

CHAPTER-IV GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

4.1 Overview of State Public Sector Undertakings

Introduction

4.1.1 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 Chhattisgarh, the State PSUs occupy an important place in the State economy. The State PSUs registered a turnover of ₹ 8804.03 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 6.79 *per cent* of State Gross Domestic Product (GDP) for 2010-11. Major activities of Chhattisgarh State PSUs are concentrated in the power sector. The State PSUs earned a profit of ₹ 315.59 crore in the aggregate for 2010-11 as per their latest finalised accounts. They employed 19650¹ employees as of 31 March 2011.

4.1.2 As on 31 March 2011, there were 18 PSUs as per the details given below. Of these, no company was listed on the stock exchange.

Type of PSUs	Working PSUs	Non-working PSUs ²	Total
Government Companies	16	-	16
Statutory Corporations	2 ³	-	2
Total	18	-	18

4.1.3 During the year 2010-11, one PSU namely, CSPGCL AEL Parsa Collieries Limited was established.

Audit Mandate

4.1.4 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.

4.1.5 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 the Comptroller and Auditor General of India (CAG) as

¹ As per the details provided by 10 PSUs

² Non-working PSUs are those which have ceased to carry on their operations

³ Including Chhattisgarh State Electricity Board (CSEB), which was unbundled into five companies with effect from 1 January 2009 as per the State Government Gazette Notification dated 19 December 2008. Further, as per the Transfer Scheme Rules, 2010 notified (31 March 2010) by Government, the properties and all interests, rights, liabilities, etc. of the CSEB stand transferred to and vested with the State Government w.e.f. 1 January 2009. Hence, CSEB did not virtually hold any assets, liabilities, etc. The name of CSEB has been included in the Chapter for reconciliation purposes as CSEB, having pendency in finalisation of accounts is appearing under *Appendix-4.1.2*

per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per the provisions of Section 619 of the Companies Act, 1956.

4.1.6 Audit of Statutory corporations is governed by their respective legislations. In respect of Chhattisgarh State Warehousing Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG whereas in respect of Chhattisgarh State Electricity Board, CAG is the sole auditor.

Investment in State PSUs

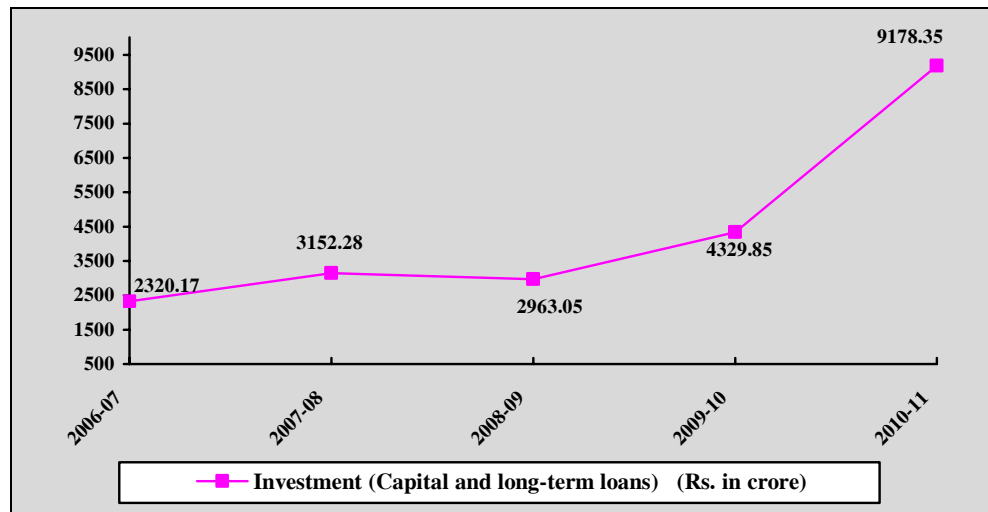
4.1.7 As on 31 March 2011, the investment (capital and long-term loans) in 18 PSUs was ₹ 9178.35 crore as per details given below.

(₹ in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	3919.29	5251.56	9170.85	1.00	6.50	7.50	9178.35

A summarised position of Government investment in State PSUs is detailed in *Appendix-4.1.1*.

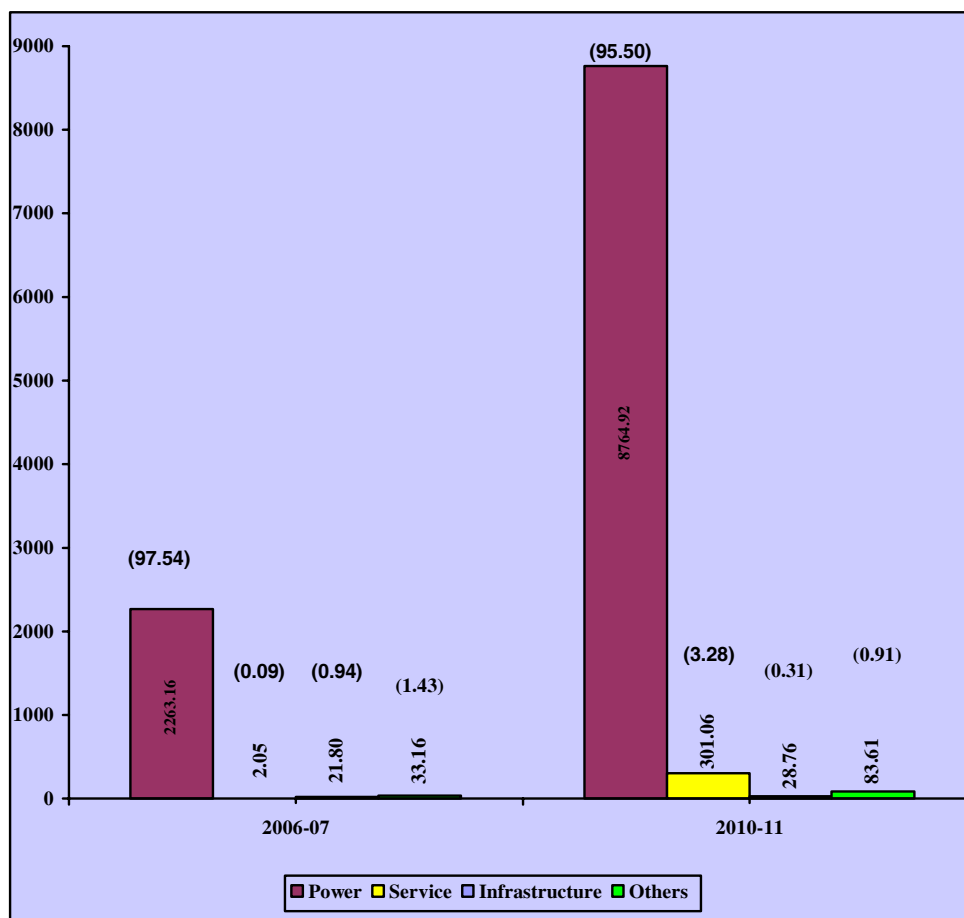
4.1.8 As on 31 March 2011, the total investment consisted of 42.71 per cent towards capital and 57.29 per cent of long-term loans. The investment has grown by 295.59 per cent from ₹ 2320.17 crore in 2006-07 to ₹ 9178.35 crore in 2010-11 as shown in the graph below.



It may be seen that during the year 2010-11, there was an increase of ₹ 4848.50 crore in the investment in State PSUs mainly due to increase of ₹ 3836.08 crore in the investments in power sector by way of Share capital.

4.1.9 The investment in various important sectors and percentage thereof as of 31 March 2007 and 31 March 2011 are indicated below in the bar chart.

(Amount ₹ in crore)



(Figures in brackets show the percentage of total investment)

As may be seen from the above chart, the major investment of the State Government in PSUs was in power sector, which increased from ₹ 2263.16 crore during 2006-07 to ₹ 8764.92 crore during 2010-11.

Budgetary outgo, grants/subsidies, guarantees and loans

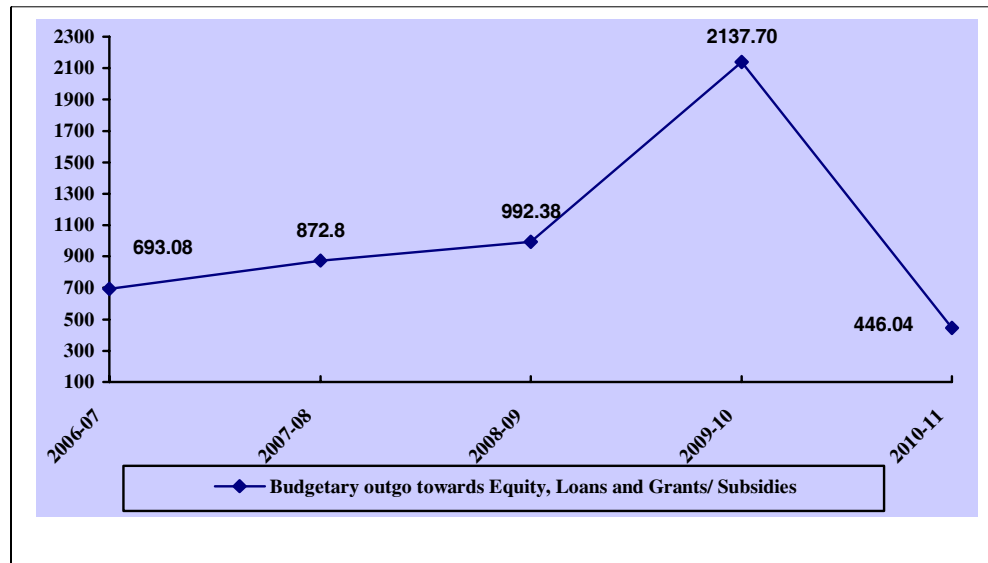
4.1.10 The details regarding budgetary outgo by the State Government towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in *Appendix-4.1.3*. The summarised details are given below for three years ended 2010-11.

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	-	-	-	-	-	-
2.	Loans given from budget	1	1.95	1	500.00	1	0.01
3.	Grants/Subsidy received	6	990.43	7	1637.70	7	446.03
4.	Total Outgo (1+2+3)	7 ⁴	992.38	7 ⁴	2137.70	7 ⁴	446.04
5.	Loans converted into equity	1	20.11	-	-	-	-
6.	Guarantees issued	2	108.11	1	1.46	1	2.33
7.	Guarantee Commitment	1	22.98	2	376.53	2	345.61

4.1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in the graph below.

(Amount ₹ in crore)



The budgetary outgo towards Equity, Loans and Grants/Subsidies decreased from ₹ 693.08 crore (2006-07) to ₹ 446.04 crore (2010-11). This is substantially less than budgetary outgo of ₹ 2137.70 crore in 2009-10. The budgetary outgo of ₹ 446.04 crore during 2010-11 included support of ₹ 279.59 crore extended to one PSU (Chhattisgarh State Power Distribution Company Limited) by way of subsidy (₹ 201.10 crore) and grants (₹ 78.49 crore).

4.1.12 The guarantees outstanding increased from ₹ 22.98 crore in 2008-09 to ₹ 376.53 crore in 2009-10 but decreased to ₹ 345.61 crore in 2010-11. None of the PSUs has paid any guarantee fee/commission to the State Government during 2010-11.

⁴ These are the actual number of PSUs which have received budgetary support in the form of equity, loans, grants and subsidy from the State Government during the year

Reconciliation with Finance Accounts

4.1.13 The figures in respect of equity and guarantees outstanding as per records of State PSUs should agree with that of 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 of differences. The position in this regard as at 31 March 2011 is stated below.

(Amount ₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	26.37	39.63	13.26
Guarantees	2849.35	345.61	2503.74

4.1.14 We observed that the differences occurred in respect of three PSUs and some of the differences were pending reconciliation since 2004-05. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

Performance of PSUs

4.1.15 The financial results of PSUs and financial position and working results of working Statutory corporations are detailed in **Appendix-4.1.2, 4.1.5, 4.1.6** respectively. The ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2006-07 to 2010-11.

(Amount ₹ in crore)

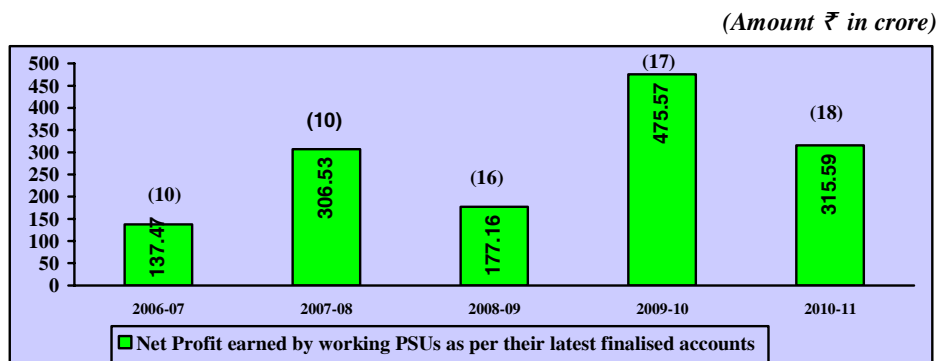
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover ⁵	3709.55	4493.73	4773.05	5449.33	8804.03
State GDP ⁶	57782.00	67455.00	80698.41	107848.23	129717.54
Percentage of Turnover to State GDP	6.42	6.66	5.91	5.05	6.79

There is steady increase in aggregate turnover of State PSUs primarily due to increase in business activities in power sector which was comparatively lesser during 2008-09 and 2009-10 as compared to other three years.

