

CHAPTER – V: COMMERCIAL ACTIVITIES

Section-I

5. Overview of State Public Sector Undertakings

5.1 Introduction

5.1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In Jammu and Kashmir, the State PSUs occupy a moderate place in the State economy. The State PSUs registered a turnover of ₹ 3700.38 crore for 2009-10 as per their latest finalized accounts as of September 2010. This turnover was equal to 9.66 *per cent* of State Gross Domestic Product (GDP) for 2009-10. Major activities of Jammu and Kashmir State PSUs are concentrated in power and finance sectors. The State PSUs earned a profit of ₹ 354.68 crore in the aggregate as per their latest finalised accounts as of September 2010. 15 out of 20 PSUs were running the activities with 0.21 lakh¹ employees as of 31 March 2010. The State PSUs do not include two prominent Departmental Undertakings (DUs)², which carry out commercial operations but are a part of Government departments.

5.1.2 As on 31 March 2010, there were 23 PSUs as per the details given below. Of these, one company³ was listed on the stock exchanges.

Type of PSUs	Working PSUs	Non-working PSUs ⁴	Total
Government Companies	17	3	20
Statutory Corporations	3	Nil	3
Total	20	3	23

5.1.3 During the year 2009-10, no PSU was established whereas three⁵ were under liquidation.

Audit Mandate

5.1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in

¹ As per the details provided by 15 PSUs. Remaining eight PSUs (including three non-working Companies) did not furnish the details.

² State Consumer Affairs and Public Distribution and Government press

³ Jammu and Kashmir Bank Limited.

⁴ Non-working PSUs are those which have ceased to carry on their operations.

⁵ Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited and Tawi Scooters Limited

which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act, 1956.

5.1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act.

5.1.6 Audit of statutory corporations is governed by their respective legislations. Out of three statutory corporations, CAG is the sole auditor for Jammu and Kashmir State Road Transport Corporation and Jammu and Kashmir State Forest Corporation⁶. In respect of Jammu and Kashmir State Financial Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

5.1.7 As on 31 March 2010, the investment (capital and long-term loans) in 23 PSUs was ₹ 4962.91 crore as per details given below.

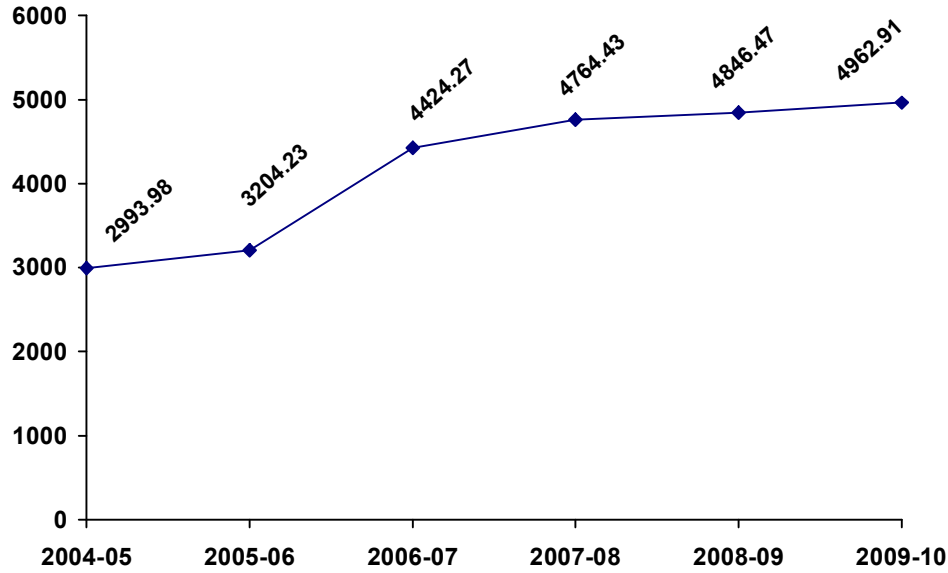
(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	243.14	3937.61	4180.75	221.62	557.14	778.76	4959.51
Non-working PSUs	2.57	0.83	3.40	Nil	Nil	Nil	3.40
Total	245.71	3938.44	4184.15	221.62	557.14	778.76	4962.91

A summarised position of government investment in State PSUs is detailed in **Appendix 5.1**

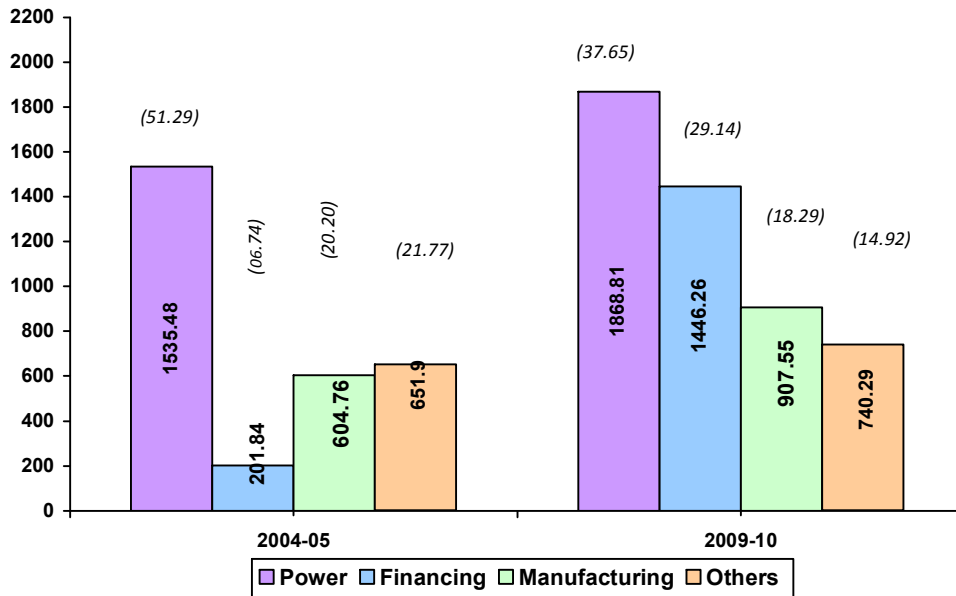
5.1.8 As on 31 March 2010, of the total investment in State PSUs, 99.93 *per cent* was in working PSUs and the remaining 0.07 *per cent* in non-working PSUs. The total investment consisted of 9.42 *per cent* towards capital and 90.58 *per cent* in long-term loans. The investment has grown by 65.76 *per cent* from ₹ 2993.98 crore in 2004-05 to ₹ 4962.91 crore in 2009-10 as shown in the graph below.

⁶ Jammu and Kashmir State Forest Corporation was incorporated in 1978-79 and its audit was entrusted to CAG w.e.f. 1996-97. The Corporation, however, had never submitted its accounts to CAG for audit for any of the years.



Investment (Capital and Long-term Loans) (₹ in crore)

5.1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 are indicated in the bar chart. The thrust of investment was mainly in power and finance sectors during the six years which has seen its percentage share rising from 58.03 per cent in 2004-05 to 66.80 per cent in 2009-10.



(Figures in brackets show the percentage of total investment)

Budgetary outgo, grants/subsidies, guarantees and loans

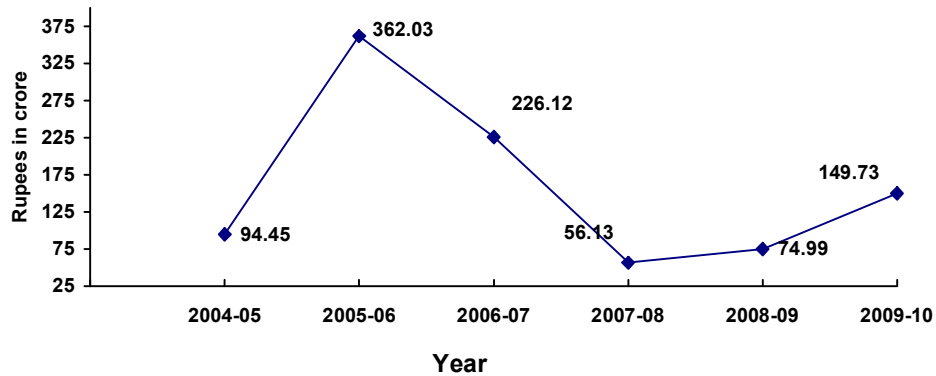
5.1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 5.3**. The summarised details are given below for three years ended 2009-10.

(₹ in crore)

S. No.	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	2	1.20	3	7.63	4	17.09
2.	Loans given from budget	9	42.75	9	43.76	9	56.57
3.	Grants/Subsidy received from State Government.	6	12.18	8	23.60	4	76.07
4.	Total Outgo (1+2+3)	10	56.13	12	74.99	11	149.73
5.	Loan repayment written off	--	--	2	21.79	1	4.04
6.	Total Waiver	--	--	2	21.79	1	4.04
7.	Guarantees issued	4	240.66	3	7.51	2	485.54
8.	Guarantee Commitment	6	2429.77	10	2194.72	8	2598.77

5.1.11 The details regarding budgetary outgo towards equity, loans and grants/subsidies for past six years are given in a graph below.

Budgetary outgo towards equity, loans and grants/subsidies



The budgetary outgo of the State Government towards equity contribution, loans, grants and subsidy was at an all time high during 2005-06 at ₹ 362.03 crore in the preceding six years. The downward trend of budgetary outgo witnessed after 2005-06 upto 2007-08 showed marginal increase during 2008-09 and stood at ₹ 149.73 crore in 2009-10.

5.1.12 Guarantees amounting to ₹ 2598.77 crore were outstanding at the end of 31 March 2010. More than 98 per cent of these were on the loans raised by the Jammu and Kashmir State Power Development Corporation Limited from various

Financial Institutions. However, the State Government had not charged any guarantee commission or fee from the PSUs during the year.

Reconciliation with Finance Accounts

5.1.13 The figures of equity, loans and guarantees outstanding as per records of State PSUs should agree with the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation to locate the differences. The position in this regard as at 31 March 2010 is stated below.

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	393.30	350.69	42.61
Loans	798.43	1514.55	(-) 716.12
Guarantees	2698.83	2598.77	100.06

5.1.14 There was a mismatch between figures furnished by the PSUs with those depicted in the Finance Accounts. Reasons therefor, though called for, were not intimated (November 2010).

Performance of PSUs

5.1.15 The financial results of PSUs, financial position and working results of working statutory corporations are detailed in **Appendices 5.2, 5.5 and 5.6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2004-05 to 2009-10.

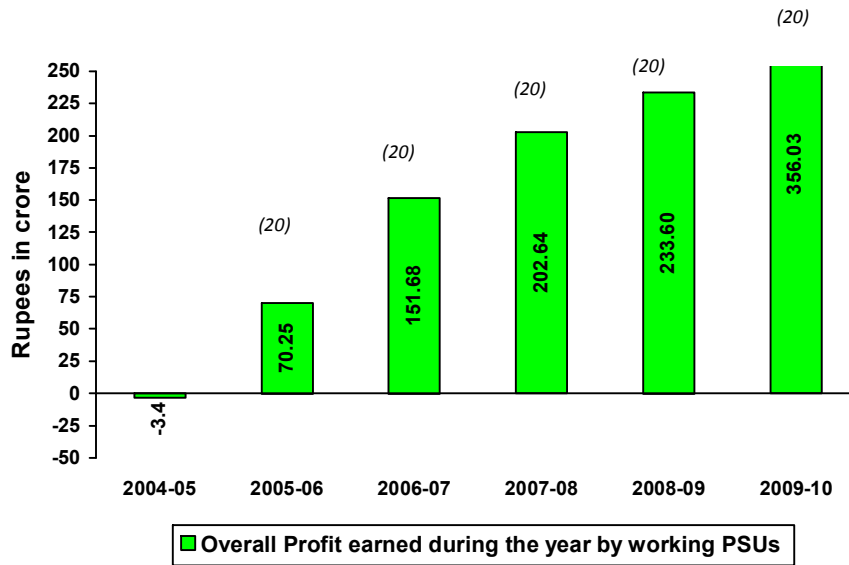
(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover ⁷	2130.48	2539.27	2679.33	3595.92	3206.88	3700.38
State GDP	24265	26537	29030	31793	34805	38298
Percentage of Turnover to State GDP	8.78	9.57	9.23	11.31	9.21	9.66

The percentage of turnover to State Gross Domestic Product was 8.78 *per cent* during 2004-05 which stood at 9.66 *per cent* in 2009-10. This was due to increase of turnover of the PSUs in 2009-10.

5.1.16 Profit (losses) earned (incurred) by State working PSUs during 2004-05 to 2009-10 are given below in a bar chart.

⁷ Turnover as per the latest finalised accounts as of 30 September 2010.



(Figures in brackets show the number of working PSUs in respective years)

It can be seen from the bar chart that the overall performance of the working PSUs has improved gradually after 2004-05. During the year 2009-10, out of 20 working PSUs, four PSUs earned profit of ₹ 514.89 crore and 14 PSUs incurred loss of ₹ 158.86 crore. One working PSU (Jammu and Kashmir Cable Car Corporation Limited) had not prepared the Profit and Loss Account while one PSU (Jammu & Kashmir State Forest Corporation) had not submitted its accounts since its audit was entrusted (1996-97) to CAG. The major contributors to profit were the Jammu and Kashmir Bank Limited. (₹ 512.38 crore) and Jammu and Kashmir Cements Limited (₹ 1.53 crore). Heavy losses were incurred by Jammu and Kashmir State Road Transport Corporation (₹ 54.67 crore), Jammu and Kashmir State Power Development Corporation Limited (₹ 39.05 crore), and Jammu and Kashmir Industries Limited (₹ 36.23 crore).

