crore) Schemes



and quarterly interest thereon was paid by the Board after allowing rebate for prompt payment for the period up to March 2005. Additional rebate of 0.5 per cent was available for providing the default escrow cover for the funds released by REC. Failure of the Board to create default escrow cover for counterpart funding by REC resulted in foregoing the additional rebate of 0.5 per cent during the period from March 2003 to March 2005 and consequent extra payment of interest of ₹ 76.78 lakh.

4.7.7 The Board had incurred a total expenditure of ₹ 224.16 crore for the Circle (₹ 140.96 crore) and Town (₹ 83.20 crore) schemes out of the amount of ₹ 276.53 crore received up to March 2005 from GOI and REC for APDRP. In the Circle Scheme, the Board has utilised ₹ 24.65 crore towards single/three phase meters, distribution transformers, DTR meters etc., in excess of the quantity projections made in the DPRs which has not been regularised (March 2005).

4.7.8 According to the Board (December 2002), allocation of ₹ 15.45 crore towards consultancy fee for the finalisation of DPRs/snap shots against Circle (₹ 7.41 crore) and Town (₹ 8.04 crore) Schemes was not justifiable in view of the limited scope of work. The Board has not taken up this matter with GOI even after a lapse of two years (March 2005).

#### **Targets and Achievements**

4.7.9 APDRP was to be implemented by the Board during the period from 2002-03 to 2003-04 (Circle Scheme) and 2003-04 to 2004-05 (Town Scheme).

##### *Physical target*

4.7.10 The Physical targets such as installation of meters construction/reconductoring of 11 kV lines etc., in respect of Circle and Town Schemes was to be achieved by March 2005. A review of the physical targets vis-a-vis achievements revealed the following:

- Out of 13 physical parameters under the Circle Scheme, the Board was able to achieve only eight till March 2005.
- The achievement against the remaining five parameters such as construction/reconductoring of 11 kV lines, installation of AB switches/feeder/border meters and repair & maintenance (R&M) of distribution transformers, ranged from 50 to 99 per cent.
- In the case of Town Scheme, the Board could achieve only eight out of 27 physical parameters by March 2005.

- There was no physical achievement against seven items such as installation of new 33 kV substations/lines, distribution transformer/feeder/border meters, 9 KVAR LT capacitors and computerised data logging at substations.
- The achievement against the remaining 12 factors ranged between 17 and 83 per cent (installation of single/three phase static meters/AB switches, 11 kV substations, construction/reconductoring of 11 kV lines/UG cables/LT lines, R&M of distribution, transformers, etc.).

*Financial target*

4.7.11 The financial target achieved against the Circle scheme was 95 per cent and the scheme was closed (March 2005) after a time over run of one year. The town scheme achieved a financial target of 52 per cent only till the targeted period of completion (March 2005) despite the release of funds by GOI in excess of the financial milestones as per the MOA.

*Non-achievement of targets*

4.7.12 Due to non-achievement of physical targets within the stipulated period, the Board could not achieve the committed benchmark parameters in respect of T&D loss under the Circle and Town Schemes and the stipulated reduction in gap between the average rate of revenue realisation and the average cost of sale of energy per unit under the Town Scheme. The Board incurred an aggregate loss of ₹ 185.03 crore for the years 2003-04 and 2004-05 for the Circle (₹ 13.76 crore) and Town (₹ 171.27 crore) Schemes on these accounts.

**Procurement of Materials**

4.7.13 The Board used to procure materials for the APDRP clubbing the requirements with that of similar materials for other schemes. Audit analysis revealed that a proper system was not being followed by the Board for procurement of materials, as shown in the succeeding paragraphs.

*Failure to invite fresh tenders*

4.7.14 The Board placed (November 2002) orders on Elymer Electrics (P) Limited, Delhi (EEL) for the supply of 60000 three phase static meters at a total cost of ₹ 9.03 crore (unit cost : ₹ 1504.80) against tenders invited in January 2002. Additional orders were also issued (February/March 2003) to EEL for 15000 meters each for ₹ 4.30 crore at ₹ 1,446.16 and ₹ 1,418.60 per meter respectively. The entire quantity was supplied by May 2003.