4.1.16 Profit earned by State working PSUs during 2006-07 to 2010-11 is given below in a bar chart.

⁵ Turnover as per the latest finalized accounts as of 30 September 2011

⁶ The State GDP in respect of 2010-11 is Advance estimate



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

During the year 2010-11, out of 18⁷ working PSUs, nine PSUs earned profit of ₹ 565.24 crore and five PSUs incurred loss of ₹ 249.65 crore as per their latest finalised accounts as on 30 September 2011. One PSU (Chhattisgarh Infrastructure Development Corporation Limited) prepared their accounts on “no profit no loss” basis. Two PSUs had not prepared their profit & loss accounts since these were yet to commence their commercial operations. The remaining one PSU did not finalise its first accounts. The major contributors to profit were Chhattisgarh State Electricity Board (₹ 457.01 crore), Chhattisgarh Rajya Van Vikas Nigam Limited (₹ 24.46 crore) and Chhattisgarh State Warehousing Corporation (₹ 21.84 crore). Losses were mainly incurred by Chhattisgarh State Power Generation Company Limited (₹ 173.49 crore), Chhattisgarh State Civil Supplies Corporation Limited (₹ 41.23 crore), Chhattisgarh State Power Transmission Limited (₹ 33.78 crore) and Chhattisgarh Mineral Development Corporation Limited (₹ 1.13 crore). It needs to be mentioned here that CSEB though did not had any operations from 1 January 2009, the profit mentioned above is in respect of 2007-08 which was finalized during 2010-11. It may also be noted that though CSEB had shown the above net profit of ₹ 457.01 crore in its accounts, based on our audit comments, the Board had incurred net loss of ₹ 1421.73 crore during 2007-08.

4.1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, running their operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of ₹ 2527.93 crore and infructuous investments of ₹ 81.06 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Amount ₹ in crore)

Particulars	2008-09	2009-10	2010-11	Total
Net Profit (+)/ loss (-) of working PSUs	177.16	475.57	315.59	968.32
Controllable losses as per CAG’s Audit Report	10.28	420.70	2096.95	2527.93
Infructuous investments	0.14	80.92	0	81.06

4.1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses may be much more. The above table shows that with better management, the profits can be

⁷ Including erstwhile CSEB, which was unbundled into five power sector companies (serial number A-10 to 14 of *Appendix-4.1.2*) in December 2008, but had finalised its accounts upto the year 2007-08 as on 30 September 2011

enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards the need for professionalism and accountability in the functioning of PSUs.

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

(Amount ₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Return on Capital Employed (Per cent)	14.35	22.76	14.38	12.09	5.10
Debt	2277.16	3108.27	2861.68	4249.60	5258.06
Turnover ⁸	3709.55	4493.73	4773.05	5449.33	8804.03
Debt/ Turnover Ratio	0.61:1	0.69:1	0.60:1	0.78:1	0.60:1
Interest Payments	193.93	216.20	180.99	213.31	353.87
Accumulated Profits (losses)	451.76	728.52	836.89	1808.06	2052.21

4.1.20 It may be noted that the Debt turnover ratio had improved upto 2010-11 from 0.61:1 (2006-07) to 0.60:1 showing better working results. The accumulated profits of the State PSUs had shown gradual improvement during previous five years and had registered a growth of about 5 times from the year 2006-07 (₹ 451.76 crore) to 2010-11 (₹ 2052.21 crore). It shows that the performance of State PSUs is good enough to absorb the debt burden.

4.1.21 The State Government had not formulated any dividend policy for payment of minimum return on the paid-up share capital contributed by the State Government. As per their latest finalised accounts, nine PSUs earned an aggregate profit of ₹ 565.24 crore of which only two PSUs⁹ declared a dividend of ₹ 2.64 crore as per the provisions of the relevant Act.

Arrears in finalisation of accounts

4.1.22 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 under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. 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 2011.

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of Working PSUs	10	10	16 ¹⁰	17	18
2.	Number of accounts finalised during the year	5	10	9	16	15
3.	Number of accounts in arrears	31	31	36	37	39
4.	Average arrears per PSU (3/1)	3.10	3.10	2.25	2.18	2.17
5.	Number of Working PSUs with arrears in accounts ¹¹	10	10	13	15	15
6.	Extent of arrears	1 to 5 years	1 to 5 years	1 to 5 years	1 to 6 years	1 to 5 years

⁸ Turnover of working PSUs as per the latest finalised accounts as of 30 September 2011

⁹ Chhattisgarh Rajya Van Vikas Nigam Limited (CRVVNL) and Chhattisgarh State Warehousing Corporation Limited (CGSWCL) in Serial number A-2 and B-2 of **Appendix-4.1.2**

¹⁰ Including two companies (serial number A-12 and 13 of **Appendix-4.1.2**) incorporated on 30 December 2008 and not considered to be in arrears as their first accounts were being prepared for 15 months period

¹¹ Including Chhattisgarh State Electricity Board which is not in existence

4.1.23 From the above table, it would be seen that there was increase in arrears of accounts. The main reason for delay in finalisation was non-closure /non-reconciliation of books of accounts. It was observed that many organisations were formed after bifurcating from the erstwhile organisations in Madhya Pradesh and importance of timely preparation and finalisation of annual accounts was not given by the management. Further, consequent upon un-bundling of Chhattisgarh State Electricity Board, five Companies were formed in respect of which against 14 accounts falling due for finalisation till 30 September 2011, only 5 accounts have been finalised. This could be attributed to delay in notification (31 March 2010) for bifurcation of assets and liabilities of erstwhile CSEB into the five companies with effect from 1 January 2009.

4.1.24 The State Government had invested ₹ 3504.59 crore (Equity: ₹ 0.05 crore, loans: ₹ 952.62 crore, grants: ₹ 362.04 crore and others (subsidy): ₹ 2189.88 crore) in 15 PSUs during the years for which accounts have not been finalised as detailed in **Appendix-4.1.4**. Delay in finalisation of accounts gives rise to the risks of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

4.1.25 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 we informed the concerned administrative departments and officials of the Government of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this we could not assess the net worth of these PSUs. We had also taken up (June 2011) the matter of arrears in accounts with the Chief Secretary/Registrar of Companies to expedite clearance of the backlog of arrears in accounts in a time bound manner.

4.1.26 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 lacks expertise.**

Accounts Comments and Internal Audit

4.1.27 Thirteen working companies forwarded their audited accounts to Accountant General during the period from 1 October 2010 to 30 September 2011. Out of these, 10 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	3	1.04	1	3.92	3	1027.92
2.	Increase in loss	-	-	3	5.91	1	0.36
3.	Increase in Profit	-	-	-	-	2	3.66
4.	Non-disclosure of material facts	-	-	3	70.14	1	15.62

4.1.28 During the year, the statutory auditors had given unqualified certificates for one account and qualified certificates for 12 accounts. The compliance of companies with the Accounting Standards (AS) was generally satisfactory as there were only three instances of non-compliance with AS-15 and one instance with respect to AS-1 and AS-2 during the year.

4.1.29 Some of the important comments in respect of accounts of companies finalised during 2010-11 are stated below.

Chhattisgarh Rajya Beej Evam Krishi Vikas Nigam Limited (2004-06)

- The Profit for the year was overstated by ₹ 13.68 lakh due to over valuation of closing stock and consequent overstatement of inventories.
- The Profit for the year was overstated by ₹ 5.98 lakh due to short provision of gratuity liability for employees as on 31 March 2006.
- The Profit for the year was overstated by ₹ 0.20 lakh due to short charging of depreciation.

Chhattisgarh State Industrial Development Corporation Limited (2005-06)

- The Profit for the year was overstated by ₹ 1.47 crore due to inclusion of amount collected from two allottees on behalf of the State Government towards cost of roads etc. on allotment of land.
- The Profit for the year was overstated by ₹ 89.90 lakh due to non inclusion of the liability towards leave encashment in respect of the employees of the company for the period upto March 2006.
- The Profit for the year was overstated by ₹ 1.57 crore due to non inclusion of interest accrued in respect of SLR Bonds and other borrowings for the period September 2005 to 31 March 2006.

4.1.30 Similarly, two working Statutory corporations forwarded accounts to Accountant General during the year 2010-11. Of these, audit of accounts (2007-08) of one corporation (Chhattisgarh State Electricity Board) which pertained to sole audit by CAG, was finalised in October 2011. The remaining accounts of the other corporation (Chhattisgarh State Warehousing Corporation) were also selected for supplementary audit. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount ₹ in crore)

Sl. No.	Particulars	2008-09		2009-10		2010-11	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Increase in profit	3	3.71	1	23.13	-	-
2	Decrease in profit	-	-	2	82.71	2	3607.91
3	Non-disclosure of material facts	-	-	1	900.77	1	1.93
	Total		3.71		1006.61		3609.84

4.1.31 During the year, one account of Chhattisgarh State Warehousing Corporation received qualified certificate from Statutory Auditor. CAG being the sole auditor of CSEB issued negative certificate for 2006-07 and 2007-08.

4.1.32 Some of the important comments in respect of accounts of statutory corporations are stated below.

Chhattisgarh State Electricity Board (2007-08)

- Overstatement of profit by ₹ 7.44 crore (₹ 1.36 crore on account of power supplied by MPSEB and ₹ 6.08 crore being Income Tax reimbursement due for 31 March 2008) and consequent understatement of Current liabilities towards purchase of power.
- Overstatement of profit due to non-inclusion of expenditure on purchase of power by ₹ 2.74 crore and consequent understatement of current liabilities on that account (towards wheeling charges payable to Orissa Power Transco ₹ 1.70 crore and ₹ 1.04 crore payable on account of differential Bill towards restoration of equity for seven projects of CERC).
- Non-accountal of cost of water charges of ₹ 2.71 crore consumed at HTPS Korba West, DSPM Korba East and Hydel Project for generation of energy resulted in understatement of cost of water used and overstatement of profit by that extent.
- Non-provision of ₹ 5.43 crore towards Company's contribution to CPF due on 31 March 2008 resulted in understatement of Employees cost and overstatement of profit by that amount.

Recoveries at the instance of audit

4.1.33 During the course of audit in 2010-11, recoveries of ₹ 4.34 crore were pointed out to the Management of various PSUs of which ₹ 2.04 crore were admitted by PSUs. An amount of ₹ 1.49 crore was recovered during the year 2010-11.

Status of placement of Separate Audit Reports

4.1.34 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 State Legislature.

Sl. No.	Name of Statutory corporation	Year up to which SARs placed in Legislature	Year for which SARs placed in Legislature		
			Year of SAR	Date of issue to the Government	Date of placement in Legislature
1.	Chhattisgarh State Electricity Board	2002-03	2003-04	01.04.2009	30.08.2011
		-	2004-05	09.12.2009	
		-	2005-06	22.06.2010	
		-	2006-07	21.01.2011	
			2007-08	24.10.2011	Yet to be placed (October 2011)
2.	Chhattisgarh State Warehousing Corporation	2009-10	2009-10	17.01.2011	28.03.2011

Disinvestment, Privatisation and Restructuring of PSUs

4.1.35 The process of unbundling of Chhattisgarh State Electricity Board was completed as per the Electricity Act, 2003. The Board was unbundled into five companies¹² with effect from 1 January 2009.

Reforms in Power Sector

4.1.36 The State has formed Chhattisgarh State Electricity Regulatory Commission (Commission) in May 2004 under Section 17 of the erstwhile Electricity Regulatory Commission Act, 1998 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2010-11, Commission issued 72 orders (seven on annual revenue requirements and 65 on others).

4.1.37 Memorandum of Understanding (MoU) was signed in May 2000 between the Union Ministry of Power and the State Government (of Madhya Pradesh) as a joint commitment for implementation of reforms programme in power sector with identified milestones. However, no MoU was signed between the Union Ministry of Power and State of Chhattisgarh after formation of Chhattisgarh State in November 2000 bifurcating erstwhile Madhya Pradesh under Madhya Pradesh Reorganisation Act. Hence, the implementation of reforms programme and achievement of identified milestones could not be assessed.

¹² Serial number A-10 to 14 of *Appendix- 4.1.1*.

4.2 Performance Audit on the working of the Chhattisgarh State Power Distribution Company Limited

Executive Summary

Electricity is an essential requirement for all facets of life. It has been recognized as a basic human need and critical infrastructure for socio-economic development of the country. Availability of quality supply of electricity is very crucial for sustained growth of this segment. Recognizing this, the nation has set itself the target of providing access to electricity for all households in next five years. Major responsibility for achieving the above key parameter devolves on the distribution sector since it is the nearest and first point of contact in the electricity sector for millions of Indians. It serves various objectives of electricity sector such as access to electricity for all households, supply of reliable and quality power in an efficient manner and at reasonable rates besides protecting the consumer interest. To achieve the above, distribution Companies need to make a financial turnaround and should be commercially viable.