5.1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of projects, running their operations and monitoring. A review of latest Audit Reports of the CAG shows that the State PSUs incurred losses to the tune of ₹ 45.38 crore which were controllable with better management. Year-wise details collected from Audit Reports are stated below.

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net Profit	202.64	233.60	356.03	792.27
Controllable losses as per CAG's Audit Report	4.29	14.04	27.05	45.38

5.1.18 The above losses pointed out in the CAG Audit Reports are based on test-check of records of PSUs. The actual controllable losses would be much more. The

above table shows that with better management, the profits can be enhanced substantially. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

5.1.19 Some other key parameters pertaining to State PSUs are given below.

(₹ in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed (<i>per cent</i>)	6.21	13.94	7.17	8.85	10.91	10.83
Debt	2603.55	2806.26	4023.13	4361.59	4435.99	4495.58
Turnover ⁸	2130.48	2539.27	2679.33	3595.92	3206.88	3700.38
Debt/Turnover Ratio	1.22:1	1.11:1	1.50:1	1.21:1	1.38:1	1.21:1
Interest Payments	1010.53	1098.72	1977.53	1697.43	2063.75	2000.65
Accumulated losses (-)	(-1056.25)	(-1172.45)	(-1230.70)	(-1285.72)	(-1338.05)	(-1384.70)

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

The debt/turnover ratio which stood at 1.22:1 in 2004-05 increased to 1.50:1 in 2006-07 and stood at 1.21:1 in 2009-10, due to marginal increase in the turnover of the working State PSUs.

5.1.20 The State Government did not intimate any dividend policy under which all PSUs were required to pay a minimum return on the paid up share capital contributed by the State Government. As per the latest finalised accounts, four PSUs earned an aggregate profit of ₹ 514.89 crore and only one⁹ PSU declared a dividend of ₹ 106.65 crore.

Arrears in finalisation of accounts

5.1.21 Under Sections 166, 210, 230, 219 and 619-B of the Companies Act, the accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year. Similarly, in case of Statutory Corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2010.

S. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Number of Working PSUs	20	20	20	20	20	20
2.	Number of accounts finalised during the year	15	11	12	12	15	10*
3.	Number of accounts in arrears	194	203	211	219	224	234
4.	Average arrears per PSU (3/1)	9.70	10.15	10.55	10.95	11.20	11.70
5.	Number of Working PSUs with arrears in accounts	19	19	19	19	19	19
6.	Extent of arrears	1 to 19	1 to 18	2 to 19	3 to 19	4 to 19	4 to 20

* Excluding account of one Corporation (Jammu and Kashmir State Road Transport Corporation) for the year 2005-06 which was returned to the Corporation for rectification was not returned for the last more than one and half year. Besides three companies (Jammu and Kashmir Industries Ltd., Cable Car Corporation Ltd. and Power Development Corporation Ltd.) have submitted accounts in June and July 2010 for the years 2002-03, 1998-99 and 2002-03 respectively, the audit of which could not be taken up due to continued disturbances in the valley (September 2010).

⁸ Turnover of working PSUs as per the latest accounts as of September 2010

⁹ Jammu and Kashmir Bank Limited

5.1.22 Most of the working PSUs had failed to finalise even one account in each year causing accumulation of the arrears. The main reasons for non-finalisation of the accounts by the PSUs noticed during audit were non-constitution of the Boards, non-holding of regular Board meetings, delay in finalisation of accounts by the Statutory Auditors and lack of trained staff.

5.1.23 In addition to above, arrears in finalisation of accounts by non-working PSUs were also noticed. Out of three non-working PSUs (all companies), two PSUs had gone into liquidation process and in respect of the one the liquidation process had not started which had arrears of accounts for 20 years.

5.1.24 The State Government had invested ₹ 1220.43 crore (Equity: ₹ 100.26 crore, loans: ₹ 549.00 crore, grants: ₹ 552.86 crore and Subsidy: ₹ 18.31 crore) in 16 PSUs during the years for which accounts have not been finalised as detailed in **Appendix-5.4**. In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested had been achieved. Thus, Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts have the risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

5.1.25 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed by the Audit every quarter regarding arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (April 2009) with the Chief Secretary/Finance Secretary to expedite the backlog of arrears in accounts in a time bound manner.

5.1.26 In view of above state of arrears, it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lack expertise.**

Winding up of non-working PSUs

5.1.27 There were three non-working PSUs (all companies) as on 31 March 2010 all of which were under liquidation process. The number of non-working companies at the close of each year during the past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
No. of non-working Companies	3	3	3	3	3	3

5.1.28 The Stages of closure in respect on non-working PSUs are given below.

S.No.	Particulars	Companies	Statutory Corporations	Total
1.	Total no. of non-working PSUs	3	Nil	3
2.	Of (1) above, the No. under			
(a)	Liquidation by Court (liquidator appointed)	2 ¹⁰	--	2
(b)	Voluntary winding up (liquidator appointed)	--	--	--
(c)	Closure, i.e. closing orders/instructions issued but liquidation process not yet started.	1 ¹¹	--	1

5.1.29 During the year 2009-10, no company was finally wound up. The companies which have taken the route of winding up by court order are under liquidation for more than seven years. The process of voluntary winding up under the Companies Act is much faster and needs to be adopted for closure of non-working companies. The Government may consider setting up a cell to expedite closing down Tawi Scooter Limited, being a non-working company.

Accounts Comments and Internal Audit

5.1.30 Six working companies forwarded their nine audited accounts to PAG during the year 2009-10. Of these, one company (Jammu & Kashmir State Women Development Corporation Limited) forwarded four accounts for the period 1995-96 to 1998-99 for supplementary audit and another company (Jammu & Kashmir Cable Car Corporation Limited) forwarded two accounts for the period 1996-97 & 1997-98 for supplementary audit. The audit reports of statutory auditors and the supplementary audit of CAG indicated that the quality of maintenance of accounts required substantial improvement. The details of aggregate money value of comments of the statutory auditors and CAG are given below.

(₹ in crore)

S. No	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	--	--	1	0.03	-	-
2.	Increase in loss	5	34.18	1	0.74	1	0.86
3.	Non-disclosure of material facts	3	22.71	3	31.14	4	8.32
4.	Errors of classification	8	271.85	--	--	3	28.11

¹⁰ Himaliyan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited

¹¹ Tawi Scooters Limited

5.1.31 During the year, the statutory auditors had given unqualified certificates for four accounts and qualified certificates for five accounts. The compliance of companies with the Accounting Standards remained poor as 12 instances of non-compliance in nine accounts during the year were noticed.

5.1.32 Some of the important comments in respect of Accounts of Companies are stated below:

Jammu and Kashmir Power Development Corporation Limited (2001-02)

- Non-accountal of ₹ 26.26 crore sanctioned by the State Govt. vide Order No. 99 dated 27-03-2002 under the head Reserve & Surplus (Plan Grants received for capital assets) resulted in understatement of Reserve & Surplus as well as Current Assets.
- Contingent liabilities regarding three awards of ₹ 7.08 crore (₹ 6.00 crore, ₹ 0.29 crore & ₹ 0.79 crore) passed against the company during the year 2001-02 had not been disclosed in the accounts.

Jammu and Kashmir State Financial Corporation Limited (2005-06)

- The current liabilities & provisions did not included dividend payable amounting to ₹ 5.80 crore claimed by Industrial Development Bank (IDBI) up to March 2000 resulting in understatement of provision & loss to that extent.

Jammu and Kashmir State Cable Car Corporation Limited (1996-97)

- Fixed assets included ₹ 17.45 lakh on account of site development. Since the company did not own any land, as such, the expenditure should have been treated as deferred revenue expenditure to be written off over a period of time and to be classified under “Miscellaneous Expenditure”. This resulted in overstatement of Fixed Assets and understatement of Miscellaneous Expenditure to that extent.

J&K State Industrial Development Corporation (2000-01)

- Current Assets Loans & Advances included an amount of ₹ 168.52 lakh under sundry debtors being the value of assets of Watch Case Factory which had been transferred to J&K Industries (1986) by the J&K Government. Instead of showing these as fixed assets, the company had shown it under Sundry Debtors. Wrong accountal of these assets overstated the Current Assets, Loans & Advances and understated the Fixed Assets by ₹ 1.69 crore. As these assets virtually remained with SIDCO and had never been transferred to JKI, remained under dispute and ultimately status quo order was passed during 1991 by the J&K Government. Therefore, depreciation at the rate of five *per cent* for the period April, 1987 to March, 2001 which works out to ₹ 86.33 lakh, was not provided for in the accounts resulting in overstatement of Current Assets, Loans & Advances and understated loss.

5.1.33 One Statutory Corporation (Jammu and Kashmir State Financial Corporation) forwarded one account during 2009-10 which was selected for supplementary audit and completed. One Statutory Corporation (Jammu and Kashmir State Road

Transport Corporation) had furnished the accounts for 2005-06 during the year 2008-09¹² which was audited. Based on the audit observations, the Corporation was asked (June 2009) to revise the accounts. The revised accounts from the Corporation were, however, awaited (September, 2010).

5.1.34 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited under section 619(3) (a) of the Companies Act, 1956 in accordance with the directions issued by the CAG to them and to identify areas which needed improvement. The Statutory Auditors had stated that internal audit system in respect of five companies for the year accounts were finalised was either not in place or reports thereof were not furnished as given below:

Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix-5.2
Absence of internal audit system commensurate with the nature and size of business of the company	5	A-5, 9, 15, 17 B-1

Status of placement of Separate Audit Reports

5.1.35 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory Corporations in the Legislature by the Government.

S. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1.	Jammu and Kashmir State Road Transport Corporation	2004-05	Nil	Nil	Nil
2.	Jammu and Kashmir State Financial Corporation	2005-06	Nil	Nil	Nil

The SARs of SFC for the years 2004-05 and 2005-06 issued to the Government in June 2007 and December 2009 respectively were placed in the Legislature on 13.3.2010. Placement of SARs after a considerable delay weakens the Legislative control over the Statutory Corporations and dilutes the latter's financial accountability.

¹² October 2008 to September 2009.

Disinvestment, Privatisation and Restructuring of PSUs

5.1.36 The State Government had no plans of disinvestment, privatisation or restructuring of any of the PSUs.

Reforms in Power Sector

5.1.37 The State has Jammu and Kashmir State Electricity Regulatory Commission (JKSERC) formed in April 2000, under the Jammu and Kashmir State Electricity Regulatory Commission Act, 2000 with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2009-10, JKSERC issued two orders in May 2010 both of which were on annual revenue requirements and determination of power generation tariff.

5.1.38 Three Memorandums of Understanding (MoU) were signed between the Union Ministry of Power and the State Government till September 2009 as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones as decided in first two MoUs are stated below:

S.No	Milestone	Achievement as at March 2010
1.	SERC to give tariff order	Tariff orders are being issued from time to time.
2.	65 per cent consumers metering in place	45.86 per cent consumers metered upto March 2010
3.	Formation of District Distribution centers with responsibility of energy flow accounting	100 per cent upto March 2010
4.	Specific proposal for reduction of Establishment and O&M cost by ₹ 15.00 crore	100 per cent upto March 2010
5.	Filing of ARR for the year 2009-10 before SERC	100 per cent upto March 2010
6.	Capacitor bank to be added at sub-stations/feeders that feed energy to 65 per cent of consumers.	59.36 per cent capacitor bank had been added upto March 2009. Information ending March 2010 not available.
7.	Total cash collected from large consumers should be at least 70 per cent of the amount billed	90 per cent cash was collected from large consumers upto March 2010

SECTION - II

5.2 Performance Audit of J&K State Power Development Corporation Ltd.

Executive Summary

Power being an essential requirement for all facets of life, has been recognized as a basic human need. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act 2003 provides a framework conducive to development of the Sector, promote transparency and competition and protect the interest of the consumers. In the State, generation of power is carried out by the Jammu & Kashmir State Power Development Corporation Limited, which is under the administrative control of the State Power Development Department (PDD). The performance audit of the Company for the period from 2005-06 to 2009-10 was conducted to assess the status of various projects, capacity additions and optimization of existing capacity, economy and effectiveness of funding of new projects, operational efficiency and effectiveness of the top management in monitoring the affairs of the Company.

Planning

The Peak power demand in the State had increased from 1800 MW to 2247 MW and deficit in meeting peak demand ranged between 31 and 37 per cent during the review period. Against this, the generating capacity of the

State at the end of March 2010 was 967.67 MW.

Execution of the project

There were cost and time overruns in four projects. Time overrun ranged between four and 16 years and cost overrun ranged between 41 and 687 per cent. The projects got delayed due to unplanned executions, arranging of funds on adhoc basis, inadequate contract management, etc.

Performance of Units

Against the design energy of 10790.53 MU in respect of Hydro Projects, actual generation was 7979.31 MU only. PLF of the Company ranged between 40 and 56 per cent. The forced outages were as high as 59 per cent against 10 per cent fixed by CEA during review period. The average capacity utilisation in the State ranged between 66 and 90 per cent.

Financial performance

Ineffective system of recovery of dues from Power Development Department led to outstanding amount of ₹1041.28 crore resulted in Company's dependence on loans. Improper planning in the fund management resulted in payment of interest on delayed payment to the contractor to

the tune of ₹ 3.08 crore. The Company extended undue benefit to contractors by releasing interest free mobilisation advances of ₹ 433 crore.

Manpower

Company had not assessed the actual requirement of manpower for the operation of its power houses. Despite training of employees of the Company, it failed to manage Operations and Maintenance of BHEP, which had to be outsourced to NHPC.

Monitoring

The Company did not devise a proper management information system to evaluate power demand and supply position in the State to take timely

policy-decision regarding capacity addition programme.