It was noticed in audit that EEL had supplied (January 2003) the same type of meters to Madhya Pradesh State Electricity Board at the unit rate of ₹ 522. The lowest per unit rate quoted in response to the tender invited (April 2003) was also ₹ 595.80 indicating the declining trend in price of meters. In the absence of a system to ascertain the rates prevalent in other SEBs for meters, the Board did not avail of the advantage of declining rates. Alternatively, the Board could have availed of the advantage in price by inviting fresh tenders in November 2002 instead of placing orders on EEL, after a delay of 10 months, at the higher rate. As the market rate for November 2002 was not available, the extra expenditure incurred in the purchase of 60000 meters could not be quantified by Audit. The avoidable extra expenditure in the procurement of additional 30000 meters with reference to the rate prevalent in January 2003 worked out to ₹ 2.73 crore.

*Undue benefit due to wrong refixation of prices*

4.7.15 As per specific provisions included in the conditions of contract for procurement of meters, the Board was empowered to refix prices in respect of delayed deliveries based on the prevalent market price. It was, however, noticed in audit that even in cases where market rates based on subsequent bids were available, the Board followed the practice of refixing the prices at the lowest market rates only from the date of opening of tenders instead of from the date of bids. The undue benefit extended as a result to two suppliers in respect of 46250 meters delivered (August 2003 and February 2004) after due dates against tenders invited (March and December 2003) worked out to ₹ 46.82 lakh as detailed in Annexure 19.

*Extra expenditure due to delay in procurement*

4.7.16 As per projections made (August 2002) the Board required a total number of 900 distribution transformers for the APDRP circle which was to be completed by March 2004. The Board, however, initiated action for procurement of transformers only in July 2003. Although the Board placed (March 2003) order for 400 transformers on Kerala Electrical and Allied Engineering Company Limited, Kochi (KEL) at the rate of ₹ 44,354 per unit, on variable price basis, procurement for the APDRP was not made simultaneously ignoring the increasing trend in price. Subsequently (December 2003), order for 500 transformers was issued to the Unipower Systems, Kottayam at the rate of ₹ 48,261 per unit and a further quantity of 450 to KEL (January 2004) at the rate of ₹ 54,096 on variable price basis. The transformers were delivered by September 2003, December 2004 and May 2004 respectively. Non-placement of orders for distribution transformers despite increasing trend in prices resulted in

non-availment of net benefit in price aggregating ₹ 35.50 lakh after taking into account the interest savings in this respect.

#### **Implementation of computerised billing**

4.7.17 Deficiencies noticed in the procurement of computer systems are discussed below.

##### *Loss due to defective tender evaluation*

4.7.18 In connection with the procurement of system software for computerised LT billing in 560 sections and 10 data centres, the Board received (December 2002) three offers; out of this, the lowest two offers were that of Microsoft Corporation (India) Pvt. Limited (Microsoft) at ₹ 3.32 crore and Oracle (India) Pvt. Limited (Oracle) for ₹ 3.58 crore. The offer of Oracle included ₹ 40 lakh for development of complete application software for billing whereas in the case of Microsoft the item was to be separately implemented by the Board with the assistance of pricewaterhouse Coopers Pvt. Limited (PCL). While evaluating the tenders the rate for development of complete application software was, however, omitted to be excluded from the offer of Oracle. Due to this, the offer of Microsoft which was higher by ₹ 14 lakh was finally accepted (January 2003). Thus, wrong evaluation of tenders resulted in a loss of ₹ 14 lakh to the Board.

##### *Non-implementation of computerisation*

4.7.19 The application software by the Board for computerised billing developed errors leading to defective billing and resultant loss of revenue. The Board, however has not assessed the extent of loss in this regard. Centre for Development of Advanced Computing, Thiruvananthapuram was engaged (January 2005) by the Board to assess the deficiencies and submit a report. Pending receipt of this, further computerisation in 383 billing units was kept in abeyance (march 2005).

##### *Absence of technical evaluation in selection of servers*

4.7.20 For the purpose of computerisation, the Board procured (March 2003) 80 servers for PC systems from CMC Limited, Thiruvananthapuram at ₹ 80 lakh. Subsequently (December 2003), a further quantity of 97 servers was also procured from the same firm for ₹ 2.22 crore. The first batch of servers was commissioned in July 2003 and second batch in February/March 2004.