In Chhattisgarh, distribution of power upto 31 December 2008 was carried out by the erstwhile Chhattisgarh State Electricity Board (CSEB). Consequent to unbundling of the CSEB, from 1 January 2009, the same is now carried out by the Chhattisgarh State Power Distribution Company Limited (Company). The performance audit covering period from 1 April 2006 to 31 March 2011 was conducted to analyse how far the CSEB/ Company planned their operations to achieve above objectives, their financial performance and the problems encountered during the last five year period from 2006-07 to 2010-11.

Distribution Network Planning

Per capita consumption of electricity in Chhattisgarh increased from 1075 to 1380 units during the review period, while the Company's contribution as a State distribution licensee has come down from 70 to 53 per cent. Against the planned additions of 385 sub-stations over the review period,

only 222 sub-stations were actually added. Further, increase in transformation capacity was not commensurate with the increase in connected load over the review period.

Implementation of Sponsored Schemes

Atal Jyoti Yojana was introduced (2005-06) by the State Government envisaging the separation of 11 KV feeders from the existing 33/11 KV substations to regulate supply to the cultivators resulting in substantial load saving during peak period. Non completion of the Phase II of the project has resulted in non achievement of targeted load saving and consequent reduction in line loss of ₹ 115.09 crore.

The Rajeev Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in April 2005, which aimed at electrifying all villages and habitations. As on 31 March 2011, out of 20126 villages in the State (as per 2011 census), 19177 villages were electrified (95.28 per cent). Also, to carry on the reforms further, the Restructured Accelerated Power Development Reforms Programme was launched in July 2008 which aimed at establishment of IT enabled system for achieving reliable and verifiable baseline data alongwith strengthening of regular sub-transmission & distribution system and upgradation projects. However, in this respect, the Company could utilize only ₹ 8.10 crore against ₹ 36.74 crore received from Power Finance Corporation as of March 2011.

Operational Efficiency

The Company purchased majority of power from the State Power Generation Utility followed by the purchases from Central Sector Generation Utilities. While percentage of purchases through Long Term Power Purchases increased from 89.65 to 98.01 per cent over 2006-11, the percentage of UI purchases declined from around two per cent

to less than one per cent over the corresponding period. However, failure of the CSEB/Company to enter into long term Power Purchase Agreement with Jindal Power Limited and subsequent purchase of power on short term basis resulted in avoidable expenditure of ₹331.15 crore. Further, lack of proactive approach in restricting the private power producers from under injection of electricity beyond specified limits has resulted in loss of ₹102.40 crore.

The percentage of energy losses to available power indicates the effectiveness of Distribution system. During the last five years ending 31 March 2011, the energy losses of the Company increased from 28.90 to 36.88 per cent mainly due to non installation of capacitor banks, low power factor, heavy quantum of unmetered consumers, theft of electricity etc. Non achievement of reduction in T&D losses to the level of the norms fixed by the State Regulatory Commission led to loss of ₹1122.21 crore over 2006-11.

Financial Performance and Working Results

The Company was not able to recover its cost of operations during 2009-11. During the last three years ending 2010-11, average realisation per unit declined from ₹ 4.28 to ₹ 3.57 while the average cost per unit increased from ₹ 3.72 to ₹ 4.85.

There was delay of 117 days to 352 days in filling tariff petition by the Company resulting in loss of ₹668.55 crore.

Subsidy and cross-subsidisation

The State Government is providing subsidy with a view to ensure supply of power to specific categories of consumers at concessional rates of tariff. The percentage of subsidy support to sales went up from ₹ 1.99 to ₹ 4.64 during the review period. Further, against the subsidy claim of ₹ 511.56 crore over the review period, only ₹ 491.23 crore was actually released. Section 61 of the Electricity Act 2003 stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and also reduce cross subsidy in a phased manner. However, the percentage of cross subsidy remained in the range upto 74.01 per cent

on negative side to 332.89 per cent on positive side as per the Tariff order applicable for the year 2010-11. It was also observed that in 2010-11 while agricultural metered consumers were highly subsidized, start-up power consumers were the most over charged.

Billing and Revenue Collection Efficiency

As revenue from sale of energy is the main source of income, the efficiency lies in timely billing of energy sold to consumers and prompt collection of revenue in time. It was observed that the percentage of amount realised to total dues declined during the review period from 63.88 to 58.38. Further, test check revealed short recovery of service line charges amounting to ₹ 61.51 lakh from the new HT consumers besides irregular waiver of surcharge of ₹24.32 lakh under one time settlement scheme. Further, the balance dues outstanding at the end of each year under review period increased from ₹1358.24 crore to ₹2084.21 crore. As of March 2011, the arrears outstanding for more than three years was ₹1384.33 crore constituting 66.42 per cent of the total arrears recoverable.

Financial Management

A review of financial management of the Company revealed that there was no laid down inventory policy leading in accumulation of slow and non moving inventory. As a result, on 31 March 2011, the Company had a non moving inventory of ₹ 34.20 crore besides slow moving inventory of ₹ 12.63 crore. Further, despite availability of Computerized Banking Solutions (CBS) system to transfer the fund directly, Company continued to transfer the fund through demand draft by paying avoidable commission of ₹38.52 lakh.

Consumer Satisfaction

The State Commission had notified Chhattisgarh State Electricity Regulatory Commission (Standards of Performance in Distribution of Electricity) Regulations 2006 prescribing the overall standards of performance for enhancing consumer satisfaction towards discharge of various functions of the Company. However, detailed records in this regard were not maintained by the Company. Further, it failed to review

whether such standards were adhered to in its day to day functions. It was observed that the company did not create any awareness among public about the prevalence and functioning of Consumer Grievances Redressal Fora as is evident from a few number of complaints received as compared to the total consumers.

Conclusion

The Company failed to recover its cost of operations. Its share in power distribution in State declined from 70 to 53 per cent.

Failure of the Company to enter into long term Power Purchase Agreement led to avoidable expenditure of ₹ 420.57 crore. Lack of proactive approach in restricting private power producers from under injection of electricity has resulted in loss of ₹ 102.40 crore. The energy losses of the company increased from 28.90 to 36.88 per cent. Delay of 117 to 352 days in filing tariff petitions by the Company resulted in loss of ₹ 668.55 crore.

4.2.1 Introduction

Electricity is an essential requirement for all facets of our life. It has been recognized as a basic human need. It is a critical infrastructure on which the socio-economic development of the country depends. Supply of electricity at reasonable rate to rural India is essential for its overall development. Equally important is availability of reliable and quality power at competitive rates to Indian industry to make it globally competitive and to enable it to exploit the tremendous potential of employment generation. Services sector has made significant contribution to the growth of our economy. Availability of quality supply of electricity is very crucial to sustained growth of this segment. Recognizing that electricity is one of the key drivers for rapid economic growth and poverty alleviation, the nation has set itself the target of providing access to electricity for all households in next five years.

Major responsibility for achieving the key parameters of the above said importance of electricity devolves on the distribution sector. Distribution sector is very near to people. Distribution Companies are first point of contact in the electricity sector for millions of Indians. This is the sector which provides electricity to the door step of every house hold. It serves various objectives of electricity sector such as access to electricity for all households, supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates and at the same time protects the consumer interest. To achieve the above objectives, distribution Companies need to make a financial turnaround and they should be commercially viable.

In this review, it proposes to analyse how far the State power distribution Company in Chhattisgarh planned their operations to achieve above objectives, their financial performance and the problems encountered during the last five year period from 2006-07 to 2010-11.

Electricity Reforms and electricity scenario in Chhattisgarh

As part of power sector reforms, the erstwhile Chhattisgarh State Electricity Board (CSEB) was unbundled (January 2009) and five companies were formed. Consequently, the business of distribution of power in Chhattisgarh State is carried out by Chhattisgarh State Power Distribution Company

Limited (Company), which was incorporated on 19 May 2003¹ under the Companies Act 1956 under the administrative control of Energy Department, Government of Chhattisgarh. The Management of the Company is vested with a Board of Directors comprising four Directors appointed by the State Government. The day-to-day operations are carried out by the Managing Director, who is the Chief Executive of the Company with the assistance of Executive Directors, Chief Engineers and General Managers. During 2006-07, 9441.92 MUs of energy was sold by the Company which increased to 12139.13 MUs in 2010-11, i.e. an increase of 28.57 *per cent* during 2006-11.

As on 31 March 2011, the Company had distribution network of 1.32 lakh Circuit Kilometers (CKm), 691 sub-stations and 70987 transformers of various categories. The number of consumers was 33.05 lakh. The turnover of the Company was ₹ 4332.10 crore in 2010-11, which was equal to 54.45 *per cent* and 3.34 *per cent* of the State PSUs turnover and State Gross Domestic Product, respectively. It employed 10641 employees as on 31 March 2011.

4.2.2 Scope and Methodology of Audit

The present performance audit conducted during 18 January 2011 to 30 June 2011 covers the performance of the Company during the period from 2006-07 to 2010-11. The review mainly deals with Network Planning and its execution, Implementation of Central Schemes, Operational Efficiency, Billing and Collection efficiency, Financial Management, Consumer Satisfaction, Energy Conservation and Monitoring. The audit examination involved scrutiny of records at the Head Office and 14 out of 47 Operation and Maintenance Divisions, two out of six Sub Transmission and Rural Electrification (STRE) Divisions and two out of seven Regional Accounts Offices (RAO).

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at the 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.

4.2.3 Audit Objectives

The objectives of the performance audit were to assess:

- Whether aims and objectives of National Electricity Policy, Plans were adhered to and distribution reforms achieved;
- Adequacy and effectiveness of network planning and its execution;
- Efficiency and effectiveness in implementation of central schemes such as, Restructured Accelerated Power Development & Reform Programme (RAPDRP) and *Rajeev Gandhi Grameen Vidyutikaran Yojana* (RGGVY);

¹ The Company was originally incorporated as Mahanadi Power Development Company Limited and later renamed as Chhattisgarh State Power Distribution Company limited with effect from 22.03.2005.

- Operational Efficiency in meeting the power demand of consumers in the State;
- Billing and Collection efficiency of revenue from consumers;
- Whether financial management was effective and surplus funds, if any, were judiciously invested;
- Whether a system is in place to assess consumer satisfaction and redressal of grievances;
- That energy conservation measures were undertaken; and
- That a monitoring system is in place and the same is utilised in review of overall working of the Company.

4.2.4 Audit Criteria

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

- Provisions of Electricity Act 2003;
- National Electricity Plan, Plans and norms concerning distribution network of DISCOMs and planning criteria fixed by the SERC;
- Terms and conditions contained in the Central Scheme Documents;
- Standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- Norms prescribed by various agencies with regard to operational activities;
- Norms of technical and non-technical losses;
- Guidelines/instructions/directions of State Government/SERC; and
- Best performance under various parameters in the regions/ all India averages.

4.2.5 Audit Findings

We explained the audit objectives to the Company during an 'Entry Conference' held on 16 June 2011. Subsequently, audit findings were reported to the Company and the State Government in July 2011 and discussed in an 'Exit Conference' held on 9 September 2011. The Exit Conference was attended by Principal Secretary (Energy) and Managing Director of the Company. The Company/State Government replied to audit findings in August 2011. The views expressed by them have been considered while finalising this Review. The audit findings are discussed in subsequent paragraphs.

4.2.6 Distribution Network Planning

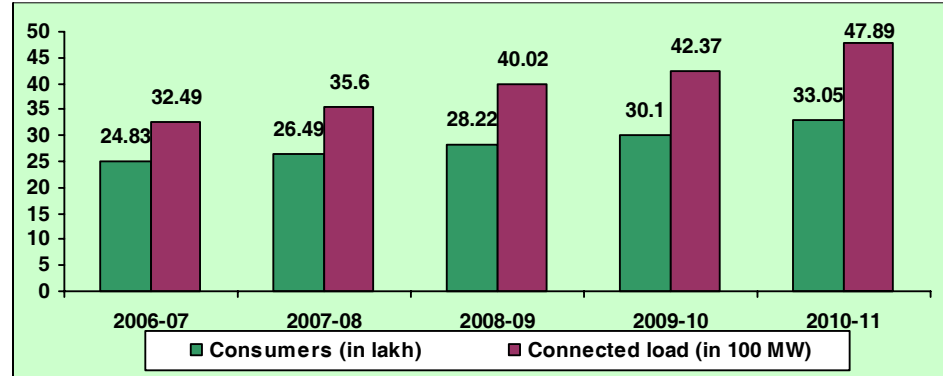
The National Electricity Policy was evolved with the following aims and objectives to be achieved.

- Access to electricity –Available for all household in next five years from 2005
- Supply of reliable and quality power of specified standards in an efficient manner and reasonable rates.

To ensure access by all to electricity the Power Distribution Companies in the State are required to prepare long term/ annual plan for creation of

infrastructural facilities for efficient distribution of electricity so as to cover maximum population. Besides, the Company was required to upkeep the existing network and expand the same keeping in view the new connections and growth in demand.

The particulars of consumers and their connected load are given below.