The Company does not have a system to minimize the delay in decision-making process, monitor the implementation of the projects in accordance with the comprehension plan and evaluate mid-term progress of the projects for taking corrective action timely.

Conclusion and Recommendations

Timely commissioning of the power projects could have enabled the Company to increase generation. Achieving higher PLF could have helped in additional generation. The review contains six recommendations which include increasing the PLF and reducing forced outages.

5.2.1. Introduction

Power is an essential requirement for all facets of life and has been recognized as a basic human need. The availability of reliable and quality power at competitive rates is very crucial to sustain growth of all sectors of the economy. The Electricity Act 2003 provides a framework conducive to development of the Power Sector, promote transparency and competition and protect the interest of the consumers. In compliance with Section 3 of the Act, the Government of India (GOI) prepared the National Electricity Policy (NEP) in February 2005 in consultation with the State Governments and Central Electricity Authority (CEA) for development of the Power Sector based on optimal utilisation of resources like coal, gas, nuclear material, hydro and renewable sources of energy. The Policy aims at, inter alia, laying guidelines for accelerated development of the Power Sector. It also requires CEA to frame National Electricity Plan once in five years. The Plan would be a short-term framework of five years and give a 15 years' perspective.

During 2005-06, electricity requirement in the State was assessed at 10503 Million Units (MUs) of which only 7916 MUs were available leaving a shortfall of 2587 MUs (24.63 per cent) of the requirements. The total installed power generation capacity in the State was 1678.92 Mega Watt (MW) out of which 1170 MW was in Central and 508.92 MW in the State sector. The effective available capacity was 649.32 MW (including 140.40 MW representing 12 per cent free power from Central sector of 1170 MW) against the peak demand of 1706 MW leaving a deficit of 1056.68 MW. During 2009-10 the comparative figures of requirement and available power were 15511 MUs and 10238 MUs with deficit of 5273 MUs. Thus, there was a growth in demand of 5008 MUs during review period.

In the State, generation of power is carried out by the Jammu and Kashmir State Power Development Corporation Limited (hereinafter, the Company), which was incorporated in February 1995 under the administrative control of the State Power Development Department (PDD). The Management of the Company is vested with a Board of Directors comprising 10 Directors appointed by the State Government. The day-to-day operations are carried out by the Managing Director, who is also the Chief Executive of the Company with the assistance of Director (Finance), Consultant, Chief General Manager (Law), one Chief Geologist, two General Managers (Finance), General Manager (Electrical) –all in the Corporate Office and by five Chief Engineers and three Chief Project Engineers in the field offices. The Company has two thermal generation stations and 19 hydro generation stations with the installed capacity of 175 MW and 754.70* MW respectively as of 31 March 2010. Besides the company has 9 MW Mohra Hydro Electric Project which is non-functional.

The turnover of the Company was ₹ 1177.11 crore in 2009-10, which was equal to three *per cent* of the State Gross Domestic Product. It employed 3331 employees as on 31 March 2010.

* This does not include one Hydro Project of 4 MW(Stanka) being operated by PDD.

5.2.2 Scope and Methodology of Audit

The present review conducted during January to June 2010 covers the performance of the Company during the period from 2005-06 to 2009-10. The review mainly deals with Planning, Project Management, Financial Management, Operational Performance, and Monitoring by the Top Management. The audit examination involved scrutiny of records at the Head Office and ten¹³ (86 *per cent* of the total installed capacity) out of 21 generating stations. The units have been selected covering Mega, Medium, and Small projects and also covering all the river basins and other types of projects.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted in explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft review to the Management for comments.

5.2.3 Audit Objectives

The objectives of the performance audit were to assess:

¹³ Jammu: BHEP-I (450MW), Chenani-I (23.30 MW), Chenani-II (2 MW), Chenani-III (7.50MW) and Sewa-III (9 MW), Kashmir: USHP-I (22.60 MW), USHP-II (105 MW), Gas Turbine-I (100 MW) and Gas Turbine-II (75 MW) and Ladakh: Igo-mercillong (3 MW). Total Installed capacity : 797.40 MW

Planning and Project Management

- whether capacity addition programme taken up/to be taken up to meet the shortage of power in the State is in line with the National Policy of Power for All by 2012;
- whether a plan of action is in place for optimization of generation from the existing capacity;
- whether the contracts were awarded with due regard to economy and in a transparent manner;
- whether the execution of projects was managed economically, effectively and efficiently;
- whether hydro projects were planned and formulated after taking into consideration the optimum design to get the maximum power, dam design and safety aspects, and

Financial Management

- whether all claims including energy bills and subsidy claims were properly raised and recovered in an efficient manner; and
- the soundness of financial health of the generating undertakings.

Operational Performance

- whether the power plants were operated efficiently and preventive maintenance as prescribed was carried out minimising the forced outages;
- whether requirements of each category of fuel was worked out realistically, procured economically and utilised efficiently;
- whether the manpower requirement was realistic and its utilisation optimal;
- whether the life extension (renovation and modernization) programme were ascertained and carried out in an economic, effective and efficient manner, and
- The impact of R&M/LE activity on the operations/performance of the Unit.

Monitoring and Evaluation

- Whether adequate MIS existed in the entity to monitor and assess the impact and utilise the feedback for preparation of future schemes.

5.2.4 Audit Criteria

The audit criteria adopted for assessing the achievement of the audit objectives were:

- National Electricity Plan, norms/guidelines of Central Electricity Authority (CEA) regarding planning and implementation of the projects;

- Standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- Targets fixed for generation of power;
- Parameters fixed for plant availability, Plant Load Factor (PLF), etc;
- Performance of best unit in the regions/all India averages;
- Prescribed norms for planned outages.

5.2.5 Financial Position and Working Results

The Company has been maintaining its books on cash basis instead of the accrual basis and attracted comments from the Statutory Auditors for not maintaining proper books of accounts as required under the Companies Act, 1956.

The accounts of the Company had been finalised upto the year 2001-02 and accounts for the years 2002-03 and onwards were in arrears (November 2010). The Management stated that Statutory Audit of the annual accounts of the Company for the year 2002-03 to 2004-05 had been completed. It was also stated that shifting of accounts to accrual basis shall also be completed shortly.

The financial position of the Company on the basis of provisional accounts for the five years ending 2009-10 is given below:

Table 1

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
A. Liabilities					
Paid up Capital	5.00	5.00	5.00	5.00	5.00
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	1514.22	1821.26	1965.81	2499.64	2587.50
Borrowings (Loan Funds)					
Secured	592.69	592.69	592.69	434.47	364.99
Unsecured	2571.75	3092.84	3635.68	4084.66	4207.11
Current Liabilities & Provisions	89.71	105.49	113.82	145.17	190.34
Total	4773.37	5617.28	6313.00	7168.94	7354.94
B. Assets					
Gross Block	3941.56	4502.84	5219.27	5547.74	5830.74
Less: Depreciation	375.23	398.37	418.32	435.48	1196.24
Net Fixed Assets	3566.33	4104.47	4800.95	5112.26	4634.50
Capital works-in-progress (including cost of chassis)	517.51	608.52	823.57	1098.30	1259.19
Current Assets, Loans and Advances	509.82	744.24	541.33	848.39	1274.43
Accumulated losses	179.71	160.05	147.15	109.99	186.82
Total	4773.37	5617.28	6313.00	7168.94	7354.94
Debt equity ratio	2.08:1	2.02:1	2.15:1	1.80:1	1.76:1

(Source: Figures depicted in provisional balance sheets for respective years)

An analysis of financial position of the Company revealed that unsecured loans of the company increased from ₹ 2571.75 crore in 2005-06 to ₹ 4207.11 crore in 2009-10.

The details of working results like cost of generation of electricity, revenue realisation, net surplus/loss and earnings and cost per unit of operation are given below:

Table 2

(₹ in crore)

S. No	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Income					
	Generation Revenue	129.41	120.20	116.87	120.68	1177.11
	Other income including interest	1.71	4.43	7.03	2.51	2.73
	Total Income	131.12	124.63	123.90	123.19	1179.84
2.	Generation					
	Total generation (In MUs)	946.57	985.57	909.65	1702.96	3471.24
	Less: Auxiliary consumption (In MUs)	4.69	5.08	5.03	12.33	33.83
	Total generation available for Transmission and Distribution (In MUs)	941.88	980.49	904.62	1690.63	3437.41
3.	Expenditure					
(a)	Fixed cost					
(i)	Employees cost	46.21	46.79	51.32	52.83	62.94
(ii)	Administrative and General expenses	2.22	3.63	3.22	2.94	7.96
(iii)	Depreciation	25.61	23.14	19.95	17.16	760.76
(iv)	Interest and finance charges ¹⁴	20.48	30.50	31.45	10.77	297.70
	Total fixed cost	94.52	104.06	105.94	83.70	1129.36
(b)	Variable cost					
(i)	Repair/maintenance/operation charges	0.47	0.93	5.07	2.33	98.13
(ii)	Fuel consumption including cost of HSD/lubricants/consumables	30.83	0	0	0	17.70
(iii)	Rebate and discounts	0	0	0	0	11.47
	Total variable cost	31.30	0.93	5.07	2.33	127.30
	Total cost 3(a) + (b)	125.82	104.99	111.01	86.03	1256.66
4.	Realisation (per unit)	1.37	1.23	1.29	0.71	3.42
5.	Fixed cost (per unit)	1.00	1.06	1.17	0.50	3.29
6.	Variable cost (per unit)	0.33	0.009	0.06	0.01	0.37
7.	Total cost per unit (5+6)	1.34	1.07	1.23	0.51	3.66
8.	Contribution (4-6) (per unit)	1.04	1.22	1.23	0.70	3.05
9.	Profit (+)/Loss(-) (4-7)	0.03	0.16	0.06	0.20	(0.24)

(Source: Figures depicted in provisional balance sheets for respective years)

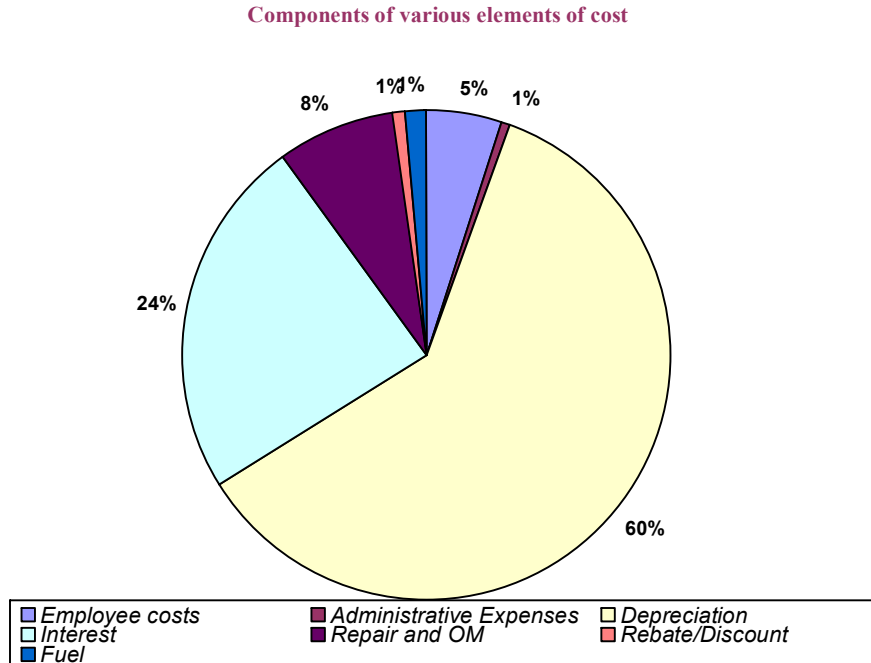
We observed the following:

- The Company suffered a continuous drop in generation revenue from ₹ 1.37 per unit in 2005-06 to ₹ 0.71 per unit in 2008-09. However, after commissioning (October 2008/March 2009) of the Baglihar HEP, the revenue per unit increased to ₹ 3.42 during 2009-10.
- Contribution per unit also decreased from ₹ 1.04 per unit in 2005-06 to ₹ 0.70 per unit in 2008-09 and increased to ₹ 3.05 during 2009-10.

¹⁴ Figures upto 2008-09 exclude interest on loans raised for Baglihar HEP, treated as pre-operating costs and classified under the head 'Capital Work-in-Progress' pending capitalization of BHEP

5.2.5.1 Elements of Cost

Depreciation, interest and employee costs constitute the major elements of cost. The percentage break-up of costs for 2009-10 is given below in the pie-chart.

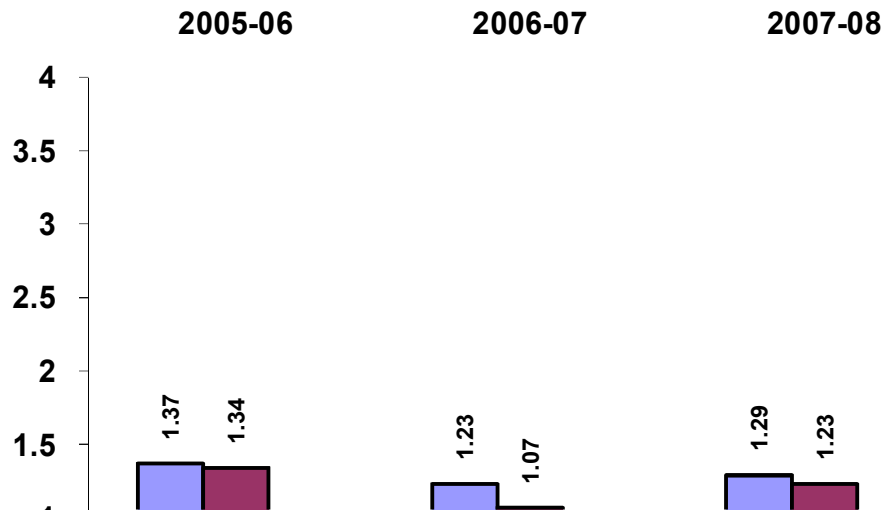


5.2.5.2 Elements of revenue

Main source of revenue is sale of power.