Audit noticed that the Board conducted (September 2003) technical evaluation by an Expert Committee only in the case of the second batch and the first batch procured without any evaluation was found to be grossly inadequate

for the Board's requirement due to insufficient CPU capability. Hence, the servers installed at a cost of ₹ 80 lakh did not yield the desired benefit.

**To sum up**

The Board was not able to reduce the T&D loss and cost of energy sold due to non-implementation of circle and town schemes in Kerala by March 2005 under APDRP despite the availability of funds. Utilisation certificates were furnished by the Board to GOI at DPR rates, which were at variance with the actual cost. The Board made extra payment of interest due to its failure to avail of the additional rebate of interest against REC loan. The Board incurred extra expenditure in the purchase of meters due to non-invitation of fresh tenders. Defective billing under computerisation has not been set right.

[Audit paragraph 4.7 contained in the report of the Comptroller and Auditor General of India for the year ended 31-3-2005 (Commercial)]

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

1. The Committee enquired about the audit objection on utilization of Central Government funds for the implementation of APDRP Scheme. Principal Secretary replied that a mistake has occurred in the number of circles/towns due to initial sanction of 3 circles and 7 towns in the first phase and further sanction of 26 towns in the second phase. The Committee sought explanation for the excess withdrawal of ₹ 16.67 crore and ₹ 10.16 crore for circle and town schemes respectively. Principal Secretary clarified that Accountant General has considered accounts in 2005, while the scheme was completed only on 25-3-2009 and closed after filing the utilization certificate to the Central Government. It was also submitted that the total financial aid for this scheme obtained from the Central Government was ₹ 139,13,00,500, which has been fully utilised within the project period and that the utilization was completed after the audit. It was also informed that the same had been conveyed to Accountant General, through a revised note based on the short closure, in March 2008. The Accountant General informed that the detailed revised report has not been received from the Government. The Committee directed that a detailed report on utilization should be furnished to the Accountant General at the earliest. Principal Secretary assured, that the reply would be furnished to the Accountant General immediately. The witness also claimed to have drawn and expended the whole amount and also achieved the fiscal targets.

2. The Committee wanted explanation for failure to avail benefit of the default escrow cover. Principal Secretary admitted that ½ % interest could have

been saved had the escrow account been maintained. KSEB Chairman submitted that similar issue has been considered by the Committee earlier. Though as per law, the Board should have made an escrow cover with REC, the then financial situation of KSEB was not sound enough to make an escrow account. It was profitable for Board to forgo the interest rebate from creation of escrow account rather than locking up so much amount amidst its financial crisis. The Committee accepted the explanation of the witness.

3. The Committee demanded for an explanation from the witness about the audit objection on utilisation in excess of projection made. The Principal Secretary explained in detail that regarding meters the price was lesser than the projection in DPR while the price of II KV transformers exceeded the projection with regard to it in the DPR. The witness however justified that though excess quantity of transformers, meters etc. has been utilised in comparison to targets, due to reduction in rates of procurement, money expended was over all well within the financial limits sanctioned. The Committee accepted the explanation of the witness.

4. The Committee enquired about the consultancy fee paid by KSEB, as mentioned in the audit report. The witness replied that no agency was appointed as consultant and hence no amount was paid as consultancy fee for finalisation of DPRs.

5. The Committee asked about the period within which APDRP had to be implemented, KSEB Chairman informed that a targeted physical and financial statement with regard to this would be submitted. Regarding the projects which were foreclosed, the witness admitted that among the three town schemes, shortfall had occurred. In Thiruvananthapuram and Kochi, since underground cabling had not been completed there occurred shortfall with regard to money spent on cables. The witness also added that the expenses incurred on changing the cable in the city automation scheme couldn't be availed due to failure to invite tender in time. Further on material component, for which money had to be spent and then claimed, there occurred loss due to foreclosure.

6. While the Committee discussed the non-achievement of bench mark parameters of T & D loss, the witness informed that T & D loss had been considerably reduced. It was added that in town Schemes the reduction of T & D loss was not merely due to the implementation of APDRP Scheme and that many other factors have contributed to the same.

7. The witness also informed that Government grant could be claimed only when the distribution loss and commercial loss together exceed 15 %. Thus in restructured APDRP Scheme, many towns became ineligible for grant due to their low T & D loss. The Committee enquired whether there were towns with more than 15 % T & D loss. The witness replied that there were such towns and that the Board had already applied the scheme for all towns, irrespective of their T & D loss. The witness added that this might lead to another audit objection from the Accountant General.