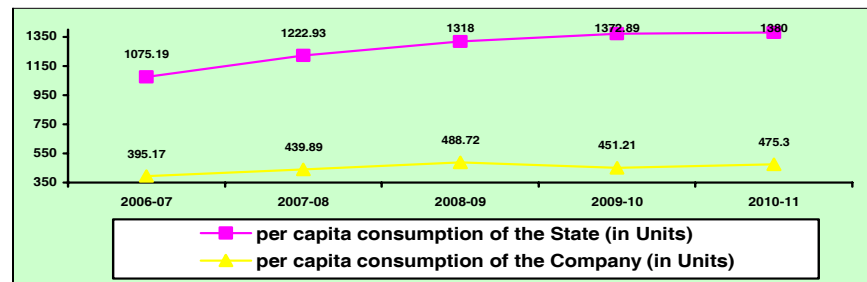


It may be seen from the above that the number of consumers increased from 24.83 lakh in 2006-07 to 33.05 lakh in 2010-11 (33.11 per cent) while the connected load went up from 3248.85 MW to 4789.48 MW (47.42 per cent) during the same period.

The particulars of distribution network planned *vis-à-vis* achievement there against in respect of CSEB/Company are depicted in **Appendix – 4.2.1**. It may be seen from the **Appendix** that against the planned additions of 385 sub-stations over the review period, only 222 sub-stations were actually added. Further, as against the increase in the connected load from 3248.85 MW in 2006-07 to 4789.48 MW in 2010-11 (equivalent to 4061.06 MVA in 2006-07 and 5986.85 MVA in 2010-11 at 0.80 power factor), the CSEB/Company could increase the transformation capacity from 2653 MVA to 3718 MVA during 2006 to 2011. Though the CSEB/Company increased its transformation capacity, the same was, however, not commensurate with the increase in connected load resulting in huge gap in transformation capacity. This was mainly due to non completion of the construction of the sub-stations as planned.

Per capita consumption of the State vis-à-vis the company

The per capita consumption of the electricity of the State showed an increasing trend during the review period as shown in the graph below:



It may be observed from the graph that the per capita consumption of the State grown from 1075 units to 1380 units per year during the review period which is higher than the national average of 612 units per year. However, the

CSEB/Company's share in the power distributed in the State, as a State Distribution licensee, declined from 70 per cent in 2006-07 to 53 per cent in 2010-11. The reasons for the reduction in the CSEB/Company's share could be attributed to the increasing number of the Captive Power Plants and Individual power plants in the State and consequent reduction in the erstwhile HT consumers of the CSEB/Company.

4.2.6.1 Inadequate transformation capacity

Transformer is a static device installed for stepping up or stepping down voltage in transmission and distribution of electricity. In order to cater to the entire connected load, the transformation capacity should be adequate. The ideal ratio of transformation capacity to connected load is considered as 1:1. The table below indicates the details of transformation capacity at 33/11 KV sub-stations and connected load of the consumers during the period from 2006-11.

(In MVA)

Year	Transformation Capacity	Connected load	Gap in Transformation capacity	Ratio of Transformation capacity to connected load
1	2	3	(4 = 3 - 2)	(5 = 2 / 3)
2006-07	2653	4061.06	1408.06	0.65:1
2007-08	2981	4449.40	1468.40	0.67:1
2008-09	3231	5003.09	1772.09	0.65:1
2009-10	3515	5295.62	1780.62	0.66:1
2010-11	3718	5986.85	2268.85	0.62:1

The ratio of transformation capacity to connected load declined from 0.65:1 in 2006-07 to 0.62:1 in 2010-11. Further, though the additions actually made during the year was higher than the additions planned by the management (as is available from the *Appendix-4.2.1*), the same was not commensurate with the increase in connected load leading to gap in the transformation capacity. The huge gap in transformation capacity led to overloading of the system resulting in frequent tripping and adverse voltage regulation with consequential higher quantum of energy loss.

Management replied (August 2011) that the transformation capacity was ranging between 1.24:1 and 1.09:1 during the review period by reckoning the transformation capacity calculated with reference to connected load at 11KV HT+LT instead of total connected load. However, with reference to the total connected load there remained shortfall in all the years under review. It may be mentioned here that unscheduled load shedding went up abnormally from 79.52 hours in 2009-10 to 775.55 hours in 2010-11. This also indicates that the transformation capacity needs to be increased so as to match the connected load.

4.2.6.2 Implementation of LT less system

High Voltage Distribution System is an effective method of reduction of technical losses, prevention of theft, improved voltage profile and better consumer service. The GOI has also stressed (February 2001) the need to adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses. However, the HT:LT ratio over

the review period is depicted below:-

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Ratio of HT load to LT load (in MW)	0.78:1	0.76:1	0.75:1	0.68:1	0.64:1
2.	Ratio of HT line to LT line (In CKm)	0.14:1	0.13:1	0.13:1	0.13:1	0.13:1

It may be seen from the above table that the ratio of HT load to LT load declined from 0.78:1 to 0.64:1 during the review period while the HT line to LT line ratio declined marginally from 0.14:1 to 0.13:1. Such low HT:LT ratio of 0.13:1 is indicative of reasons for the high amount of T&D losses.

Management replied (August 2011) that HT-LT ratio in respect of connected load ranged between 0.70:1 and 0.78:1 while the HT-LT line ratio ranged between 0.45:1 and 0.56:1.

4.2.6.3 Performance of Distribution Transformers

The SERC had fixed the norm of failure of Distribution Transformers (DTRs) in its tariff orders. The details of norms fixed, actual DTRs failed and the expenditure incurred on their repairs is depicted in the table below.

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Existing DTRs at the close of the year (in Number)	47182	50711	56718	61374	67180
2.	DTR Failures (in Number)	7031	6798	7733	8518	8615
3.	Percentage of failures	14.90	13.41	13.63	13.88	12.82
4.	Norm allowed by SERC (in percentage)	12	12	12	12	12
5.	Excess failure percentage over norms	2.90	1.41	1.63	1.88	0.82
6.	Expenditure on repair of failed DTRs (₹ in crore)	0.59	0.42	0.11	0.08	---

(Figures for the year 2010-11 is awaited)

It may be seen from the above table that though the number of DTR failures was registering an increasing trend, the percentage of failures ranged between 12.82 to 14.90 *per cent*, which was higher than the norms allowed by the SERC. The reasons for the excess failure percentage was never analysed by the Company.

The management replied that the actual percentage of failure was ranging between 9.41 and 10.40 by excluding the transformer failed within the guarantee period and it was well within the SERC norm of 12 *per cent*. The management contention does not appear to be correct as the failure of transformers causes disturbance to the entire system of distribution network and it is immaterial whether such failure was within the guarantee period or not.

4.2.6.4 Capacitor Banks

Capacitor bank improves power factor by regulating the current flow and voltage regulation. In the event of the voltage falling below normal, the situation can be set right by providing sufficient capacity of capacitor banks to the system as it improves the voltage profile and reduces dissipation of energy

to a greater extent thereby saving loss of energy. The position as regards capacitor banks is shown in **Appendix-4.2.2**. It may be seen from the **Appendix** that as against the targeted addition of capacitor banks of 556 MVAR (Mega Volt Ampere Reactive Power) during the review period, the actual addition was only 331.20 MVAR. Thus, there was significant shortfall in addition of capacitor banks ranging between 17.67 and 74.67 per cent on annual basis.

4.2.6.5 Loss of ₹49.31 lakh due to non installation of capacitors

The tariff order 2005-06 provided that every industrial consumer whose connected load was above 3 HP (which was later revised to 5HP in the tariff order for the year 2007-08) was required to install capacitor to maintain the power factor above 0.85 and in case of consumers who did not maintain power factor above 0.85, penalty at the rate of 30 paise per unit was to be levied. Test check in audit of the records of the Bhatapara, Siltara, Ghariaband, Dhamthari, Jagdalpur and Durg Divisions for the period from 2006-07 to 2010-11 revealed that billing was continued to be made even without recording power factor and the penalty was not levied. This resulted in loss of revenue aggregating to ₹ 49.31 lakh.

The management replied that strict instructions were issued to comply with tariff order guidelines.

4.2.6.6 Performance of Raid Team

In order to minimise the cases of pilferage/ loss of energy and to save the Company from sustaining heavy financial losses on this account, Section 163 of Electricity Act 2003, provides that the licensee may enter in the premises of a consumer for inspection and testing the apparatus. For this purpose, the Company has separate vigilance team entrusted with the task of conducting surprise checks on the premises of the consumers with an intention to detect and assess the loss, if any, on account of unauthorized availment of demand in excess of the sanctioned load, theft of energy, etc. The data on assessment pointed out by the Vigilance team and actual recovery pointed out during the last five years is furnished below:

(₹ in crore)

Sl. No.	Year	Total number of consumers as on 31 March (in lakhs Nos.)	No. of consumers checked (in lakhs Nos.)	Assessed amount	Realised amount	Unrealised amount	Percentage of checking to total nos. of consumer
1.	2006-07	24.83	1.05	21.96	12.34	14.98	4.23
2.	2007-08	26.49	1.06	33.52	26.36	20.48	4.00
3.	2008-09	28.22	1.80	26.43	23.40	15.80	6.38
4.	2009-10	30.10	1.85	38.92	30.25	28.31	6.15
5.	2010-11	33.05	2.43	46.96	39.67	7.29	7.35

It may be observed from the above that the percentage of checking to the total number of consumers increased from 4.00 to 7.35 during the review period. It was also observed that in one of the findings of the vigilance team (February 2010) 39 employees of the erstwhile CSEB (presently working under Transmission Company) were found to have indulged in theft of energy involving bypassing of energy from metered supply and penalty of ₹ 5.97 lakh was recoverable from them. However, action against such erring officials was

pending till date (September 2011) even after lapse of more than one and half years.

In view of the high percentage of energy losses, the management may consider enhancing the performance parameters assigned to vigilance teams so as to increase the coverage of consumers, more and frequent field visits, monitoring of the recoveries pointed out, etc.

Management replied (August 2011) that the targets were fixed for vigilance team and the recovery pointed out by vigilance is pursued/ monitored by the O&M teams. It was further stated that the penalty from erring officials has been recovered and departmental proceedings are under way. However, no records to substantiate the Management's version were furnished to Audit.

Implementation of Sponsored Schemes

4.2.7 Atal Jyoti Yojana – State Scheme

The erstwhile CSEB introduced *Atal Jyoti Yojana* (AJY) (January 2006) in the State envisaging the separation of 11 KV feeders from the existing 33/11 KV substations exclusively to meet the agricultural pump load as part of a better load management measure. The separation was intended to regulate supply to the cultivators resulting in substantial load saving during peak period. The details of implementation of the scheme in two phases are furnished below:

Sl. No.	Particulars	Provision	Achievement	Provision	Achievement
		I Phase		II Phase	
1.	Village to be covered (Nos.)	732	732	2745	1971
2.	Pumps to be separated (Nos.)	30336	30336	25625	20911
3.	No of 11 KV Feeders (Nos)	130	130	215	81
4.	11 KV lines (KM)	2326.43	2185	7603	3790
5.	LT Line (KM)	805.90	678.18	1803	326
6.	Distribution Transformers (No)	1291	1257	3263	1357
7.	Amount (₹ in lakh)	7867.32	7099.37	23516	9001

The Phase I of the Scheme was completed (2008) at the cost of ₹ 70.99 crore. The Company introduced (September 2007) Phase II of the Scheme at a projected cost of ₹ 235.16 Crore with the scheduled date of completion by January 2010. However, it could be seen from the above that the company could not implement Phase II of the project and the percentage of achievement was only 37.67 per cent².

Following irregularities were noticed in the implementation of the scheme.

² Percentage of achievement was calculated with reference to number feeders actually separated.

The delay in completion of Atal Jyoti Yojana Phase II has deprived targeted load savings of ₹ 115.09 crore.

4.2.7.1 Non-achievement of load saving valuing ₹ 115.09 crore due to delay in implementation of Atal Jyoti Yojana phase II

The Company awarded (December 2007 and January 2008) the contract for execution of AJY to two agencies namely Gammon India (Pvt) limited and ICSEA towards Phase II with a completion period of 24 months from the date of contract. Though a period of more than 24 months had lapsed, the works were yet to be completed (September 2011).

The delay in implementation of Phase II could be attributed mainly to unprecedented shortage of transformers due to procurement of faulty transformers and consequent diversion of transformers meant for the scheme and inability of the implementing agencies to handle the labour and other local level problems involved in the execution.

Since the project aimed at substantial load saving during the peak hours, the non completion of the project resulted in non achievement of targeted load saving and consequent reduction in line loss of ₹ 115.09 crore as projected by the management for the incomplete portion of the Phase II of the project. Besides this, the delay in completion of the project also led to time and cost over run.

The management replied (August 2011) that the work in Phase II could not be completed due to awarding of the work to the agencies who were from outside the State and could not solve the local problems. It was further stated that Phase II was implemented after considering the benefits derived in the initial years of implementation of Phase I of the Scheme. The management should have considered the prior experience of these agencies also in execution of such technical works.

4.2.7.2 Non levy of liquidated damages aggregating to ₹ 23.52 crore

The contract awarded to the agencies for execution of Phase-II of the Scheme provided that they would complete the work within the specified time limit failing which the liquidated damages at the rate of 0.5 *per cent* for each week of delay subject to a total limit of 10 *per cent* will be recovered. Though the agencies had delayed the completion of work even after lapse of more than 18 months from the scheduled date of completion of the work, the Company did not levy liquidated damage amounting ₹ 23.52 crore on these agencies. This resulted in extension of undue financial benefit to the agencies.