5.2.5.3 Recovery of cost of operations

The Company was able to recover its cost of operations. During the last five years ending 2009-10, the net revenue remained positive during the period covered under present review.



5.2.6. Audit Findings

Audit explained the audit objectives to the Company during an ‘entry conference’ held on 19th February 2010. Subsequently, audit findings were reported to the Company and the State Government in August 2010 and discussed in an ‘exit conference’ held with the management of the Company on 6th December, 2010. The Company also replied to audit findings in December 2010. The views expressed by them have been considered while finalising this review. The audit findings are discussed below.

5.2.7 Operational Performance

The operational performance of the Company for the five years ending 2009-10 is given in *Appendix-5.7*. The operational performance was evaluated on various operational parameters as described below. It was also examined whether the Company was able to maintain pace in terms of capacity addition with the growing demand for power in the State. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and that there was scope for improvement in performance.

5.2.8 Planning

National Electricity Policy aims to provide availability of over 1,000 Units of per Capita electricity by 2012, for which it was estimated that need-based capacity addition of more than 1,00,000 MW would be required in the country during 2002-2012. The Government has laid emphasis on full development of hydro potential, being the cheaper source of energy as compared to thermal. The Central Government would support the State Government for expeditious development of hydro power projects by offering the services of Central Public Sector Undertakings like NHPC, NTPC and NEEPCO. Besides, environmental concerns would have to be suitably addressed through appropriate advance actions. The power availability scenario in the

State indicating own generation, purchase of power, peak demand and net deficit was as under.

Table 3

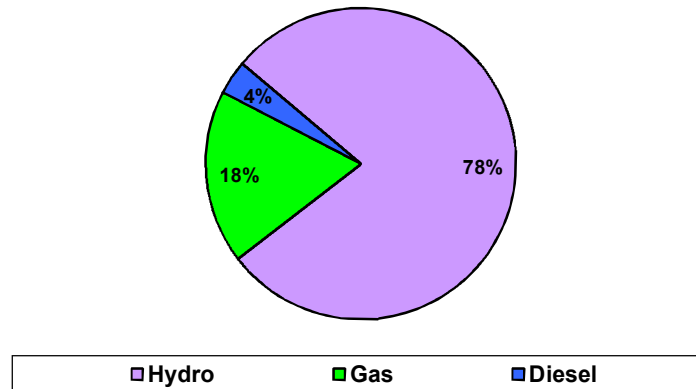
Year	Peak Demand (MW)	Peak demand met (MW)	Peak deficit (MW)	Peak deficit (percentage)
2005-06	1800	1242	558	31
2006-07	1925	1306	619	32
2007-08	2020	1350	670	33
2008-09	2120	1340	780	37
2009-10	2247	1434	813	36

As may be seen from the table above, during 2005-09, the peak deficit increased from 31 to 37 *per cent* and slightly decreased to 36 *per cent* in 2009-10.

This section deals with capacity additions and optimal utilisation of existing facilities.

5.2.8.1 Capacity Additions

The State had a total installed capacity of 508.92 MW at the beginning of 2005-06 which had increased to 967.67 MW at the end of 2009-10. The break up of generating capacities, as on 31 March 2010, under Hydro (758.70 MW), Gas (175 MW) and Diesel (33.97 MW) is shown in the pie chart below. While diesel generating stations are under the control of Power Development Department, the Gas turbines were run only in emergencies during review period due to prohibitive cost of generation.



The particulars of capacity additions envisaged, actual additions and peak demand vis-à-vis energy supplied during the review period are given below:

Table 4

S. No	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Capacity at the beginning of the year (MW)	508.92	515.92	517.67	517.67	967.67
2.	Additions planned by the State (MW)	NA	NA	450*	3.61*	--
3.	Actual Additions (MW)	7.00	1.75	-	450	-
4.	Capacity at the end of the year (MW) (1 + 4)	515.92	517.67	517.67	967.67	967.67
5.	Shortfall in capacity addition (MW) (4 – 3)	-	-	450	(+)446.39	-

* As per economic survey 2006-07, 2007-08 and 2008-09 of the State.

The inadequacies in the actual capacity additions as per the plan are discussed in the subsequent paragraphs.

5.2.8.2 Optimum Utilisation of existing facilities

In order to cope with the rising demand for power, not only is the additional capacity to be created as discussed above, the plan needs to be in place for optimal utilisation of existing facilities and also undertaking life extension programme/replacement of the existing facilities which are near completion of their age besides timely repair/maintenance. The details of the power generating units, when they fell due for Renovation and Modernisation/Life extension programmes (as per CEA norms) during the five years ending 2009-2010 vis-a-vis when actually taken up for the same are indicated in the table below.

Table 5

S. No.	Name of the Plant	Unit No.	Installed Capacity	Date of commissioning	Due Date (as per CEA norms)	Date when actually taken up
1	Lower Jhelum	I	35.00	Feb, 1978	1998	2003-04
		II	35.00	Jan, 1979	1999	2003-04
		III	35.00	Nov, 1979	1999	2003-04
2	Upper Sind Hydro Electric Project-I	I	11.30	Dec, 1973	1993	2005-06
		II	11.30	July, 1974	1994	2005-06
3	Ganderbal	I	3.00	Feb, 1955	1975	2009-10
		II	3.00	Feb, 1955	1975	2009-10
		III	4.50	1961	1981	2009-10
		IV	4.50	1961	1981	2009-10
4	Chenani-I	I	4.66	1971	1991	2005-06
		II	4.66	1971	1991	2005-06
		III	4.66	1971	1991	2005-06
		IV	4.66	1975	1995	2005-06
		V	4.66	1975	1995	2005-06
5	Hunder	I	0.20	1995	2015	2007-08
		II	0.20	1995	2015	2007-08
6	Sumoor	I	0.05	1993	2013	2007-08
		II	0.05	1993	2013	2007-08
7	Bazgo	I	0.15	1994	2014	2007-08
		II	0.15	1994	2014	2007-08

There was a delay of 4 to 33 years in the renovation, modernisation and upgrading (RMU) of 14 units due to lack of comprehensive RMU policy, delay in decision making, non-availability of funds, etc. On the other hand, RMU of three projects due was undertaken pre maturely without ensuring availability of adequate funds. We observed instances of undertaking RMU of various units in an unplanned manner as discussed below:

- Though RMU programmes of four power projects were necessary, the process was started belatedly in November 2000. However, factors like procedural delays in getting approval of the CEA, inability to obtain adequate funding subsequent to approval, failure to obtain Government guarantees, etc, resulted in delays upto August 2005. The RMU of Lower Jhelum had been started (2003-04) in anticipation of the CEA approvals. The delay in taking up RMU, thus, resulted in escalation of the estimated cost from ₹ 137.75 crore (2002) to ₹ 243.70 crore (2005). The work on RMU was started in piecemeal during 2003-09, that too with meager funding, with the result that the whole process which, otherwise, would have been completed within one to three years continued to be incomplete as of May 2010. An expenditure of ₹ 68.96 crore was spent as of March 2010. The Management stated (December, 2010) that the RMU programme got delayed due to huge demand supply gap of power prior to commissioning of Baglihar HEP. However, the Company should have planned the RMU programme in a phased manner to overcome this constraint.
- RMU scheme for Chenani-I project was approved (2005) at a cost of ₹ 42.35 crore, which included electro/mechanical and civil works. The Company incurred ₹ 2.38 crore during 2005-10 on civil works and balance works (including electro/mechanical) had not been taken up (March 2010). We observed that the work had been hampered due to non-availability of funds as also due to delay in finalisation of suppliers for proprietary electro-mechanical equipment to be procured from original manufacture (Hungry based firm) and BHEL. The lapse on the part of the management to arrange funds and finalise the supplier(s) resulted in delay in completion of the RMU. The Management stated (December 2010) that the open bidding process has now been started which is yet underway.
- RMU of USHP-I project was approved (2005) at a cost of ₹ 26.43 crore against which ₹ 7.39 crore¹⁵ (28 per cent) only were incurred during the period 2005-10. It was seen that though the major civil work of renovation of canal (estimated cost: ₹ 8.60 crore) was allotted to the contractor belatedly in December 2009, the work is still under execution, thus delaying the execution. Apart from this, the delay occurred due to non-allotment of electro-mechanical works to the BHEL in time. No action had been taken by the Company to allot the balance works till date (April 2010).

¹⁵ Electro-mechanical works: ₹ 4.71 crore and Civil Works: ₹ 2.68 crore

- The Company with the aim of replacing existing Governors (USHP-I), which were almost 30 years old, avoiding forced shutdowns and saving a generation loss of two lakh units per day, approached (March 2005) BHEL for supply of New Digital Type Max DNA Microprocessors Based Governors with other spares/parts under RMU. BHEL offered (June 2005) the rate of ₹ 1.63 crore (excluding Excise Duty and Sales Tax, etc). The Company, belatedly, placed (July 2007) an order for supply of the above specified governors, against which only part supply was received as of October 2010, after a delay of more than three years and the balance equipment had not been supplied. Non-replacement of Governors which were the brain and heart of the hydro machinery resulted in loss of generation of two lakh units per day, as estimated by the Company. The Management stated that the delay in placement of order was procedural and supplies got delayed due to non-availability of funds and that the Governors shall be installed after receipt of complete supplies. It was further stated (December 2010) that the replacement of Governors was only to improve the central mechanism and did not affect generation. The reply is not based on the facts as the Company at its own assessed the loss and it was also noticed that intermittent failure of Governors resulted in shut down of the power house.

5.2.9 Project Management

Preparation of an accurate and realistic Draft Project Reports (DPRs) after considering feasibility study, factors like creation of infrastructure facility, addressing bottlenecks likely to be encountered in various stages of project planning are critical activities in the planning stage of the project.

Project management includes timely acquisition of land, effective actions to resolve bottlenecks, obtaining necessary clearances from the Ministry of Forest and Environment and other authorities, rehabilitation of displaced families, proper scheduling of various activities using PERT/CPM technique, adequate budget provisions, etc. Notwithstanding this, time and cost overruns were noticed due to absence of coordinating mechanism throughout the implementation of the projects during review period as discussed in succeeding paragraphs.

The following table indicates the scheduled and actual dates of completion of the four power stations, start of transmission, commissioning of power stations and the time overrun.

Table 6
Time overrun

S.No	Phase-wise name of the Unit	Details	As per DPR	Actual Date	Time overrun (In years)
1.	Haftal (1 MW)	Date of completion of unit	8/1990	8/2006	16
		Date of start of transmission	8/1990	8/2006	16
		Date of commercial operation/ commissioning of unit	8/1990	8/2006	16
2	Marpachoo (0.75 MW)	Date of completion of unit	1990	6/2006	15
		Date of start of transmission	1990	6/2006	15
		Date of commercial operation/ commissioning of unit	1990	6/2006	15
3.	Igo-mercellong (3 MW)	Date of completion of unit	9/1997	8/2005	8
		Date of start of transmission	9/1997	8/2005	8
		Date of commercial operation/ commissioning of unit	9/1997	8/2005	8
4.	Baglihar HEP-I (450 MW)	Date of completion of unit	11/2004	10/2008	4
		Date of start of transmission	11/2004	10/2008	4
		Date of commercial operation/ commissioning of unit	12/2004	4/2009	4

None of the projects was completed in time and slippages in time schedule were avoidable at various stages of implementation on account of the following:

- Delay in acquisition of land and handing over of site
- Undue time taken in obtaining clearances from various agencies
- Militancy in the State and other Law and Order problems
- Delay in obtaining Government sanctions and subsequent delayed financial closures and delay in release of payments to contractors
- Settlement of Indus Water treaty issue
- Floods and other Force Majeure events

The Management stated (December 2010) that avoidable delays would be avoided in future by short circuiting the tedious and lengthy procedure.

5.2.9.1 Cost Overrun

The estimated cost of the various power stations executed under different phases, actual expenditure, cost escalation and the percentage increase in the cost are tabulated below:

Table 7
Cost overrun

(₹ in crore)

S.No.	Phase-wise name of the Unit	Estimated cost as per DPR	Actual expenditure as on 31 March 2010	Expenditure over and above estimate (4)=3-2	Per centage increase as compared to DPR
	(1)	(2)	(3)	(4)	(5)
1.	Pahalgam	16.70	55.20	38.50	231
2.	Bhadarwah	2.39	10.60	8.21	344
3.	Igo mercellong	21.63	49.42	27.79	128
4.	Marpacho	1.63	12.84	11.21	687
5.	Haftal	3.95	16.12	12.17	308
6	Baglihar HEP-I	3899.00	5510.09	1611.09	41

It would be seen from the above that in six projects implemented during the review period, there was cost overrun ranging from 41 to 687 per cent. As analysed by us the reasons for cost overrun were as under:

- Lack of effective control over the completion of various packages.
- Additional items of work not envisaged in the DPR executed at a cost of ₹ 239.51 crore in respect of Baghliar Project and ₹ 7.67 crore of Igo-Mercilong project.
- The Company paid ₹ 757.30 crore as interest against ₹ 637.60 crore provided in the DPR, during the construction period in respect of BHEP-I.