8. The Committee enquired about the audit objection regarding the purchase of three phase static meters, the witness clarified that the tender called for in January 2002 being live and the then stock position being too low, order was placed in November 2002 at the rate quoted in January 2002 to replace faulty meters. Again order was placed in February-March 2003 at the same rate. To the Committee's query as to why the Board did not bother to know the then prevailing market rate, the witness answered that market rate often fluctuates and that the tender called for was an open tender. The Committee stressed the point that if the Board had an idea about the prevailing rate of ₹ 522, it wouldn't have had to place the order at a rate almost three times the prevailing market price. The witness expressed concern that the specification of meters costing ₹ 522 might be different from the ones they bought and pleaded for the need to verify the specifications. The witness also added that the Board did not go in for fresh tender in November 2002 because the tender invited in January was already processed and as Board was badly in need of meters and processing a fresh tender would have been time consuming.

9. When called for the reason for delay in finalising the tender from January to November, the witness justified it to be due to a legal issue related to pre-qualification. It was also justified that though 25% extra could be bought at the specified rate in every tender, the refixation clause, that enables Board to buy the extra 25 % at reduced price, if price reduces and at the specified rate if rate increases, was not incorporated earlier. However since such a clause is incorporated now the Board stands protected in this regard hereafter. Board Chairman also informed that the price to which the initially quoted price is compared to avail the benefit of this refixation clause is the one quoted in the immediately following tender. Principal Secretary added his comment that such a clause, which requires the supplier to supply material at the rate quoted by a third party instead of the one quoted by himself, does not favour suppliers. The Committee expressed discontent over the fact that ₹ 2.73 crore was spent as  
76/2013.

extra expenditure by Board on purchase of meters. No justification was found for being unaware of the steep decline in price of meters, the Board being a regular purchaser of the same.

10. The Committee accepted the explanation on the audit paragraphs regarding the procurement of meters for the APDRP.

11. The witness submitted to the Committee in connection with the procurement of system software to computerise LT billing that the rate quoted by Microsoft was inclusive of the expense for the development of application software. On the other hand an amount of ₹ 40 lakh had to be paid additionally to Oracle for the above work. That is, the actual expenditure for the work would be ₹ 3.57 crore, an amount of ₹ 25 lakh higher than the rate quoted by Microsoft which is ₹ 3.32 crore. When asked about the then position of computerisation it was informed to the Committee that in Board all over Kerala work is being done using the developed software and once the data centre that would be installed as part of APDRP Scheme is linked up with the network, billing would also be made through the data centre. It was also added that billing has been completely computerised and that other activities would also, in due course, be made so.

12. When the Committee enquired regarding the Section Offices comprising 25,000 Consumers, the witness reported that with the order of the Regulatory Commission to reduce staff strength and expenditure of KSEB, the chances for expansion in KSEB has reduced. The work related to the project at Malappuram would be resumed by July.

#### **Conclusions/Recommendations**

**13. The Committee finds that the Government have not furnished the revised utilisation certificate of the schemes under Accelerated Power Development and Reforms Programme (APDRP) to Government of India in time even though they had drawn excess amount for the scheme. The Committee expressed its displeasure over the delay and recommends that the detailed report on utilisation should be furnished to the Accountant General at the earliest and the action taken there upon should be intimated to the Committee.**

**14. The Committee finds that the Board had ordered 60000 meters at an exorbitant rate of ₹ 1504.80 per meter against tender invited just 10 months back without considering the declining trend in the price of meter. The Committee expresses surprise to see that additional orders were also**



issued in February/March 2003 for 15000 meters each at ₹ 1446.16 and 1418.60 respectively while the market price of meters was about one third of the tender price.

15. The Committee expresses its displeasure over the fact that ₹ 2.73 crore was spent as extra expenditure by Board in respect of the purchase of meters at high tender price. Being a regular purchaser of meters, the Board authorities having no awareness in the steep decline of price of meters in the market was considered to be a serious lapse on the part of the KSEB and therefore the committee recommends to evolve a procurement system with proper market analysis for the purchase of meters.

Thiruvananthapuram,  
17th December 2012.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*