The management replied (August 2011) that the work was delayed due to diversion of the transformers meant for the scheme and the completion period was extended up to June 2011. However, the management had earlier stated (refer Paragraph 4.2.7.1) that the agencies could not solve the local problems involved in execution. Further, the work was not completed even during the extended time limit.

4.2.7.3 Non adjustment of Mobilisation Advance of ₹ 9.75 crore resulted in extension of undue benefit to the agency

The contract awarded to the agencies provided that the Mobilisation Advance shall be recoverable in ten equal installments through the Running Account bills. It was observed that the advance aggregating to ₹ 23.51 crore was sanctioned to these agencies in respect of Raipur and Durg Regions. Out of

Non enforcement of contractual conditions resulted in extension of undue benefit of ₹ 9.75 crore to the contractors.

this, the advance amounting to ₹ 9.75 crore was lying unadjusted as of March 2011. Though the agencies were paid ₹ 79.35 crore through 23 Running Account bills, the outstanding advance was not adjusted against these. The management though imposed interest at the rate of 14.25 *per cent* per annum, interest amounting to ₹ 1.13 crore was still to be recovered (September 2011).

The non adjustment of advances and also non recovery of interest resulted in extension of undue benefit of ₹ 10.88 crore to the agencies. The management replied (August 2011) that the action is being taken for the recovery from the pending bills and also the Bank guarantee available with the company.

4.2.8 Rural Electrification – Central Scheme

The key development objective of the power sector is supply of electricity to all areas including rural as mentioned in Sec 6 of the Electricity Act. Rural Electrification Corporation of India is the nodal agency to implement the programme of giving access to electricity to all households in the next five years beginning from 2005. The *Rajiv Gandhi Gramin Vidyutikaran Yojana* (RGGVY) scheme initiated by REC aims at electrifying all villages and habitations.

As per the new definition of village electrification in RGGVY with effect from 2004-05, a village would be declared as electrified, if (a) basic infrastructure such as distribution transformer and distribution lines are provided in the inhabited locality as well as dalit basti hamlet where it exists, (b) electricity is provided to public places like schools, panchayat office, health centers, dispensaries, community centers, etc. and (c) the number of households electrified should be at least ten *per cent* of the total number of households in the village.

The Government of Chhattisgarh (August 2005) entered into four party agreement with Rural Electrification Corporation, NTPC/NHPC/PGCIL and CSEB/Company. The agreement envisaged implementation of the project involving rural electrification of the selected villages, BPL households in the villages, etc within a period of two years from the date of release of first installment to the implementing agencies (released in September 2008). The agreement further envisaged that 90 *per cent* of the project cost would be released as loan/capital subsidy by REC and 10 *per cent* would be released by State Government. CSEB/Company role was limited to the extent of furnishing of the basic data on electrification, handing over of site and the requisite approvals from the concerned authorities for the scheme and the final take over. In compliance with the Agreement, individual DPR for each district was prepared by CSEB/Company and approved by REC.

As on 1 April 2006, out of 19744 villages in the State (as per 2001 census), 18630 villages were electrified (94.36 *per cent*). As per the provisions contained in the Agreement, the entire work was to be completed by September 2010 for the entire State except in respect of Dantewada and Bastar. In respect of these districts, the scheme was to be implemented by the company itself with the target date of May 2012. The actual achievement of the targets in respect of the electrification of villages, electrification of Rural households, BPL connections, etc. is furnished in the **Appendix 4.2.3**. As on 31 March 2011, out of 20126 villages in the State (as per 2011 census), 19177

villages were electrified (95.28 per cent).

It may be seen from the *Appendix* that while the achievement of the electrification of electrified villages was 31.05 per cent, the actual achievement in respect of the electrification of BPL households was only 13.98 per cent. Similarly, the achievement against targetted electrification of un-electrified and de-electrified villages was only 3.28 and 4.98 per cent, respectively.

The details of the funds released towards the implementation of the scheme are furnished below:

(₹ in crore)

Year	Funds released by REC		Funds released by the State Government
	For rural electrification	For BPL consumers	
2006-07	35.08	-	4.09
2007-08	53.14	-	2.51
2008-09	92.69	7.93	11.34
2009-10	258.21	69.49	7.16
2010-11	126.04	15.06	40.72
Total	565.16	92.48	65.82

On review of the implementation of the scheme in the State, it was observed that as against the targeted completion of work within 24 months from the date of release of funds to the implementing agency, the work was not completed and the delay in completion of work ranged between 24 and 29 months. The delay could mainly be attributed to the delay in approval of DPR by REC and delay in execution of works by the implementing agencies nominated by the Central PSUs. The slow implementation of the project could also be attributed to awarding of the contracts by central PSUs to the agencies who have no practical presence in the state of Chhattisgarh and their inexperience in the business of distribution of electricity, etc. It was also observed that the schemes for two districts namely Jashpur and Korea were not sanctioned by REC till date (August 2011).

Further, in respect of rural households, as against 18.11 lakh households to be electrified as per 2001 census, the scheme envisaged the electrification of 14.28 lakh number of households resulting in non coverage of 3.73 lakh rural households. Moreover, the project in the state did not envisage electrification of villages with population of less than 100.

Management replied that the REC in July 2011 intimated that the implementation period was extended upto November 2011. It was also stated that more than 90 per cent of rural household were covered in the DPRs prepared for the scheme. Further, the electrification of villages with population less than 100 would be covered during the 12th Five Year Plan. In view of the slow progress of the work and also non coverage of all the villages under the existing scheme, the objective of the Government of India to provide 100 per cent electrification by 2012 remains unachievable.

4.2.9 Restructured Accelerated Power Development Reforms Programme –Central Scheme

The Government of India (GOI) approved the Accelerated Power Development Reforms Programme (APDRP) to leverage the reforms in power sector through the State Governments. This scheme was implemented with the objective of upgradation of sub-transmission and distribution system including energy accounting and metering, for which financial support was provided by GOI. In order to carry on the reforms further, the GOI launched the Restructured APDRP (R-APDRP) in July 2008 as a Central Sector Scheme for XI Plan. The R-APDRP scheme comprises of Part A and B. Part A is dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA³/Distribution Management System. For this, 100 *per cent* loan was provided, and is convertible into grant on completion and verification of same by Third Party independent evaluating agencies. The Part B of the scheme deals with strengthening of regular sub-transmission & distribution system and upgradation projects.

4.2.9.1 Financial Performance

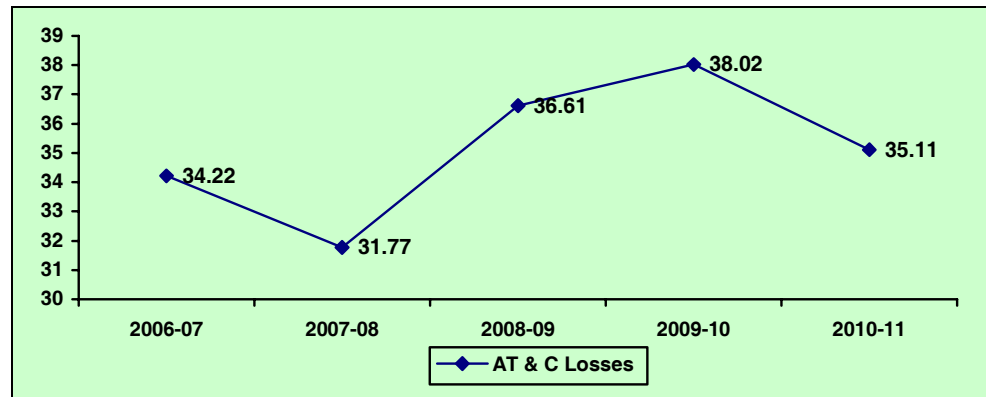
Under Part – A of the Scheme, the Power Finance Corporation (PFC) in September 2009 sanctioned the loan of ₹ 122.45 crore towards the implementation of the scheme in the State. Out of this, an amount of ₹ 36.74 Crore was disbursed to the company in March 2010. As against the amount so received, the company could spent only ₹ 8.10 crore (December 2010) as Mobilisation Advance to the KLG systel, Gurgaon identified for the implementation of the scheme in the State. As the agency was not in a position to implement the scheme, the company opted for the encashment of Bank Guarantee available with them towards the recovery of ₹ 8.10 Crore sanctioned to them as Mobilisation Advance.

Audit observed that the implementation of the scheme in the State is very slow and the targeted objective to achieve the entire implementation of the scheme in the State appears remote. As such, the conversion of loan to grant as envisaged in the Scheme may not be achievable.

4.2.9.2 Aggregate Technical & Commercial Losses

One of the prime objectives of the R-APDRP was to strengthen the distribution system with the focus on reduction of Aggregate Technical & Commercial Losses (AT&C losses) on sustainable basis. The transmission and distribution losses linked to collection efficiency of the company are termed as AT&C losses. The AT&C losses include theft, non-billing, incorrect billing and inefficiency in collection besides transmission and distribution losses. The scheme also envisaged reduction of AT&C losses by 3 *per cent* per year. The graph below depicts the AT & C losses over the review period in the Company.

³ **Supervisory Control And Data Acquisition** – It generally refers to industrial control systems: computer systems that monitor and control industrial, infrastructure, or facility-based processes.



It may be seen from the above that the percentage of AT&C losses declined from 34.22 in 2006-07 to 31.77 in 2007-08. However, it increased upto 38.02 in 2009-10 and marginally declined to 35.11 in 2010-11. As contradictory to the objective of the scheme to bring down the AT&C losses by 3 per cent every year with effect from 2009-10, the AT&C losses has gone up by 0.89 per cent (net) over the review period.

Management replied (August 2011) that the AT&C losses has gone up in 2008-09 and 2009-10 due to increase in LT consumption and decrease in HV/LV consumption. It was further stated that PFC has sanctioned (June 2011) an amount of ₹ 220.68 crore under Part B of the R-APDRP and for execution of the required work, NIT has been issued. Management reply is not convincing as the time bound action plan aiming at reduction in AT&C losses needs to be in place for achieving the objectives of the Scheme.

4.2.9.3 Consumer metering

Attainment of 100 per cent metering was one of the objectives of the R-APDRP scheme. Accordingly, the work of metering of unmetered consumers and replacement of defective and stopped meters of the company was taken up at a total cost of ₹ 277.71 crore during the review period. The achievement of metering of all consumers (of various categories) in the Company is indicated in the **Appendix 4.2.4**.

The review of the billing records at the field offices revealed that the 100 per cent metering involving the provision of electronic meters, replacement of faulty meters in time was not ensured by the Company. This is evident from the fact that in Durg Billing Zone 1 of the Company, the Black meters⁴ provided to 59 consumers were not replaced till October 2010. As on 31st March 2011, the company had total number of 0.68 lakh Black Meters provided to various categories of the consumers and the quantum of loss arisen on account of these meters remains unassessed.

In respect of HT consumers 100 per cent checking of meters is done on periodical basis. However, in respect of LT consumers though the company achieved almost 100 per cent metering as of March 2011, the defective meters remained in excess of the norms prescribed by CSERC. The status of defective meters at the end of each year during the review period is furnished below:

⁴ Black meters were the traditional meters which were not provided with the facility to record power factor and maximum demand.

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	No. of LT consumers (in lakh)	24.82	26.48	28.21	30.09	33.03
2.	No of Defective Meters (in lakh)	0.81	1.39	1.57	2.92	5.18
3.	Percentage of Defective Meter	3.26	5.25	5.57	9.70	15.68
4.	Norms of CSERC on defective meters	2.50	2.50	2.50	2.50	2.50
5.	Excess over the norm	0.76	2.75	3.07	7.20	13.18

It may be observed from the above that the percentage of defective meters ranged between 3.26 and 15.68 and the same were in excess over the norm of CSERC. The prevalence of such excess percentage of defective meters was fraught with the risk of incorrect assessment of energy consumption and consequent pilferage of revenue on this account.

Management replied (August 2011) that the 100 *per cent* metering has been done and further stated that the percentage of defective meters only ranged between 0.93 and 7.32 *per cent*. The management reply is factually incorrect as the R15 submitted to the State Government confirms that the actual percentage of defective meters ranged between 3.26 and 15.68.

Operational efficiency

The operational performance of the DISCOM is judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, minimizing line losses and detection of theft of electricity, *etc.* These aspects have been discussed below.

4.2.10 Purchase of Power

Assessment of future demand and requirement of power is calculated on the basis of past consumption trends, present requirement, load growth trends and T & D losses and its trend. State Electricity Regulatory Commission (SERC) approves the sources of purchase of power and the purchase cost based on the estimates made in the Annual Revenue Requirement (ARR). In addition depending on the requirements, additional power purchases are made a portion is subsidised by the Government.