The time and cost over-run of two projects are discussed below:

5.2.9.2 Baghliar HEP Stage-I.

Bhagliar HEP Phase-I with three units was taken up for execution in 1999 on turnkey basis in State sector at an estimated cost of ₹ 3495 crore against the DPR cost of ₹ 3899 crore. Civil and hydro mechanical works were awarded (April 1999) to a contractor¹⁶ for ₹ 1622 crore and the electro-mechanical works were allotted (July 1999) to another firm¹⁷ for ₹ 492 crore, for completion by 31 December 2004.

The project underwent cost revisions three times (August 2004/April 2008/October 2009) with final cost estimated (October 2009) at ₹ 5827 crore¹⁸. All the three units of the project were taken over from the contractors between October 2008 and March 2009 and after trial run, the commercial operation was started in April 2009, after 51 months of the scheduled date of completion. However, ancillary works relating to the project continued to be executed as of May 2010, and a total expenditure of ₹ 5515 crore had been incurred (May 2010) on the project. Thus, the project witnessed a cost

¹⁶ M/S Jaiprakash Associates Ltd (formerly Jaiprakash Industries Ltd.)

¹⁷ M/S Voith Siemens and VA

¹⁸ Still under evaluation of CEA

overrun of ₹ 2020 crore¹⁹ and a time overrun of 51 months as of May 2010, which was likely to increase by the time ancillary works are completed.

An analysis of various factors in audit which led to cost and time overrun revealed the following:

- Despite having been accorded top priority by the State Government and the GOI with all necessary clearances for starting the project, the Company could not mobilize the requisite funding for the project in a planned manner and the Company obtained financial closure, from financial institutions, in January 2005, well past the target date of the project. It was seen that instead of awaiting a firm financial closure, the Company started work by deploying Plan assistance (Equity) received from the State, raising bridge loan/bonds and utilising its internal resources. By the time financial closure was obtained, an amount of ₹ 2366 crore²⁰ had been spent.
- Unprecedented snowfall (January 2005) and heavy monsoon rains (July 2005) resulted in damages, inter-alia, to the river diversion arrangement (diversion tunnels) and triggered collapse of rock and debris slope on the right bank by way of massive slides. The rehabilitation/reinstatement works on account of this force majeure event was assessed by the Company at ₹ 501 crore. The Company received (March 2006 to February 2009) ₹ 103.66 crore against a claim of ₹ 120 crore from the insurers and the balance amount of ₹ 16.34 crore was pending with the Insurance Company. Inadequate follow up of the insurance claim indicated lack of seriousness on the part of the Company to save itself from the financial loss. The Management stated that the remaining amount under this policy is under finalisation with the insurers and is being followed vigorously. The claim is likely to be settled within a month.
- Even after obtaining financial closure, the Company had not ensured release of timely payments with the result that the contractor was paid ₹ 3.08 crore on account of delayed payments ending May 2010 which could have been avoided by a meticulous financial planning. The Company had not fixed any responsibility for causing pecuniary loss to the Company due to unsound fund management. The management admitted (June 2010) that the interest on delayed payments was due to financial problems encountered prior to obtaining financial closure of the project. It was also stated (December 2010) that non release of Special Plan Assistance of ₹ 440 crore led to delayed payments.
- Delay in construction of alternative roads and bridges²¹ in submergence areas, resulted in reservoir filling remaining static at 836 MASL²² against the envisaged

¹⁹ Against the estimated cost (₹ 3495 crore)

²⁰ Civil works: ₹ 2034 crore (including Transmission Line expenditure), Electro-mechanical: ₹ 332 crore.

²¹ Ganpat bridge, bridge at Trungal, bridge at Marsoo, bridge at Kulthi Nallah, Khellani Pul Doda (Re-alignment road), Roapway at Marsoo and Trungal.

²² Meters Above Sea Level

full 840 MASL and the project thereby remaining without full load testing and also losing benefit of extension peaking hours during winter. This also reduced cushion for floods substantially.

5.2.9.3 Bhaderwah Mini Hydel Project

The Company awarded (May 2002) a contract for design, manufacture, supply, supervision, erection, testing and commissioning of Unit-III (0.5 MW) of Bhaderwah HEP to a firm²³. Although the work was completed (April 2006), the unit could not be commissioned as one of the vital component (sluice valve) was not installed. The firm had not supplied the equipment as the same was not specifically mentioned in the list of equipment to be supplied by the firm. We observed that while executing the contract for Unit-I and Unit-II, the firm was required to supply the sluice valve and in the contract for Unit-III no provision for this mandatory item was kept. The equipment was installed (February 2009) after about three years.

Apart from this, water conductor, feeding all the three Units (two already commissioned) of the Bhaderwah HEP, damaged in September 2007 due to heavy rains/shooting stones, had not been repaired (May 2010). No reasons for non-repair of the water conductor were furnished by the Company. As a result, all the three units remained non-functional from September 2007 to September 2010 resulting in generation loss of 6.79 MU²⁴ valuing ₹ 1.24 crore. Reasons for non-provisioning of mandatory item of equipment were not found on record. No responsibility for executing the contract without this mandatory equipment had been fixed by the Company. The Management stated that the machine of Unit-III could not be tested and commissioned due to non-availability of water. The reply is not logical as despite lapse of three years no serious efforts were made by the Company for repair of the water conductor and all the three units remained non-functional since September 2007. Management also stated (December 2010) that responsibility shall be fixed and efforts were on to restart the Bhaderwah HEP.

5.2.10 Contract Management

5.2.10.1 Contract management is the process of efficiently managing contract (including inviting bids and award of work) and execution of work in an effective and economic manner. The work is generally awarded on turnkey (Composite) basis to a single party involving civil construction, supplies of machines and ancillary works.

We observed that the Company had not maintained any details of contracts at the Corporate Headquarters in respect of various field units and as such the position of total contracts signed by the Company during 2005-10 could not be ascertained.

²³ M/S. Jyoti Ltd

²⁴ Worked out on the basis of potential generation arrived at minimum PLF of 20 *per cent* for the respective periods and the per unit sale rate of the corresponding period.

5.2.10.2 Following deficiencies were noticed in implementation of contracts in respect of Baglihar HEP-I:

- Clause 24.4 of the general conditions of the contract provided that granting of an extension of the time for completion would imply that the contractor would be entitled to additional payment of costs arising from the time extension. It was seen that only 60 and 65 *per cent* of the works were actually completed by the Civil and Electro Mechanical contractors ending December 2004. However, factors like non- availability of land, inadequate security, law and order problem, adverse geology encountered, delay in release of payments, flash floods in 2005, Indus Water Treaty issues and also delays in obtaining financial closures etc. resulted in further delay in completion of the works. The Company, thus, had to grant extension of time (EOT) eight times during 2005-2009 which resulted in payment of extension claim of ₹ 196 crore to the contractor.
- Delay in civil works, resulted in five extensions in time in respect of electromechanical contractors²⁵ and payment of ₹ 106.86 crore on account of cost escalation due to EOT (₹ 77.88 crore), extension in defect liability period (₹ 24.10 crore) and preservation charges (₹ 4.88 crore) to the contractors.
- This also led to continued supervision by consultants due to which additional expenditure of ₹ 69.23 crore was incurred beyond ₹ 60.77 crore payable to consultant as per schedule.

5.2.10.3 *Delay in execution of allied works of Baglihar BHEP*

Consequent upon impounding of Baglihar Reservoir, several roads and bridges upstream were envisaged to be submerged. In order to provide alternate roads and bridges upstream for use by the local populace, the status of all the submergence roads and bridges was delayed resulting into inability of the Corporation to impound its reservoir upto the designed dam level. Major deficiencies noticed in completion of these allied works are discussed below.

- Construction of Ganpat Bridge at Pul Doda was allotted (December 2006) to the J&K Projects Construction Corporation at a cost of ₹ 29.95 crore for completion by February 2009. We observed that even after 40 months, JKPCC could achieve only 40 *per cent* progress on the work. Records revealed that despite having been paid (December 2006 and March 2007) the mobilization advance of ₹ 5.99 crore, the JKPCC failed to arrange Gantry Girders, most essential component of the work. The work on the site was further delayed due to litigation between JKPCC and its sub-contractors for one and half years and belated demand (January 2010) of additional land for bridge abutment. The Company had not imposed any penalty as per the agreement, computed at ₹ 2.99 crore (10 *per cent* of the cost),

²⁵

M/S Voith Siemens Ltd

upon JKPCC for delay in completion of work. The Management while confirming the delay stated that action would be initiated as stipulated in the MOU.

- The work of design, supply, fabrication, erection and launching of foot suspension bridge over river Chenab for villages of Marsoo area was awarded (July 2006) to a contractor²⁶ at a cost of ₹ 2.82 crore. The work was to be completed by March 2007, failing which a penalty at 10 *per cent* of the contract value had to be imposed and in the event of failure to execute the contract and the re-allotment had to be at the risk and cost of the contractor.

The contractor submitted (September 2006) the design for vetting which was returned (April 2008) by the Company, after a delay of about 20 months. It was seen that the reason for delay in vetting of designs was refusal by the State Design Directorate to vet them which prompted the Company to have the designs vetted from a private firm (M/s Lahmeyer International). Further, the contractor had not started the work at all even after two years of approval of the design. After being pointed out in audit, the management informed (June 2010) that the contractor after having been notified had started the work and penalty, if any, would be worked out. The reply, however, did not elaborate whether the option of canceling the existing contract and re-allotting to another contractor at the risk and cost was also considered.

5.2.10.4 Undue favour to Contractors

- The Central Vigilance Commission (CVC) prohibited (1997/2004) payment of interest-free advance to contractors engaged for implementation of projects. We observed that, in contravention of these guidelines, the Company had granted interest-free mobilization advance of ₹ 405.60 crore (₹ 162.24 crore each in April and December 1999 and ₹ 81.12 crore in July, 2000) to contractor executing Hydro-mechanical works of Baglihar HEP-I. Similarly, ₹ 40 crore had been paid (August 2002) to contractors for execution of Baglihar Stage-II, which was pending adjustment (June 2010). This resulted in huge interest losses to the Company besides passing of undue financial benefit to the contractors.

The Management stated (June 2010) that the advance was granted and recovered from the contractors in line with the contractual stipulations. It, however, assured that mobilization advances, if allowed in future, shall be paid keeping in view the recommendations of the CVC in this behalf.

- The work of construction of 18.5 Km long External Access Road to Sawlakote Hydro Electric Project was awarded (July, 2002) to a firm²⁷ at a cost of ₹ 137 crore for completion within 20 months. It was seen that the Company, without ensuring availability of land for the road, which passed through the forest area,

²⁶ M/s Malik Construction Company, Batote

²⁷ M/s Larsen and Toubro

paid (September 2002) ₹ 27.40 crore to the contractor as mobilisation advance without interest. However, the contractor started the work belatedly in November 2004 by which time the contract was re-negotiated (September 2003) at a reduced cost of ₹ 119 crore with completion period of 24 months. Though the contract had been rescheduled twice (June 2007 and October 2009) for completion by July 2011, only 55 *per cent* of the work had been completed as of March 2010.

Thus, payment of Mobilization advance without interest and without providing the un-encumbered land to the contractor, coupled with delay in completion of work, etc. put the Company to loss of ₹ 6.39 crore²⁸. This also jeopardized the starting of the main project. The Management stated that 25 *per cent* of the value of work done is being deducted from each Interim Payment Certificate (IPC) and ₹ 15.58 crore had been recovered as of March 2010. The management in its reply, however, did not indicate reasons for grant of mobilisation advance without making available the site.

5.2.11 Operational Performance

Operations of a Power Generation Company is dependent on input efficiency consisting of material and manpower and output efficiency comprising Plant Load Factor, plant availability, capacity utilization, outages and auxiliary consumption. These aspects have been discussed below.

5.2.12 Manpower Management

Consequent upon reorganisation (June 1994) of the J&K State Power Development Department and coming into existence of JKSPDC in February 1995, the State Government decided that the staff engaged in these projects/power stations/units on the date would be taken as their respective sanctioned strengths. However, despite the BoD repeatedly deliberating upon restructuring and assessment of staff requirement, the Company did not follow it up.

The position of actual manpower, sanctioned strength and expenditure on salaries is given below:

Table 8

S. No.	Particulars.	2005-06	2006-07	2007-08	2008-09	2009-10
1	Sanctioned strength	5067	5067	5067	5067	5067
2	Actual manpower	3722	3697	3551	3649	3331
3	Expenditure on salaries (₹ in crore)	46.21	46.79	51.32	52.83	62.94

The Management stated that Company was in the process of undertaking requirement analysis based on the report of the consultants engaged for the purpose. In the course of audit, we observed instances of idle manpower as detailed below:

²⁸

Calculated on the basis of 10 *per cent* rate of interest for 28 months i.e. delay in handing over the land.

- In pursuance to MOU (July 2000) with the NHPC, Kishen Ganga Hydel Project (KGHEP) was transferred (July 2000) to NHPC for execution. Audit scrutiny revealed that after transfer of the project, the Staff attached to the Project, had not been relocated for gainful employment elsewhere upto October 2009, when the staff was redeployed to needy divisions/projects. An amount of ₹ 12.33 crore was paid as salary to these employees during July 2000 to February 2009, thereby indicating a deficient human resource management. Management stated (December 2010) that some staff was also supposed to be taken over by NHPC which did not mature as NHPC did not exhibit any inclination for this and staff was redeployed in October 2009.
- The State Government ordered (July 1999) transfer of Electric Sub-division, Karnah of the Company to Power Development Department alongwith the staff posted therein. We observed that the Company continued to pay salaries to these employees and ₹ 3.61 crore had been paid as of September 2010. The State Government neither reimbursed the salary to the Company nor did they accept repatriation stating (October 2006) that the staff could not be accommodated in the PDD for want of posts. From the above, it would be seen that the Company was unable to take decisions independently and curtail cost of generation thereby, compromising on cost effective power supply to the State.