The details of demand of power assessed for the State based on the 17th Electric Power Survey, purchase of power approved by CSERC and actual power purchased during the period 2006-07 to 2010-11 in respect of the State as a whole were as under:

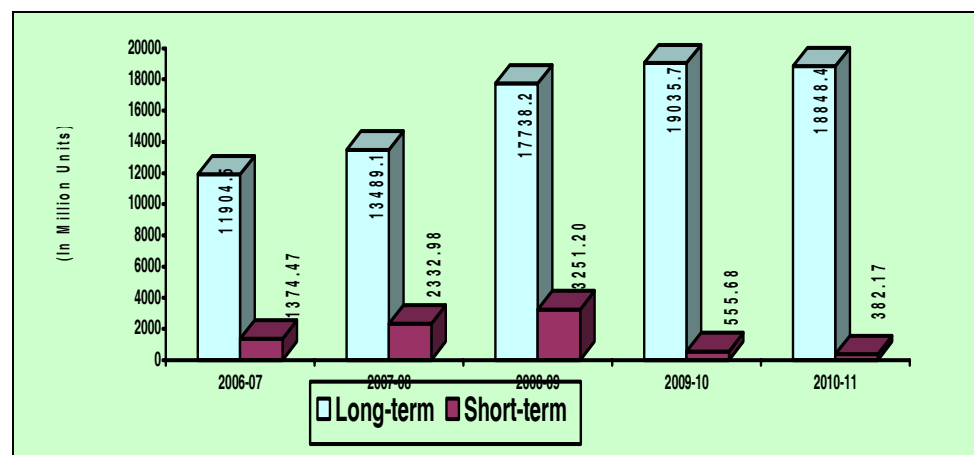
(in Million Units)

Year	Demand assessed in EPS	Purchases approved by CSERC	Actual Power purchased	Excess/ Shortfall in purchase against approved
(1)	(2)	(3)	(4)	(5) = (3 - 4)
2006-07	14377	12955.36	13278.97	-323.61
2007-08	15623	14637.00	15822.08	-1185.08
2008-09	16977	-	20989.64	-
2009-10	18448	19885.00	19591.34	293.66
2010-11	20047	20619.00	19230.59	1388.41

(-) indicates the power purchase in excess of the approval by SERC while the (+) indicates the power purchases lesser than the approval by SERC.

It is observed from the above that the actual purchases were higher than the quantum approved by the SERC for the years 2006-07 and 2007-08 where as the same was less than the quantum approved by SERC for the last two years ending 2010-11. The reasons for variation in purchases could be attributed to the incorrect estimation of the tentative quantity to be purchased and submission of the same to SERC. However, the excess purchases so made by CSEB/Company were not objected by the Commission subsequently in its tariff orders.

For meeting the power requirement, the Company entered into long term as well as short term power purchase agreements with various agencies viz., State Generation Companies, Central PSUs, IPPs, etc. besides Unscheduled Interchange purchases on need basis. The source-wise purchase of power during review period is given in the **Appendix-4.2.5**. It may be seen from the **Appendix** that the procurement from CSPGCL (State Generation Utility) was the cheapest while the procurement through the central sector was the second lowest in terms of average cost per unit. The cost per unit of procurement of power from IPP/CPP ranged between ₹ 2.04 and ₹ 2.97 during the review period. The break up of power purchased through Long term and Short term was as follows:



In respect of the power purchased from the central sector, there were deviations in the committed schedules involving UI Purchases indicated by Overdrawal and UI sales indicated by Underdrawal. The quantum of

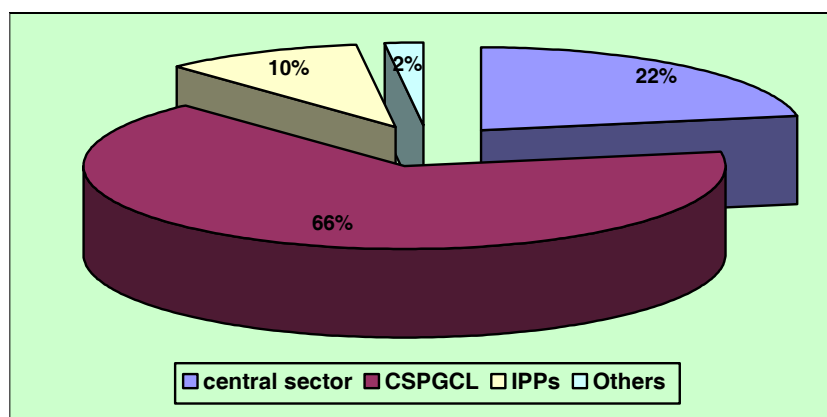
underdrawal and overdrawal during the last four years ending 31 March 2011 was as follows:

Year	Underdrawal (in MUs)	Average Rate (in ₹ per unit)	Overdrawal (in MUs)	Average Rate (in ₹ per unit)
2007-08	737.73	3.04	379.36	3.04
2008-09	1617.39	4.86	102.05	4.75
2009-10	2151.30	3.60	135.25	2.17
2010-11	1552.95	2.93	129.44	2.84

It may be seen from the table that UI sales registered an increasing trend as it moved from the 737.73 MUs in 2007-08 to 2151.30 MUs in 2009-10 and marginally declined to 1552.95 MUs in 2010-11. However, the UI purchases declined from 379.36 MUs in 2007-08 to 129.44 MUs in 2010-11. The improvement in UI sales and reduction in UI purchased could be attributed to the overall improvement in the power supply situation in the State and also the commissioning of the new Power Station.

Though the CSEB/Company earned UI rate per unit ranging between ₹ 2.93 and ₹ 4.86 during the review period, the CSEB/Company also paid for these committed units in the Central Sector at the rates ranging between ₹ 1.54 and ₹ 1.96. As a result, the real average rate per unit earned from the UI income varied between ₹ 0.97 and ₹ 3.38 during the review period. However, as the rates prevailing in the market was much higher than the UI rate, the same could have been sold through Power Exchange or through the traders at the rate ranging between ₹ 6 per unit and 10 per unit. This resulted in potential loss of revenue.

The break up of the total purchase by the company during the year 2010-11 is shown in the graph below:



Further, the analysis of the purchases made by CSEB/Company during the last five years ending 31.03.2011 revealed that

- The percentage of purchases through the Long Term Agreements which was 89.65 in 2006-07 has improved to 98.01 in 2010-11.
- The average rate of purchases (₹ 2.10) through the Long Term Agreements was lower than the average rate of purchase through the Short Term Agreements (₹ 3.01).

- The percentage of purchases from Central Sector in each year varied from 17.12 to 24.46 *per cent* during the review period as compared to the total annual purchases of the CSEB/Company in the respective years.
- The UI purchase rate during the review period ranged between ₹ 2.17 and ₹ 4.75 per unit while the average cost of supply ranged between ₹ 2.98 and ₹ 3.20 per unit. The UI Purchase rate was higher than the company's average cost of supply for the year 2007-08 and 2008-09 while the same was lower than the company average cost of supply for the years 2009-10 and 2010-11.
- The company's purchases through the UI were two *per cent* in 2007-08 and decreased to less than one *per cent* during the 2008-09 to 2010-11.

The irregularities noticed by audit on scrutiny of power purchase agreements entered into by the Company during the review period are stated below:

4.2.10.1 Belated decision to enforce MOU resulted in non availment of power at long term rate and consequent loss of ₹89.42 crore

Non conversion of MOU into PPA resulted in purchase of power at higher rates and consequent loss of ₹ 89.42 crore

The Government of Chhattisgarh (October 2002) entered into MOU with LANCO Amarkantak Power Private Limited for implementation of 2 X 67.5 MW coal based Thermal power plant at Korba. The provisions contained in the MOU empowered that the CSEB would not take guarantee towards power purchase but reserved the first claim on CSEB towards the purchase of 25 *per cent* of power from LANCO at mutual terms and conditions. LANCO in May 2004 offered to the CSEB 25 *per cent* of the power at a levellised tariff rate of ₹ 2.14 per unit for a period of 12 years. CSEB decided (June 2004) not to enter into PPA for purchase of power. LANCO again in June 2005 offered the entire quantum of power from this project at the rate of ₹ 2.25 per unit for a period of 12 years. The CSEB communicated (October 2005) that it was willing to avail 80 *per cent* of the power at the rate decided by the CSERC. However, this was turned down by LANCO. CSEB again in November 2006 requested LANCO for supply of 150 MW which was refused by LANCO. LANCO commissioned its first unit in May 2009. As a result, CSEB had to purchase power from other IPPs at an average rate of ₹ 2.97 per unit during this period. Thus, failure of the CSEB to enter into PPA in pursuance of the MOU resulted in loss of ₹ 89.42 Crore (Loss is reckoned for 75 MW for a period since 09.05.2009 at a differential rate of ₹ 0.72 (2.97-2.25) per unit).

Management replied (August 2011) that non conversion of MOU into a formal contract (PPA) was on account of uncertainty in power purchase requirements and also on account of LANCO refusing to execute the PPA on one ground or the other. However, the management ignored the power projection requirements projected in 17th EPS. Further, the management has also not taken up the issue before CSERC for enforcement of MOU despite the availability of such option before it.

4.2.10.2 Avoidable expenditure of ₹331.15 crore in the purchase of power from Jindal Power Limited due to non-execution of long term Power Purchase Agreement

Failure to enter into Long term PPA in compliance with MOU resulted in purchase of power at higher rates and consequent avoidable expenditure of ₹331.15 crore

A Memorandum of Understanding (MoU) was signed (21 October 1994) between the erstwhile Madhya Pradesh Electricity Board (MPEB) and Jindal

Strips Limited (Jindal) for establishing 1000 MW power plant at Raigarh. Accordingly, a Special Purpose Vehicle (SPV), Jindal Power Limited (JPL) was promoted for the project. Consequent upon formation of Chhattisgarh State, the agreements were inherited to the Chhattisgarh Government and Chhattisgarh State Electricity Board (CSEB). Accordingly, a revised MoU was also signed (21 May 2001).

In compliance to the MoU, JPL offered (October 2005) 250 MW power from the first unit at a firm rate of ₹ 2.10 per unit for 15 years and requested CSEB to finalise the power purchase agreement. Though JPL commenced commercial operation from December 2007, CSEB/Company failed to pursue the matter further to finalise the long term PPA within the ambit of the MoU and purchased 4614 MUs of power from JPL on short term basis at rates ranging from ₹ 2.448 to ₹ 3.015 per unit during December 2007 to March 2011. Thus failure of the CSEB/Company to enter into long term PPA with JPL and subsequent purchase of power on short term basis at higher rates from the same firm resulted in avoidable expenditure of ₹ 331.15 crore.

Management stated (February 2011) that on commissioning of the first unit, the power market was at boom and JPL tried to compel CSEB/Company to procure power at competitive bidding rates. Further, Electricity Act, 2003 allowed a generation Company to sell power to any consumer. Based on this, JPL has turned down the MoU. Moreover, as CSEB/Company was facing acute shortage of power, it was decided to purchase 300 MW of power at short term power purchase rates from JPL for one year from 8 December 2007. Thereafter, it was decided to purchase 150 MW power from JPL for one year at the short term power purchase rates and accordingly, the PPA was executed on 8 May 2009.

The reply ignored the fact that JPL offered (October 2005) 250 MW power at firm rate of ₹ 2.10 per unit for a period of 15 years. The MoUs/agreements executed under the earlier Act were still valid and enforceable as per the Electricity Act, 2003 as confirmed by Chhattisgarh State Electricity Regulatory Commission. Had the CSEB/Company accepted the above offer and executed long term PPA the above extra expenditure could have been avoided.

4.2.10.3 Lack of proactive approach in restricting Captive Power Plants and Independent Power Plants from Under Injection of electricity and potential loss of ₹102.40 crore

Non prevention of private power generators from under injection of electricity resulted in loss of ₹ 102.40 crore

CERC regulations on Open Access transactions and Unscheduled Interchange charges provides that the under injection of electricity by a Generating station or a seller during a time block shall not exceed 12 per cent and 3 per cent on daily aggregate basis. The Electricity Supply Act 2003 also provide that State Load Despatch Center (SLDC) was responsible for optimum scheduling and dispatch of electricity within the State and empowered the SLDC to issue directions to the private generators and sellers (from under injection of electricity) which shall be final and binding on them. CSERC also in its tariff order for the year 2007-08 directed the Company to maximize its income potential through UI income.

Test check in audit of the injection of electricity by the private power

generators in the state revealed that the quantum of under injection of electricity varied from 18.62 to 80.74 *per cent* in 2008-09, 12.54 to 89.20 *per cent* in 2009-10 and 22.16 to 97.67 *per cent* in 2010-11. Since SLDC was empowered to issue directions to generators and seller thereby restricting the under injection to permissible limits, the CSEB/Company could have obtained more power from the Grid. This additional power could have been sold through power exchange at higher rates. This resulted in potential loss of revenue of ₹ 102.40 crore for the period from August 2008 to February 2011.

Management stated (August 2011) that although there is a limit of under injection but the same is linked with the grid frequency with prescribed limit of under injection. However, there is no specific provision of penalty except additional UI charge to generator under which such under injection can be restricted. Further, there is no loss as the company was compensated by levy of extra five *per cent* UI charges. However, it may be mentioned that loss worked out above is after reduction of the UI charges levied for under injection based on the monthly weighted average rate for sale in power exchange. Further, CERC Regulations empowered SLDC to issue directions for under injection which were binding on them.

4.2.11 Sub-transmission & Distribution Losses

The losses at 33KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. The losses occur mainly on two counts, *i.e.*, technical and commercial. Technical losses occur due to inherent character of equipment used for transmitting and distributing power and resistance in conductors through which the energy is carried from one place to another. On the other hand, commercial losses occur due to theft of energy, defective meters and drawal of unmetered supply, etc. The loss of energy on account of these factors must be kept at the bare minimum level.