5.2.12.1 *Operation and Maintenance of BHEP*

The Company had not planned for Operation and Maintenance (O&M) of the Bhagliar project. We observed that until the wet commissioning (August 2008) of the Project, requisite trainings for handling/operation of the equipment were not planned/imparted to the staff.

The electro mechanical contractor, as per the agreement, was to provide necessary training in handling of Electro Mechanical equipments to the Company staff and during 2004-05, six officers²⁹ had been sent to Germany by the Contractor, for training. However, two of these officers were repatriated to their parent departments while the services of others could not be utilised as two of them belonged to Mechanical and Civil disciplines and could not be deployed on power house operational duties, indicating that selections of trainees had not been done properly. The Company had paid ₹ 4.62 crore to the Contractors ending February, 2010 for the purpose, yet it failed to build a cadre which could independently handle the operation and maintenance of the Power House rendering the expenditure infructuous.

Due to non-availability of trained manpower, the Company engaged (March 2009), NHPC for O&M of BHEP at a cost of ₹ 74.10 crore for the first year with annual escalation thereafter as permissible under CERC guidelines. The NHPC started

²⁹ 1 EE., 1 AEE, 1 AE, 3 JEs

rendering service from September 2009 and Rs 51.58 crore had been paid by the Company as of May 2010.

5.2.13 Output Efficiency

5.2.13.1 Shortfall in generation

The targets for generation of power for each year are fixed/approved by the management. We observed that instead of fixing targets in terms of Units to be generated, the Company had been fixing it in terms of the expected revenue. However, based on the targets computed by audit in terms of Units taking into account the design energy, it was seen that the Company was able to generate a total of 7979.31 MU of power during 2005-06 to 2009-10 against the revalidated design energy of 10790.53 MU. This resulted in a shortfall of 2811.22 MU as shown in the following table:

Table 9

(Figures in MUs)

Year	Design Energy	Actual	Shortfall	Per centage of Shortfall
2005-06	1520.38	922.31	598.07	39
2006-07	1529.05	985.57	543.48	36
2007-08	1529.05	909.65	619.40	41
2008-09	2146.93**	1702.96	443.97	21
2009-10	4065.12	3458.82	606.30	15
Total	10790.53	7979.31	2811.22	26

** The design energy of Baglihar HEP has been taken for the corresponding operational period of the machines.

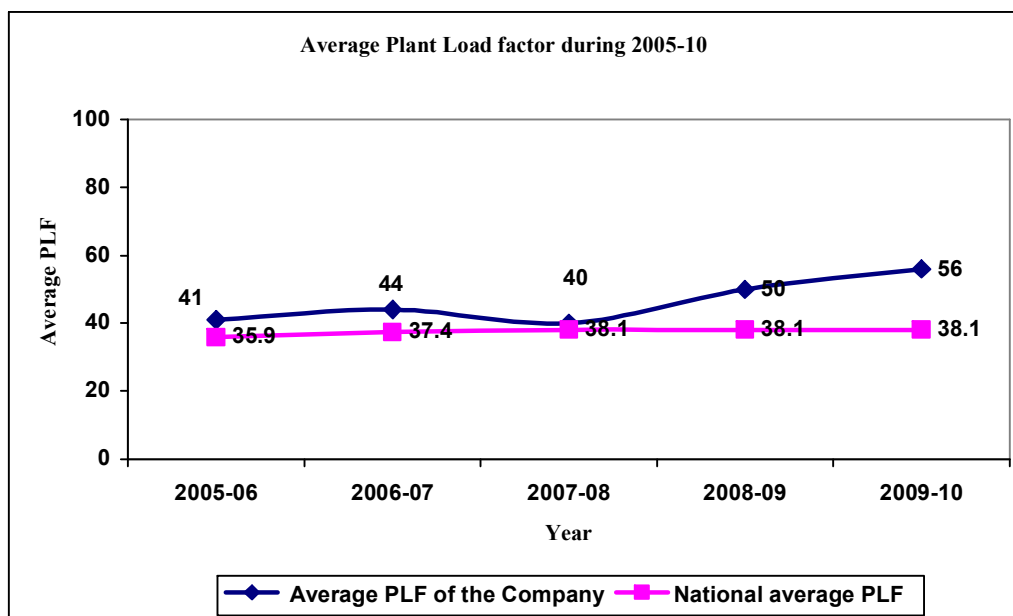
Note: The design energy and actual generation was excluding the figures in respect of Gas Turbine Units.

Major reasons for huge shortfall were delay in decision making at various levels of the management for timely repairs/restoration of the damages to the machinery/components/feeding canals of various power houses, low discharge of water, feeding line faults, frequent breakdown of power houses, etc. as brought out in the preceding paragraphs.

The year-wise details of energy to be generated as per design, actual generation, plant load factor (PLF) as per design and actual plant load factor in respect of the power Projects commissioned up to March 2010 are given in *Appendix- 5.8*.

5.2.13.2 Low Plant Load Factor (PLF)

Plant load factor (PLF) refers to the ratio between the actual generation and the maximum possible generation at installed capacity. According to norms fixed by Central Electricity Regulatory Commission (CERC), the PLF for hydro power generating stations should be 80 *per cent*, against which the national average was 35.9 to 38.1 *per cent* during 2005-10. The PLF achieved by the Company was 40 to 56 *per cent* of the Hydel Power Projects during 2005-10 as depicted below.



An analysis of the *Appendix-5.8* revealed that in 9 to 11 power houses, the PLF remained 20 per cent and below during review period.

The details of average realisation vis-a vis average cost per unit, PLF achieved, PLF at which average cost would be recovered are given in the following table:

Table 10

S. No.	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Average Realisation (paise per Unit)	1.37	1.23	1.29	0.71	3.42
2.	Average Cost (paise per Unit)	1.34	1.07	1.23	0.51	3.66
3.	Actual PLF (per cent)	41	44	40	50	56
4.	PLF at which average cost stands recovered (per cent) (2/1 X 3)	40	38	38	35	60

The main reasons for the low PLF with reference to CERC norms, as observed in audit were:

- Low plant availability
- Low capacity utilization
- Natural calamities in some projects
- Major shutdowns and delays in repairs and maintenance
- Old projects were under RMU programme

The Management stated (December 2010) that the steps have been taken to carry out stabilisation work/RMU to improve the plant availability and consequently the PLF.

These are discussed in the following paragraphs.

5.2.13.3 Low plant availability

Plant availability means the ratio of actual hours operated to maximum possible hours available during certain period. Against the CERC norm of 80 *per cent* plant availability during 2004–2009 and 85 *per cent* during 2010–2014, the average plant availability of power stations was from 50 to 65 *per cent* during 2005-10.

The details of total hours available, operated, planned/forced outages and overall plant availability in respect of the Company (excluding Gas turbine) are shown below:

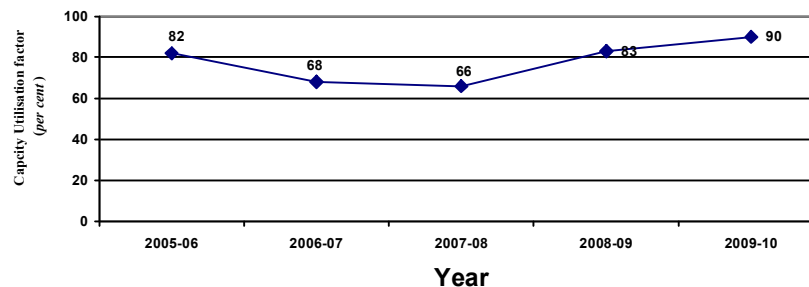
Table 11

S. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Total hours available	271416	320040	391056	397920	416400
2.	Operated hours	125264	143634	145902	200217	184697
3.	Planned outages (in hours) (<i>per centage</i> to total hours available)	7941 (2.93)	10579 (3.31)	12669 (3.24)	10684 (2.68)	20160 (4.84)
4.	Forced outages (in hours) (<i>per centage</i> to total hours available)	138211 (50.92)	165827 (51.81)	232485 (59.45)	187019 (46.99)	211543 (50.80)
5.	Plant availability (<i>per cent</i>)(weighted)	50	65	61	60	62
6.	Average PLF (<i>per cent</i>)	41	44	40	50	56
7.	Capacity Utilisation factor (6/5*100)	82	68	66	83	90

The planned and forced outages remained between 2.68 *per cent* and 4.84 *per cent* and between 46.99 *per cent* and 59.45 *per cent* respectively during the period 2005-10. The low availability of Power plants was due to longer duration of outages caused by inordinate delays in repair and maintenance, delay in RMU of old units, low water discharge, Feeder problems from State PDD, Manual Voltage regulation problems, etc.

5.2.13.4 Capacity Utilisation

Capacity utilisation means the ratio of actual generation to possible generation during actual hours of operation. The average capacity utilisation factor of power plants in the State ranged between 66 and 90 *per cent* during 2005-10 as shown in the graph below.



The main reasons for the low utilisation of available capacity during 2005-10, analysed in audit were:-

- Running of units with partial load/without load.
- Reduced capacity of old generating units.
- Constraints on transmission capacity.

5.2.13.5 Outages

Outages refer to the period for which the plant remained closed for attending planned/forced maintenance. Audit observed the following deficiencies in planned and forced outages:

- The total number of hours lost due to planned outages increased from the 7941 hours (2.93 *per cent*) in 2005-06 to 20160 hours (4.84 *per cent*) in 2009-10 of the total available hours. The planned outages primarily were due to taking up of RMU of the units.
- The forced outages in power stations increased from 138211 hours in 2005-06 to 211543 hours in 2009-10. The forced outages remained more than the norm of 10 *per cent* fixed by CEA. Compliance of the CEA norms would have entailed availability of generation of 3962.88 MU valuing ₹ 897.80 crore³⁰ during 2005-10. Major reasons for huge outages were delay in decision making at various levels of the management for timely repairs/restoration of damages to the machinery/components/feeding canals of various power houses, low discharge of water, feeding line faults, frequent breakdown of power houses as highlighted in the preceding paragraphs.

5.2.13.6 Auxiliary consumption of power

Energy consumed by power stations themselves for running their equipments and common services is called Auxiliary Consumption. J&K SERC allowed (June 2003) 0.50 *per cent* of the power generated to be used as auxiliary consumption and 0.50 *per cent* as transmission losses. The actual auxiliary consumption including transmission losses ranged between 0.51 and 0.95 *per cent* during the years 2005-10 which was within the desired range.

5.2.14 Repairs and maintenance

To ensure long term sustainable levels of performance, it is important to adhere to periodic maintenance schedules. The efficiency and availability of equipment is dependent on the strict adherence to annual maintenance and equipment overhauling schedules. Non-adherence to schedule carry a risk of the equipment consuming more coal, fuel oil and a higher risk of forced outages which necessitate undertaking R&M

³⁰ Calculated on the basis of difference of generation loss at 90 *per cent* availability and actual availability (50 to 65 *per cent*) with the per unit sale rate during review period.

works. These factors lead to increase in the cost of power generation due to reduced availability of equipments which affect the total power generation.

Instance, of delay in carrying out repairs resulting in shutdowns noticed in audit are elaborated below.

5.2.14.1 Restoration work of damages of Wangat spill channel

The downhill side of water conductor of Wangat Link Canal feeding Kangan Power House got eroded during 2005-2006. Due to inaction in arresting the erosion, a huge slips (September 2009) adjacent to the exposed conduit damaged the main canal as well as the spill channel, putting the power house to halt. The Company allotted (September 2009-March 2010) the work for repairs of spill channel and allied works to contractors without resorting to tendering and executed part works departmentally. An amount of ₹ 3.02 crore had been incurred and the power house was made operational in April 2010, though work had not been completed fully and continued to be in progress. No work related to restoration of canal had, however, been initiated with the result that the canal had been lying defunct affecting the generation capacity of the Power house, which was being run on the feed from Sumbal link canal only³¹. The delay in completion of survey for generating data required for clearance of restoration proposal by the Central Water Commission (CWC), primarily led to delay in taking up the restoration work of the canal. In reply, the management stated that the work had been executed through the inducted agencies on reasonably awarded/allotted cost only to run the Power House at the earliest. The works were still under execution due to increase in allotted quantities as per requirement at site and that the survey required for clearance of proposal by the CWC is being pursued vigorously. The reply is not convincing as the Company did not carry out the repairs to arrest erosion noticed during 2005-06 initially which resulted in halting of the operation of the Power House and huge financial losses.

5.2.14.2 Faulty design leading to extra burden

USHP-II, Kangan Unit-II and Unit-III, commissioned in September 2001 and June 2002, respectively developed (September 2002) excessive shaft vibration. This resulted in shutdown of Unit-II intermittently during January/February 2003, May 2003 to September 2003, and completely in May 2004, as the repair works failed to restore the Unit. Similarly, Unit III was also under shutdown from January 2003 to September 2003, November 2003 to February 2004, and completely from September 2004.

After consultation with M/s BHEL, Central Water Commission (CWC), Central Electricity Authority (CEA) during 2002-03, the Company belatedly approved (September 2005) modification/restoration/repair works at a cost of ₹ 6.98 crore.

³¹ USHP-II Kangan is the only power house having two feeder canals viz., Sumbal link canal and Wangat link Canal

Procedural delays involved during consultation with above agencies and further delay in finalisation by the Company subsequent to recommendations of these agencies resulted in belated approval. While the Unit-III was restored in March 2006, Unit-II was restored in May 2007.

We observed that faulty design of the tail race pool was the main cause of excessive vibration which led to modification/restoration/repair works at a cost of ₹ 6.06 crore³². This extra cost excluded expenditure incurred on non-BHEL electrical works, other civil and mechanical works and consultancy charges, which were not intimated. Apart from this, the forced shutdowns resulted in generation loss of 275.94 MUs³³ valuing ₹ 43.53 crore.