The table below indicates the energy losses for the last five years upto 2010-11.

(In Million Units)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Own generation	8750.46	9414.25	12358.82	No own generation	
2.	Purchases from others	4528.51	6407.83	8630.82	19591.34	19230.59
3.	Total purchases	13278.97	15822.08	20989.64	19591.34	19230.59
4.	Energy sold	9441.92	10613.21	12021.46	11311.39	12139.13
5.	Losses	3837.05	5208.87	8968.18	8279.95	7091.46
6.	Percentage of losses	28.90	32.92	42.73	42.26	36.88
7.	Percentage of losses approved by SERC	33.81	32.54	37.15	34.32	34.00
8.	Excess losses (in percentage)	0	0.38	5.58	7.94	2.88
9.	Excess losses (in MUs)	0	60.12	1171.22	1555.55	553.84
10.	Avg rate of realisation ⁵	3.63	3.45	3.34	3.32	3.50
11.	Value of loss (₹ in crore)	0	20.74	391.19	516.44	193.84

It may be seen from the above table that losses ranged between 28.90 and

Non adherence to CSERC directives in controlling T&D losses resulted in cumulative loss of ₹ 1122.21 crore over 2006-11.

⁵ Average rate of realisation adopted here is based on the figures furnished in R-15 by the Company.

42.73 *per cent* during the last five years ending 31 March 2011. The percentage of losses registered an increasing trend during the review period as is evident from the fact that the energy losses moved up from 28.90 *per cent* in 2006-07 to 42.26 *per cent* in 2009-10 and declined to 36.88 *per cent* in 2010-11. The aggregate value of loss on this account worked out to ₹ 1122.21 crore.

Reduction in these losses was the most significant step towards making the Company financially self-sustaining. The importance of reducing losses can be gauged from the fact that a one *per cent* decrease in losses could add ₹ 67.30 crore⁶ to the profits of the Company annually. Besides, bringing down the T&D losses to the national level of 28.44 *per cent* may contribute to the profitability of the company to the extent of ₹ 568.07 crore. The main reasons for such high energy losses were non installation of capacitor banks, low power factor, heavy quantum of unmetered consumers especially in respect of BPL consumer, theft of electricity etc.

Management stated (August 2011) that the Distribution loss is coming down from 33.77 *per cent* in 2008-09 to 31.49 in 2010-11 by reckoning the distribution loss with reference to the units fed into the feeder. The CSERC has also expressed concern over the higher T&D losses.

4.2.12 Financial Position and Working Results

One of the major aims and objectives of the National Electricity Policy of 2005 is ensuring Financial Turnaround and commercial viability of electricity sector. As mentioned in the paragraph 4.2.1, though the Company was incorporated in May 2003 (and later renamed from March 2005), it started operational activities with effect from 1 January 2009 consequent upon unbundling of erstwhile CSEB. Accordingly, the financial position of the Company for the period from 1 January 2009 to 31 March 2011 is given below.

(₹ in crore)

Particulars	Jan 09 to Mar 09	2009-10 (Provisional)	2010-11 (as per ARR submitted to CSERC)
A. Liabilities			
Paid up Capital ⁷	1987.35	2222.78	3605.51
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	55.84	-	- 1854.29
Borrowings (Loan Funds)			
Secured	69.84	165.41	-
Unsecured	266.08	163.95	935.01
Current Liabilities & Provisions	1682.51 ⁸	2058.06 ⁹	1278.14
Total	4061.62	4610.20	3964.37

⁶ The amount is reckoned at one *per cent* of 19230.59 MUs energy available for distribution at the rate of average realization per unit of ₹ 3.50.

⁷ The Paid up Capital includes Share Capital Suspense of ₹. 1913.26 crore for the period ending 31.03.2009 and for the year 2009-10. In addition to this, the Share Capital also includes an amount of Deferred Capital Contribution of ₹ 74.04 crore, ₹ 309.47 crore and ₹ 1582.46 crore for the period ending 31.03.2009, 31.03.2010 and 31.03.2011 respectively.

⁸ Includes deferred tax liability of ₹19.20 crore.

⁹ Includes Intercompany adjustment liability of ₹ 82.49 crore.

B. Assets			
Gross Block	1812.31	2029.56	3359.43
Less: Depreciation	667.76	773.66	826.80
Net Fixed Assets	1144.55	1255.90	2532.63
Capital works-in-progress	716.65	932.97	1176.03
Investments	-	-	197.59
Current Assets, Loans and Advances	2200.42 ¹⁰	2162.26	58.12
Profit & loss A/c		259.07	
Total	4061.62	4610.20	3964.37
Debt : Equity	0.16:1	0.14:1	0.53:1
Networth	2043.19	1963.71	1751.22

It may seen from the above that:

- The profits of the company were registering a declining trend. This is evident from the fact that the Reserves and Surplus of the company declined from ₹ 55.84 crore as of March 2009 to a negative amount of ₹ 1854. 29 crore. The reasons for the increase in losses could be attributed to non recovery of cost of operations, increased borrowings on account of the working capital problems, poor billing efficiency and poor Revenue collection efficiency, etc. Further, the annual revenue requirement of the transmission company was also borne by the company.
- The Debt: Equity ratio of the company was less than one as the company resorted to only short term borrowings to tide over its working capital problems.
- The Net worth of the company declined from ₹ 2043.19 crore in March 2009 to ₹ 1751.22 crore as of March 2011 due to increase in the losses.
- The investments as of March 2011 represent the investment of funds lying unutilized with the company received in respect of Central Sector Schemes.
- The high amount of Capital work in progress could be attributed to non transfer of the same to Fixed Assets due to non preparation of Work Completion Reports. As a result, the erstwhile CSEB could not claim the benefit of depreciation on these amount resulting in enhanced Income Tax liability of ₹ 134.27 crore for the period from 2006-07 to 2008-09.
- The increase in borrowings could be attributed to the working capital problem faced by the Company as the cost of power purchased paid on monthly basis while the approximate sales were realized after more than two months.

The particulars of cost of electricity vis-à-vis revenue realization per unit there from are indicated below.

¹⁰ Includes inter company adjustment of ₹ 104.37 crore.

(₹ in crore)

Sl. No.	Description	2008-09 ¹¹	2009-10 (provisional)	2010-11 (as per ARR submitted to CSERC)
1	Income			
(i)	Revenue from Sale of Power ¹²	5149.01	4085.47	4332.10
(ii)	Other income	164.49	118.69	235.06
	Total Income (i) + (ii)	5313.50	4204.16	4567.16
2	Distribution (In MUs)			
(i)	Total power purchased	20989.64	19591.34	19230.59
(ii)	Less: Transmission losses	921.62	934.51	899.14
(iii)	Net Power available for Sale	20068.02	18656.83	18331.45
(iv)	Less: Sub-transmission & distribution losses	8046.56	7345.44	6192.32
	Net power sold	12021.46	11311.39	12139.13
3	Expenditure on Distribution of Electricity			
(a)	Fixed cost			
(i)	Employees cost	801.74	626.78	675.73
(ii)	Administrative and General expenses	92.85	85.51	89.98
(iii)	Depreciation	263.59	105.89	105.12
(iv)	Interest and finance charges	273.52	72.16	212.55
	Total fixed cost	1431.70	890.34	1083.38
(b)	Variable cost			
(i)	Purchase of Power	2072.91	3317.23	4191.22
(ii)	Electricity Duty	685		
(iii)	Transmission/ Wheeling Charges	103.98	246.3	517.97
(iv)	Repairs & Maintenance	181.64	90.82	96.25
	Total variable cost	3043.53	3654.35	4805.44
(c)	Total cost 3(a) + (b)	4475.23	4544.69	5888.82
4	Realisation (₹ per unit) (1(i)/2)	4.28	3.61	3.57
5	Fixed cost (₹ per unit)	1.19	0.79	0.89
6	Variable cost (₹ per unit)	2.53	3.23	3.96
7	Total cost per unit (in ₹) (5+6)	3.72	4.02	4.85
8	Contribution (4-6) (₹ per unit)	1.75	0.38	-0.39
9	Profit (+)/Loss(-) per unit(in ₹) (4-7)	0.56	-0.41	-1.28

It may be seen from the above that the realisation per unit decreased from ₹ 4.28 per unit in 2008-09 to ₹ 3.57 per unit in 2010-11 (16.59 per cent), while the cost per unit increased from ₹ 3.72 per unit to ₹ 4.85 per unit (30.38 per cent) during the corresponding period. Consequently the contribution per unit declined from ₹ 1.75 per unit in 2008-09 to a negative ₹ 0.39 per unit.

It was also evident from the above table that 'Purchase of Power' and 'Employees Cost' constituted the major elements of cost in 2010-11 which represented 71.17 and 11.47 per cent of the total cost in that year. On the other hand, the Sale of Power including UI income constituted the major elements of revenue in 2010-11 which represented 94.85 per cent of the total revenue.

It may be seen from the working results that there remained a revenue gap of ₹ 459.22 crore in 2009-10 which increased to ₹ 1556.72 crore in 2010-11. The steep increase in revenue gap needs immediate attention of the State Government for necessary remedial action. Audit analysis revealed that the main reasons for increase in loss per unit could be attributed to the reduction in revenue realisation as compared to the previous years and increase in variable cost.

¹¹ Figures for the year 2008-09 is compiled from the records of CSPHCL for nine months and from CSPDCL for three months.

¹² Revenue from sale of power includes subsidies and grants receivable from the State Government and income earned through Unscheduled Interchange charges.

The financial viability of the Company are generally influenced by the various factors such as

- Timely revision of tariff;
- Adequacy of revision of tariff to cover the cost of operation;
- Timely release of promised subsidy by the Government;
- Cross subsidization policy of the Government and its implementation by the DISCOMs;
- The Financial Management of DISCOMs; and
- The Revenue billing and collection efficiency.

These factors are discussed in the following paragraphs.

4.2.13 Tariff Fixation

The tariff structure of the Company is subject to revision approved by the State Electricity Regulatory Commission (SERC) after the objections, if any, received against Annual Revenue Requirement (ARR) petition filed by them within the stipulated date. The Company was required to file the ARR for each year 120 days before the commencement of the respective year. The SERC accepts the application filed by the Company with such modifications/conditions as may be deemed just and appropriate.

The table below shows the due date of filing ARR, actual date of filing, date of approval of tariff petition and the effective date of the revised tariff.

Year	Due date of filing	Actual date of filing	Delay in days	Date of approval	Effective date
2006-07	01.11.2005	13.04.2006	163	13.09.2006	01.10.2006
2007-08	01.11.2006	17.08.2007	289	22.10.2007	01.11.2007
2008-09	01.11.2007	No petition filed			
2009-10	01.11.2008	26.02.2009	117	30.05.2009	01.07.2009
2010-11	01.11.2009	18.10.2010	352	Tariff not issued due to delay	

Non submission of tariff petitions in time resulted in loss of ₹ 668.55 crore over 2006-11.

It may be observed from the table that the CSEB/Company had delayed filing of tariff petitions every year and the period of delay ranged between 117 and 352 days except 2008-09, where no petition was filed. The delay in filing the tariff application resulted in loss of revenue amounting to ₹ 668.55 crore to the Company for the years 2006-07 to 2010-11 based on the average cost of supply approved in the tariff orders of respective years since the delay in implementation of tariff order led to non-recovery of approved cost for the delayed period.

The Company replied that through the tariff process, neither the profit nor the loss is retained and the same is passed on to the consumer. The management reply ignored the fact that the tariff petition is filed based on the projected annual revenue requirements for a particular period for which the tariff fixation was sought and the delay in implementation had deprived the management the revenue targeted for that particular year/period.

4.2.13.1 Non implementation of Tariff Regulations in respect of BPL consumers resulted in loss of ₹ 57.95 crore

The Tariff Schedule since 2006-07 provided that the State Government shall

provide subsidy to BPL consumers up to 30 units per month. It further provided that in case if the consumption of the BPL consumers exceeded 30 units in any month (i.e. 360 units per year) or the connected load exceeded 120 Watts, then the consumer would cease to be covered under LV1.1 (BPL consumers) and would be covered under LV 1.2 (Other Domestic consumers) envisaging the billing on the basis of slab tariff provided therein. The same provisions were applicable to the BPL consumers in the subsequent tariff schedules also. In order to implement these provisions, CSERC also directed the CSEB/Company (September 2006) to resort to 100 *per cent* metering by March 2007, (the target date was further extended from time to time) so as to bring the entire BPL consumers to billing.

Review in Audit of the billing records (LT R-15) revealed that despite the consumption of the BPL unmetered consumers exceeding 360 units per year on average basis, they were not provided with metering up to 2009-10 and did not make payment for consumption according to various slabs ranging between ₹ 0.75 per unit and ₹ 1.45 per unit. Thus, failure on the part of the Company to migrate the consumers to LV 1.2 despite their consumption of electricity in excess of the limit prescribed and non subjecting these consumers to meter reading led to revenue loss of ₹ 57.95 crore from 2006-07 to 2009-10 as shown in *Appendix- 4.2.6*.

Management replied that it was difficult to check the entire 14 lakh BPL consumers in the State and despite this, 1.64 lakh consumers were converted into metered category.