5.2.14.3 Overhauling of Unit-I of USHP-II, Kangan

USHP-II, Kangan Unit-I developed (2006) a trend of high vibrations. We observed that rotating sleeve of turbine shaft sealing system and textolite insulation had deteriorated with erosion of guide vanes. For rectification, the machines were required to be completely dismantled and overhauled. The unit was closed down (November 2007) and the rectification work was allotted (December 2007/July 2008) to BHEL at a cost of ₹ 1.77 crore for completion by October 2008. The unit was ultimately synchronized with the Grid in August 2009. It was seen that the delay in undertaking the repairs of affected parts was mainly due to delay in finalization of rates, delay in decision for repairing and reconditioning of underwater parts, etc. However, apart from the delays in initiating the repairs, the delay (November 2008 to July 2009) in completion of allotted works resulted in potential loss of generation of 45.99 MU³⁴ valuing ₹ 7.39 crore.

5.2.14.4 Delayed completion of restoration work

The restoration work of water conductor feeding Chenani power house, damaged (February 2005) due to heavy rains, was awarded belatedly (March 2006), to a firm³⁵ at a cost of ₹ 7.37 crore for completion in 12 months (April 2007). The main reasons for delay included belated assignment of the work to executive wings and subsequent delays in tendering process. However, the Company neither made the worksite available to the contractor nor obtained necessary clearance from the Forest Department, which resulted in delay in completion of work upto April 2008. The delay in completion of work for about 24 months (March 2005 to February 2006 and

³² On modification of tail race pool (₹ 2.30 crore) and rehabilitation of Unit- II and Unit-III (BHEL: ₹ 3.76 crore).

³³ Calculated on the basis of potential generation arrived at minimum PLF of 20 *per cent* for the period of complete shut down (May 2004 to April 2007: Unit –II and September 2004 to February 2006: Unit-III) with the sale rate of the corresponding period.

³⁴ Calculated on the basis of potential generation arrived at minimum PLF of 20 *per cent* for the period November 2008 to July 2009 with the sale rate of the corresponding period.

³⁵ M/S K.K.Chibber Constructions, Khanna (Punjab)

April 2007 to March 2008) resulted in generation loss of 88.64 MU³⁶ valued at ₹ 9.93 crore.

5.2.15 Financial Management

Efficient fund management is the need of the hour in any organisation. This also serves as a tool for decision-making, optimum utilisation of available resources, and borrowings at favourable terms at appropriate time.

The power sector companies should, therefore, streamline their systems and procedures to ensure that:

- funds in idle inventory are not invested,
- outstanding advances are adjusted/recovered promptly,
- funds are not borrowed in advance of actual need, and
- swapping high cost debt with low cost debt is availed expeditiously.

The main sources of funds were realisations from the sale of power and loans from State Government/Banks/Financial Institutions (FIs), etc. These funds were mainly utilized for generation cost, debt servicing, employee and administrative costs, and system improvement works of capital and revenue nature.

Details of sources and utilisation of resources on actual basis for the years 2005-10 are given below:

Table 12

(₹ in crore)

S. No	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Sources						
1.	Net Profit/(loss)	5.31	19.66	12.90	37.17	(76.84)
2.	Add: adjustments	25.61	23.14	19.95	17.16	760.76
3.	Funds from operations (1+2)	30.92	42.80	32.85	54.33	683.92
4.	Cash deficit (9-3)	880.64	971.57	760.75	1223.18	293.13
5.	Total (3+4)	911.56	1014.37	793.60	1277.51	977.05
Utilisation						
6.	Capital expenditure*	775.76	795.75	1004.84	1001.80	596.18
7.	Increase in working Capital	135.80	218.63	(211.24)	275.71	380.87
8.	Cash surplus (3-(6+7))	-	-	-	-	-
9.	Total	911.56	1014.37	793.60	1277.51	977.05

(* Source: utilisation certificates)

³⁶ Calculated on the basis of potential generation arrived at minimum PLF of 20 per cent for the period of complete shut down with the sale rate of the corresponding period.

The cash deficit was overcome mainly by increased borrowings in the form of cash credit/loans from Commercial Banks/Financial Institutions. Main reasons for cash deficit identified by audit were poor/delayed recovery of power supply bills, heavy interest commitment on loans, etc. It was seen that dependence on borrowed funds increased from ₹ 3164.44 crore in 2005-06 to ₹ 4572.10 crore in 2009-10. This resulted in interest burden of ₹ 3493.84 crore during 2005-10, thereby, increasing the operating cost of the Company.

Following lapses were noticed in the financial management.

- Due to liberalised economic policies, the interest rates on the loans started declining from 1999-2000 onwards. Different bankers reduced the rates of interest on the existing loans. Similarly Financial Institutions also evolved schemes to restructure the high cost loans into low cost loans with certain conditions. It was therefore, advantageous for the Company to go for restructuring high cost loans. It was, however, seen that the Company had not undertaken any exercise in this regard and had failed to take advantage of this facility. The loans availed by the Company, thus, continued to be serviced at the rates at which they were availed. The Management stated (December 2010) that the Company shall make an exercise to ascertain economies of swapping of debts.
- Based on the recommendation of the Planning Commission, the GOI sanctioned (October 2008) ₹ 670 crore as Special Plan Assistance in lieu of interest free loan to the State Government to meet the escalation cost of Baglihar Hydro Electric Project repayable in 12 monthly installments of ₹ 55.83 crore. However, out of ₹ 670 crore released by the GOI, the Company had received (December 2008/March 2009) ₹ 230 crore only from the State as of May 2010. Non-release of ₹ 440 crore by the State indicated diversion of Special funds.
- All the power projects commissioned during 10th plan (2002-07) were entitled to assistance under Accelerated Generation and Supply Programme (AG&SP) in the form of interest subsidy and the assistance availed by the projects not commissioned within 10th plan were required to refund the benefit so availed. We observed that the Company availed (2004-05) interest subsidy of ₹ 12.51 crore for Baglihar HEP from Power Finance Corporation Limited with a commitment to complete the project by 31 March 2007. However, non-completion of the Project in time resulted in refund (November 2007) of subsidy with interest by the Company.

- Consequent upon transfer³⁷ of projects to and from NHPC, it was decided (March 2001) that payments due from NHPC, for the transferred projects after taking into account the balance outstanding in respect of Baglihar Project, would be set off against the total outstanding due from the J&K Government on account of power purchase from NHPC. Necessary credits were to be passed on to the Company by internal book adjustment, etc. by the State Government.

As per the books of the Company, ₹ 79.14 crore was outstanding against NHPC on this account. However, neither any confirmation of the figures had been obtained from NHPC nor the amount recovered by the Company (June 2010). We observed that non-availability of complete details and project-wise balance sheets with the Company delayed the recovery with resultant loss of interest. The Management stated that NHPC had asked for some details which were to be worked out from the records and the matter continued to be discussed with NHPC. The reply is not convincing as serious efforts to reconcile the amounts with the NHPC were not made by the Company and same had been pending for almost a decade.

5.2.16. Claims and Dues

Company sells energy to J&K Power Development Department and Power Trading Corporation at the rates determined by JKSERC and as per the MOU signed with PDD/PTC from time to time. It was seen that receivables on account of sale of energy made to PDD have shown a sharp increase during 2005-06 to 2009-10. Against ₹ 250.53 crore due from the PDD in April 2005, the outstanding had gone up to ₹ 1041.28 crore in March 2010. The PDD had released payments to the Company in a staggered manner. Against energy bills of ₹ 1267.71 crore, only ₹ 476.96 crore had been paid during 2005-10 as depicted in the following table.

Table 13

(₹ in crore)

Year	Opening Balance	Bill raised	Amount Received	Balance outstanding
2005-06	250.53	129.41	54.33	325.61
2006-07	325.61	120.21	40.00	405.82
2007-08	405.82	116.87	80.00	442.69
2008-09	442.69	336.23	77.00	701.92
2009-10	701.92	564.99	225.63	1041.28

³⁷ Seven Projects (Uri-II HE Project, Kishenganga HE Project, Bursar HE Project, Pakal Dul HE Project, Nimoo Bazgoo HE Project, Chutak HE Project and Sewa-II HE Project) were handed over (July 2000) by the Company to NHPC and Three projects (Baglihar HE project, Sawlakote HEP and DPR of Ratle HEP) were handed over by NHPC to the Company.

Poor revenue realisation, apart from affecting the Company financially, had also affected the credit rating of the Company.

In reply, the management, while appreciating (March 2010) audit concerns, stated that the matter was being pursued vigorously and the Chief Minister, as the ex-officio Chairman, was also apprised of the position during meetings.

5.2.17 Tariff Fixation

The Company is required to file the application for approval of Generation Tariff for each year 120 days before the commencement of the respective year or such other date as may be directed by the JKSERC. The Commission accepts the application filed by the Company with such modifications/conditions as may be deemed just and appropriate and after considering all suggestions and objections from public and other stakeholders, issue an order containing targets for controllable items and the generation tariffs for the year within 120 days of the receipt of the application. Deficiencies noticed in filing ARR are given below:

- The Company was unable to furnish details of project cost of 11 old power projects³⁸ as it was unable to either locate records for these projects or, alternatively, get the project cost determined through independent valuers. This resulted in the fixation (2008-09) of tariff by the commission at ₹ 0.76 per unit, which was less than the rate (₹ 1.24 per unit based on the Power Purchase Agreement (PPA) entered with the State PDD) charged by the Company since 2001 on these projects. Due to this, the Company suffered a loss of ₹ 33.85 crore. The Company inspite of huge loss of revenue had not filed any review petition against the decision of JKSERC. The Management stated that due to non-availability of historical cost of the projects as such these were got revaluated through an independent agency which required time and as such review petition could not be filed. The reply is not correct as the process of revaluation should have been started before filing the first tariff petition due in 2005-06, consequently there was a time lag of three years in getting the project cost revaluated.
- The Company had neither maintained project-wise details nor got it audited timely, with the result the JKSERC disallowed an amount of ₹ 129.83 crore on account of actual capital cost of projects and applied a ceiling of ₹ 5.5 crore per MW on the project cost for the purpose of ARR and tariff determination in respect of eight newly commissioned projects. Apart from this, it was seen that while issuing tariff order for 2009-10, the J&K SERC had allowed ₹ 23.03 crore only as O&M charges against ₹ 43.72 crore incurred by the Company due to

³⁸ LJHP, USHP-I, Ganderbal, Chenani-I, Chenani-II, Karnah, Iqbal Bridge, Hunder, Sumoor, Bagzo, Mohra

non-filing of details thereof with the ARR & Tariff Petitions, thereby, resulting in disallowance of ₹ 20.69 crore by the J&K SERC. A review petition filed against the disallowance was un-disposed off (June, 2010). The capping of capital costs by JKSERC also affected the Annual Fixed Charges in which the Company had to forgo an additional amount of ₹ 26.02 crore. The Management stated that the review petition in this regard is pending before JKSERC.

5.2.18. Environment Issues

In order to minimize the adverse impact on the environment, the GOI had enacted various Acts and statutes. At the State level, State Pollution Control Board is the regulating agency to ensure compliance with the provisions of these Acts and statutes. Ministry of Environment and Forests (MoE&F), GOI and Central Pollution Control Board (CPCB) are also vested with powers under various statutes.

Except for BHEP which is a run-off of the river with storage (dam) project, all the hydro-electric projects of the Company are canal based and as such the issues relating to environment are very limited in terms of air, water and noise pollution.

5.2.18.1 Catchment Area Treatment Plan of BHEP

To address the problem of silting, soil erosion and to ensure longevity of the BHEP project, the DPRs envisaged a Catchment Area Treatment (CAT) Plan covering 1,98,366 hectares of land spread in five catchments for treatment/fencing, etc. Although the treatment should have started simultaneously with the project activity, so that the benefits envisaged would also begin to accrue to the Company and the people in the area, the State Government belatedly (February 2004) entrusted treatment of 11,403 hectares (out of 31400 hectares planned under phase-I) of the CAT to Soil Conservation Department (SCD) for completion by March 2010 at a cost of ₹ 15.96 crore. Out of this, only 5108 hectares (55 per cent) incurring ₹ 7.74 crore had been treated as of May 2010. The delay in decision by four years and subsequent delays in completion of Phase-I resulted into CAT plan remaining incomplete.

The Management attributed the delay to transfer of the project from NHPC to JKPCDC resulting into delay in formulation of plan in line with the recommendation of the Environmental Impact Assessment Studies (EIAS). The reply is not convincing as the project was handed over by the NHPC in 1999 and the work of CAT should have been completed simultaneously with the completion of the project.

5.2.19. Monitoring by top Management.

5.2.19.1 MIS data and monitoring of service parameters

The Company plays an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, there should be documented management systems of operations, service standards and targets. Further, there has to be a Management Information System (MIS) to report on

achievement of targets and norms. The achievements need to be reviewed to address deficiencies and also to set targets for subsequent years. The targets should generally be such that their achievement would make an organisation self-reliant. Audit review of the system existing in this regard revealed the following.

- The Company did not devise a proper management information system to evaluate power demand and supply position in the State to take timely policy decision regarding capacity addition programme.
- The Company did not devise a system to minimize the delay in decision making process and for monitoring the adherence to comprehensive plan in the implementation of the projects, mid-term evaluation and regular maintenance of the power houses in order to take the timely corrective action.
- The Company did not evolve a proper system for monitoring the adherence to performance parameters and targets.
- The data/information required for monitoring and analysis at Corporate Headquarters was not being submitted by divisions/sub-offices on a regular basis. Although the Company has evolved a standard format for reporting information on generation outages and auxiliary consumption, yet these are not being furnished regularly. Wherever these are sent by some units, no action to consolidate and monitor are taken at corporate level.
- There is no standard format to report status of contracts entered into at division level and its monitoring at Corporate level. Except for Baglihar, the information in respect of contracts entered into during 2005-2010 was not made available to audit because no such information was prepared/consolidated at corporate office level.
- No targets in terms of generation were fixed by the management to assess the performance of the Company in absence of which performance could not be monitored by the top management as well as Board of Directors (BOD).

Thus, benefit of effective MIS like compilation/consolidation of data, analysis of business activities including fund management, contract management, realisation of revenue, etc could not be achieved.

The Management stated that the Company has been carved out of the PDD and in the new structure, a proper MIS would be implemented.

5.2.20. Conclusion

- The Company failed to meet the growth in peak demand as deficit of 36 *per cent* was registered in meeting the peak demand.
- Delay in RMU of projects resulted in generation losses.
- Delay in completion of the ongoing projects resulted in huge cost overruns ranging between 41 and 687 *per cent* and the time over run ranged between four and 16 years.
- Poor contract management resulted in delay in implementation of projects, undue favour to the contractors, etc.
- The Company could achieve PLF ranging between 40 and 56 *per cent* and utilized capacity ranging between 66 and 90 *per cent* power plants leading to non-utilisation of capacity to maximum possible extent.
- The forced outages were alarmingly high and averaged at 52 *per cent* against the norm of 10 *per cent* fixed by CEA.
- Despite having its officials trained in operation of BHEP, the unplanned management thereof forced the Company to outsource operations to NHPC.
- Poor revenue realization affected financial and operational capability of the Company.
- As a result of inordinate delay in obtaining financial closure, the project implementation was hampered.
- Inability to have tariff fixed by the State SERC timely, resulted in revenue losses.
- Proper MIS did not exist in the Company to evaluate the execution of project and operational performance of power houses.

5.2.21. Recommendations

The Company must:

- Intensify its capacity addition programmes to exploit the huge unexploited hydropower potential of the State by close monitoring so as to meet the national objective of power for all by the year 2012.
- Formulating a long term plan for ensuring funding of projects and renovation activities
- Timely completion of ongoing projects should be ensured to avoid time and cost overruns.
- The Company should take immediate steps for arresting forced outages and increasing PLF of the power generation units.

- Manpower needs to be immediately restructured to bring down employee cost.
- There is an urgent need to optimize internal resource generation by enhancing the PLF to national level and vigorous pursuance of outstanding dues relating to effective recovery of energy bills.

Audit of Transactions

Jammu and Kashmir Bank Limited

5.3 Loss of interest

Bank's omission to stipulate an unequivocal clause in the agreement in regard to revision of interest rates on the term loan resulted in loss of ₹ 3.49 crore to the Bank.

The Shimla Branch of the Jammu and Kashmir Bank Limited (the Bank) sanctioned (February 2005) a term loan of ₹ 40 crore to a customer³⁹ for a term of 10 years. The conditions of the loan, inter-alia, included payment of interest at a rate of eight *per cent* per annum (annualized) with monthly rests or such other rates as may be charged by any other Bank/Financial Institutions (FIs), whichever is higher, and re-payment of principal in six annual installments⁴⁰ after an initial moratorium of four years. The rate of interest offered to the customer was three *per cent* below the then prevailing (11 *per cent*) Prime Lending Rate (PLR).

We noticed that despite revision (from 11 to 14 *per cent*) of the PLR thrice⁴¹ during the period from July 2006 to June 2008, the Bank had not revised the interest on this account and continued to charge the interest at the rate of eight *per cent*. Efforts by the Bank to revise the interest rates during 2006-10 had failed as the customer did not agree to the Bank's plea on the pretext that the interest rate on the account was fixed. Though the sanction letter/agreement with the customer provided for 'charging of such other rates as may be charged by any other Banks/FIs', the same proved unenforceable due to lack of a clear clause in this regard in the agreement. Having omitted to stipulate an unequivocal clause in regard to revising interest rate and having failed to have the interest rate revised, the Bank subsequently contemplated recalling (September 2009) the loan. However, the loan had not been recalled till date (August 2010).

The Management stated (June 2010/August 2010) that the facility was sanctioned at the fixed rate of interest, permitted under applicable regulatory guidelines. The reply was not convincing as, (1) instead of keeping a vague clause of interest revision in the sanction letter/agreement, the Bank should have taken adequate safeguards and incorporated specific clause, for revision of the interest rate from time to time as the non-inclusion of sufficient clause had led to customer ignoring the Bank's repeated pleas for revision of interest rates and, (2) in case the loan was sanctioned at the fixed interest rate, then there should not have any stipulation regarding charging of interest at higher rate if charged by another bank/Financial Institutions nor there should have

³⁹ M/S Himachal Pradesh Infrastructure Development Board (HPIDB), Shimla

⁴⁰ First five equal Installments of ₹ 6.67 crore and one last installment of ₹ 6.65 crore.

⁴¹ Rates of PLR (1) 1st July 2006: 12 *per cent*, (2) 14th February 2007: 13 *per cent* and (3) 12th June 2008: 14 *per cent*.

been any necessity to enter into a prolonged correspondence with the client for revision of rates, the failure of which had prompted the bank to think in terms of recalling the loan.

Thus, non-incorporation of an adequate interest clause in the agreement to safeguard the Bank's interests resulted in loss of ₹ 3.49 crore⁴² to the bank which is likely to cumulate further till the loan is completely redeemed.

It is recommended that the Bank should streamline its internal control mechanism and also fix responsibility for such lapses causing financial loss to the Bank.

The matter was referred to Government in June 2010; reply had not been received (November 2010).

Social Welfare Department

Jammu and Kashmir SC/ST/OBC Development Corporation Limited

5.4 Blocking up of funds

Failure of the Corporation to get back the money, consequent upon non-implementation of a scheme, resulting in blocking of funds of ₹ 45.37 lakh.
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The Jammu and Kashmir SC/ST/OBC Development Corporation Limited (Corporation) submitted (December 2001) a proposal to the National Minorities Development and Finance Corporation Limited (NMDFC) for providing term loan assistance under Transport Sector for rehabilitation of the drivers/conductors belonging to two Srinagar based transport unions⁴³ affected due to militancy. The NMDFC conveyed (July 2002) sanction to the project (estimated cost: ₹ 4.54 crore) with a finance sharing pattern of 85:10:05 between the NMDFC, the Corporation and the promoters.

We noticed that the NMDFC, owing to pending past overdues, did not release its share of funds. The matter remained unresolved till November 2005 when it was decided to implement the scheme through the Jammu and Kashmir Bank Limited (JKBL), which was nominated as the additional State Channelising Agency (SCA) of NMDFC. The funding pattern was revised to be paid by NMDFC, JKBL, the Corporation and the promoters on 40:40:10:10 sharing basis respectively. Accordingly, the Corporation paid its share of ₹ 45.37 lakh (10 *per cent* contribution) to JKBL in October 2006. However, due to non-fulfillment of the conditions related to guarantee by the State Government, stipulated for securing its share (₹ 1.81 crore), the NMDFC did not release its contribution and the scheme had not been implemented as of September 2010. The contribution paid by the Corporation has

⁴² Calculated at the rate of three *per cent* below prevailing PLR viz. 9 *per cent* with effect from 01.07.2006, 10 *per cent* with effect from 14.02.2007 and 11 *per cent* with effect from 12.06.2008

⁴³ KMDU & NDCU, Batmaloo, Srinagar

been lying with the JKBL for over three years without interest thereon. The Corporation did not make any serious efforts to get the money back and utilize the same for some tangible purpose.

Thus, failure of the Corporation to get back the amount paid to the JKBL resulted in blocking of amount of ₹ 45.37 lakh besides loss of interest.

The Management stated (January 2010) that the matter would be taken up with the Administrative/Finance Departments to execute an agreement with the JKBL and for conversion of the amount into term deposit till the project is implemented. The reply is not convincing as the Corporation should have safeguarded its interests and kept track of the implementation of the scheme and insisted upon return of its money in the event of non-implementation of the scheme.

It is recommended that the Company should evolve a system to evaluate and monitor the implementation of schemes. The financial management also needs to be strengthened.

The matter was referred to Government in July 2010; reply had not been received (November 2010).

Industries and Commerce Department

Jammu and Kashmir Cements Limited

5.5 Avoidable loss

Faulty inventory management and injudicious action of Company to lift the coal without re-weighment resulted in loss of ₹ 61.16 lakh.

The Company procures coal from Eastern Coal Fields Limited (ECL), Kolkata for use in the cement plant at Khrew (Kashmir). The transportation, handling, and supervision of loading/un-loading are executed through carriage contractors.

Mention was made regarding payment of penal charges for excess loading of coal by the Jammu and Kashmir Cements Limited (Company) during 1994-2000, in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 (Paragraph: 7.11.14). On subsequent audit scrutiny, we noticed that the Company had not taken any remedial steps for correcting the faulty stores procurement process and preventing payment of huge penalty as elaborated below.

The Company allotted (July 2005) handling, supervision, and transportation of a coal rake to a carriage contractor on the terms that the contractor shall supervise loading of coal at the loading points as well as during transit of rake up to Bari Brahmana, Jammu. Audit check (July 2009) showed that the rake loaded at Kolkata (Asansol) on 17 July 2005 was to be unloaded at Bari Brahmana Railway Station, Jammu. While the said rake was in transit, the handling agent conveyed (18 July 2005) to the Company that against the normal load capacity of 3,400 MTs, the rake load had been weighed at 3,851 MTs by the Railway Authorities at the loading point, reportedly due

to malfunctioning of the weigh-bridge, thereby resulting in an excess carriage of 451 MTs. The Company, sensing the implications of excess load, immediately (19 July 2005) took up the matter with the Railway Authorities for re-weighment of the rake en-route or at the delivery point. On getting no response from the Railways, the Company filed (20 July 2005) a writ petition in the Hon'ble High Court for re-weighment and got (22 July 2005) an interim relief from the Hon'ble Court with directions to the Railways to carry out re-weighment.

It was noticed that instead of going in for the re-weighment, the Company lifted (26 July 2005) the coal after its arrival (20 July 2005) on the plea that it needed the coal stock urgently at the factory site. The Company paid the penal charges of ₹ 33.94 lakh for overloading of rake (451 MTs) and an avoidable amount of ₹ 22.17 lakh being the cost of excess quantity of coal (417.83⁴⁴ MTs). The Company then approached the Railways protesting against the excess charges on account of excess load as the consignment received had weighed 3441 MTs only as checked by the Toll Tax authorities at Jammu. The Company got (19 January 2006) refund of the penalty of ₹ 14.83 lakh and adjusted ₹ 41.53 lakh⁴⁵ against the pending bills of the carriage contractor (March 2006). The carriage contractor, however, countered the adjustments made by the Company in the arbitration and got the award in his favour (April 2009) with damages in the form of interest (₹19.43 lakh) on the adjusted amount and legal expenses. As a result, the Company had to bear a loss of ₹ 61.16 lakh⁴⁶ due to non-re-weighment of the coal rake which indicated that the Company had not worked out an efficient inventory management system by which the stocks could be replenished in an orderly manner to avoid procurements in haste despite the earlier audit comment.

The Management stated (August 2009/October 2010) that re-weighment en-route would have taken a week's time and the coal stocks had touched zero level at the factory site, a situation which necessitated lifting of the coal without waiting for re-weighment to avoid stoppage of plant and that the Company was not getting adequate quantity of coal as it was not readily available from M/s ECL and was supplied on sanctioned linkage basis which was subjected to further cuts. The reply of the management was, however, not tenable as (a) the stocks of coal at factory site had ranged between 257 MTs and 176 MTs from 21 July 2005 to 26 July 2007 which was sufficient to last for 10-12 more days at an average daily consumption of the preceding 7 days as per stock statement of the factory, (b) the Railways had agreed to carry out the re-weighment (23 July 2005) (c) coal was lifted (26 July 2005) after 06 days of its delivery (20-July 2005) and (d) the stock shortage crises referred to by the

⁴⁴ Quantity of Coal dispatched from Kolkata: 3851 MTs minus Coal taken on stock by the Company: 3433.17 MTs (as actually weighed by the Company at its own site).

⁴⁵ Penal charges ₹ 19.11 lakh (₹ 33.94 lakh minus ₹ 14.83 lakh (refund)) + Cost of excess load (₹ 22.17 lakh) + Legal Expenses on getting re-weighment order (₹ 0.25 lakh)

⁴⁶ ₹ 19.11 lakh on account of penal freight, ₹ 22.17 lakh on account of cost of excess coal, ₹ 19.43 lakh interest on amounts adjusted payable as per the award, ₹ 0.25 lakh on account of legal charges for filing writ petition in Hon'ble High court for obtaining re-weighment order and ₹ 0.20 lakh awarded as cost of legal expenses incurred by the contractor.

Company was an outcome of inefficient inventory management as the Company had started underutilizing the plant during the second week of July 2005 itself when the coal was actually lifted in third week. The Company should have planned/initiated the coal procurement much before the stock had started dwindling, keeping in view the lead time and average stock consumptions, in order to ensure that the plant is run at the optimum capacity. The inventory management is essentially required in case of proprietary items and also in the case of material which are scarce and have the scope of procedural delays.

The Company needs to streamline the inventory management system particularly in regard to essential items like coal and take decisions in the best interest of the organization.

The matter was referred to the Government in September 2010; reply had not been received (November 2010).

Srinagar/Jammu

The

**(VENKATESH MOHAN)
Principal Accountant General,
Jammu and Kashmir**

Countersigned

New Delhi

The

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Comptroller and Auditor General of India**