4.2.13.2 Non compliance with the CSERC directives

Normally, the Regulatory Commission while finalizing the Tariff orders issues directions to the CSEB/Company which is to be complied with in the interest of tariff fixation. The review of the directions issued by the CSERC during the review period revealed that many of the directives issued by the CSERC were not complied with as detailed below:

- Though the commission directed (Tariff order 2007-08) that there should be no direct electrical connectivity between an industry and the generation plant that avails start up power from Company, it was observed that the Company had no monitoring mechanism in place to ensure this. The Company stated that the information in this regard is available with the SE/CE (T&C) which functions under Transmission Company. In the absence of such mechanism, there is a potential risk of direct sale leading to loss of revenue to the company.
- Despite the repeated directives by CSERC to improve the operational efficiency involving the reduction of T&D losses, establishment of credible database, etc. no improvement in this regard was done. It is evident from the fact that T&D losses had increased over the review period.
- Commission's directive (October 2007) on the preparation of Tariff card in Hindi, a pamphlet detailing the internal grievance redressal machinery in the CSEB/Company and the details of the load shedding and pre arranged shut down be sent to the mobile numbers of the major HT customers was not complied with by the Company.

- CSERC's directive towards the establishment of credible data base and correct preparation of R15 is yet to be complied with. (September 2011).

It is pertinent to mention that compliance to these directives especially in respect of reduction in T&D losses and improvement of revenue collection efficiency may help in reduction of losses of the Company thereby bringing in better operational efficiency and financial sustainability of the Company.

Management replied that the cent *per cent* metering was extended by CSERC from time to time. It further stated that the improvement of operational efficiency depended on several factors including the policy of the State Government, growth of CPP/IPPs in the State, etc. It further stated that the Tariff card is published in Hindi and the R 15 is generated through SAP software since April 2011.

The management reply ignored the fact that improvement of the operational efficiency is the need of the hour for the company in the light of its loss making scenario since 2009-10 onwards. Further, though the policies of State Government and overall power scenario has a bearing on the system, strengthening of the sub-transmission and distribution network so as to bring in reduction in T&D losses, improving revenue collection efficiency and enhancing operational efficiencies as discussed in subsequent paragraphs can be achieved by the Company itself thereby bringing in financial sustainability without increasing the tariff structure. The company should lay down a time bound action plan in close coordination with the State Government. Further, the copy of the tariff card published in Hindi was not made available to Audit for verification.

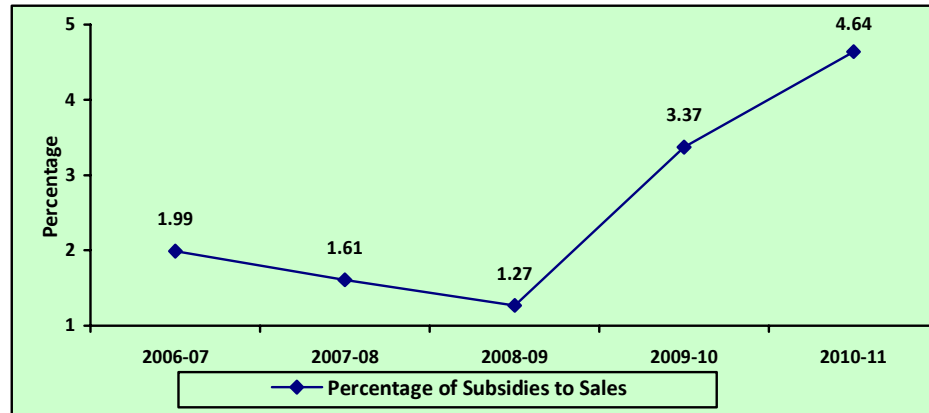
4.2.14 Subsidy Support and Cross Subsidisation

The State Government is providing subsidy with a view to ensure supply of power to specific category of consumers at concessional rates of tariff.

4.2.14.1 Non release of subsidy by State Government

The graph below indicates revenue subsidy support¹³ from State Government (against concessional tariff) as a percentage of sales for the last five years ending 31 March 2011.

¹³ The subsidy support is issued in the form of reimbursement of sale of energy upto 30 units per month in respect of BPL consumers and subsidy for providing agricultural pump connection at the rate ₹ 50000 per connection.



It is observed from the above that subsidy support from the Government was showing increasing trend over the review period. The percentage of subsidy support to sales went up from 1.99 in 2006-07 to 4.64 in 2010-11. Further, as per Section 65 of Electricity Act, the State Government was required to pay in advance the subsidy element to the Company so that their operation is not financially effected. In this regard, it was observed that against the subsidy claim of ₹ 511.56 crore over the review period on above account, only ₹ 491.23 crore was actually released by the State Government till 2010-11 as detailed in the table below.

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Opening balance	1.07	11.24	31.66	44.92	32.40
Add: Due from State Government during the year	58.20	60.42	65.26	137.58	190.10
Total Due	59.27	71.66	96.92	182.50	222.50
Less: Received during the year	48.03	40.00	52.00	150.10	201.10
Closing balance	11.24	31.66	44.92	32.40	21.40

It may be seen from the table above that the closing balance of subsidy receivable increased over the review period indicating that the State Government had not fully reimbursed the subsidy becoming due in each year of the review. This would not only adversely affect the financial health of the Company but also infringes the provisions of Section 65 of the Electricity Act 2003 requiring the State Governments to pay the subsidy in advance. As the Company was resorting to overdrafts to tide over its working capital problems, the delay in preferring the subsidy claim and also lesser receipt of the funds from the State Government adversely affects the financial position of the Company. Despite such huge accumulation, the Company had not sincerely pursued with the State Government for release of the subsidy claim to tide over its working capital problems.

The management replied that the subsidy claim is pursued with the State Government on quarterly basis and the release of subsidy by the State Government depends on its financial and budgetary provisions.

Cross subsidization

4.2.14.2 Extension of cross subsidy in excess of norms laid down in National Tariff Policy

Section 61 of Electricity Act 2003 stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and also reduce cross subsidy in a phased manner. National Tariff Policy (paragraph 8.2.5) also envisaged that the tariff of all categories of consumer should range within plus or minus 20 per cent of the ACOS by the year 2010- 2011. The position in this regard over the review period as per approved tariff is indicated in **Appendix-4.2.7**.

It may be seen from the **Appendix** that the target laid down in the National Tariff Policy was not achieved as the percentage of cross subsidy remained in the range of 7.24 to 74.01 per cent on negative side and 0.99 to 332.89 per cent on positive side as per the Tariff order applicable for the year 2010-11. It may also be seen from the **Appendix** that in 2010-11 while agricultural metered consumers were highly subsidized, start-up power consumers were the most over charged. Over the review period, agricultural metered category remained highly subsidized whereas start-up power category remained heavily over charged.

The management replied that the extension of cross subsidy was not in the hands of Company and the amount of cross subsidy is registering a decreasing trend during the review period.

4.2.15 Billing Efficiency

Billing of all L.T consumers were being done at Division level while the billing of HT consumers were being done at the Regional Accounts Officers level on the meter reading statement done by the Divisions. All consumers were billed on monthly basis except domestic consumers in rural areas who were billed on quarterly basis. The assessed units refer to the units billed to the consumers in case the meter reading was not available due to meter defects, door locked, etc. The efficiency in billing of energy lies in distribution/sale of maximum energy by the Companies to its consumers and realise the revenue there from in time.

(Figures in MUs)

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Energy sold	9441.92	10613.21	12021.46	11311.39	12139.13
2.	Free Supply	20.00	23.75	24.62	29.87	36.88
3.	Assessed sales	137.85	177.51	94.97	110.83	202.10
4.	Energy billed (1-2-3)	9284.07	10411.95	11901.87	11170.69	11900.15
5.	Assessed sales as percentage of metered sales $\{(3 \times 100)/4\}$	1.48	1.70	0.80	0.99	1.70

It may be seen from the table that the free supply has gone up from 20MUs to 36.88 MUs during the review period. Besides the assessed sales has also gone up from 137.85 MUs to 202.10 MUs during the review period and the assessed sales as a percentage of metered sales has moved from 1.48 in 2006-07 to 1.70 in 2010-11.

4.2.15.1 Short recovery of service line charges aggregating to ₹ 61.51 lakh from the new HT consumers

As per the provisions contained in the Supply Code effective from 1 October 2007, the cost of providing service connection was to be recovered from the consumer concerned. Test check in audit of the 121 new service connections (including load enhancement) provided to the HT consumers by the Durg, Raigarh and Rajnandgaon circles revealed that in respect of nine cases, the actual cost of supply arranging charges recovered from the HT Consumers was less than the actual cost of providing such service connections. The amount less recovered on this account was worked out to ₹ 92.39 lakh.

The management in its reply (August 2011) stated that an amount of ₹ 6.93 lakh pointed out by Audit was recovered and an amount of ₹ 23.95 lakh is disputed by a consumer in the Hon'ble High Court. The management should have recovered the charges before extending the service connection which would have avoided the legal dispute also.

4.2.15.2 Irregular waiver of surcharge of ₹ 24.32 lakh under one time settlement scheme

The Company introduced (September 2010) 'One Time Settlement Scheme' providing for recovery of arrears from LT consumers who were permanently disconnected or the consumers who were disconnected for at least six months. As per the approved terms of One Time Settlement Scheme, surcharge as on 15 October 2010 was to be waived off, if the consumer pays the outstanding principal amount under the scheme. The Company authorised the Executive Engineer (O&M) of the concerned Division for waiver of Surcharge under the Scheme.

Test check in audit of the records relating to One Time Settlement Scheme at seven out of 12 Distribution Centers (DCs) (481 cases) under the Ambikapur O&M Division revealed that in 340 cases (70.69 per cent) the benefit of the scheme was extended to ineligible consumers i.e. connected consumers or those consumers who were disconnected for less than six months. Despite the above, the Executive Engineer (O&M) Division, Ambikapur accorded approval for waiver of surcharge in violation of the terms of the Scheme. Waiver of surcharge to ineligible consumers in contravention to the terms of the scheme approved by CSERC was not in order and resulted in irregular waiver amounting to ₹ 24.32 lakh and undue financial benefit to the defaulters in respect of the cases test checked in Audit.

Management replied (August 2011) that the audit findings would be verified after detailed verification from field office. However, this highlights the deficiencies in the internal control system of the Company as there may be other similar cases besides those being test checked in Audit.

4.2.16 Revenue collection efficiency

As revenue from sale of energy is the main source of income, its prompt collection assumes great significance. The salient features of the collection mechanism being followed were as follows:

HT Consumers of the company can make payments of the bills by cash,

cheques or by demand draft, direct remittance into the Board account through RTGS, etc. In respect of LT services, electricity bills are generally collected by the revenue cashiers (RC) except in some areas where collection work is entrusted to spot billing agencies. In addition, consumers also have an option to make payments through ATM centres. Consumers are required to pay current charges within 15 days from the date of bill, failing which the consumers are liable for payment of delayed payment charges at the rate of 1.5 *per cent* of the bill amount for a month.

The table below indicates the balance outstanding at the beginning of the year, revenue assessed during the year, revenue collected and the balance outstanding at the end of the year during last five years ending 2010-11.

(₹ in crore)

S. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Balance outstanding at the beginning of the year	1483.34	1358.24	1463.00	1715.75	1923.21
2.	Revenue assessed/Billed during the year ¹⁴	3305.49	3661.63	4000.86	3767.38	3085.03
3.	Total amount due for realisation (1+2)	4788.83	5019.87	5463.86	5483.13	5008.24
4.	Amount realised during the year	3059.20	3556.87	3748.11	3559.92	2924.03
5.	Amount written off	371.39	-	-	-	-
6.	Balance outstanding at the end of the year	1358.24	1463.00	1715.75	1923.21	2084.21
7.	Percentage of amount realised to total dues (4/3)	63.88	70.86	68.60	64.92	58.38
8.	Arrears in terms of No. of months assessment.	4.93	4.79	5.15	6.13	8.11

We observed from the above details that:

- The balance dues outstanding at the end of the year increased from ₹ 1358.24 crore in 2006-07 to ₹ 2084.21 crore in 2010-11.
- As of March 2011, the amount of arrears outstanding for more than three years was ₹ 1384.33 crore constituting 66.42 *per cent* of the total arrears recoverable.
- As against ₹ 1384.33 crore outstanding for more than three years, ₹ 1111.25 crore was recoverable from Government consumers while the remaining amount of ₹ 273.08 crore was recoverable from the private parties. Arrears of such huge amount from private parties only indicate the non implementation of the legal provisions empowering the erstwhile Board/Company to resort to permanent disconnection to recover the dues in time.
- The percentage of amount realised to total dues declined during the review period from 63.88 to 58.38. Also, the increase in arrears in terms of number of month's sales from 4.93 to 8.11 could be attributed to the enhancement of arrears outstanding at the end of the year to revenue billed during the year from 41.09 to 67.56 *per cent*.

¹⁴ The Revenue assessed/billed refers only to the energy charges issued during the year. The amount do not tally with the Sales shown in the working results as the sales shown in working results comprises of the income earned through UI duly adjusted for underdrawal and overdrawal of power under central sector allotment.

- The increase in number of month's sales would aggravate the working capital requirements of the Company. Therefore there is an urgent and immediate need for the Company to improve its collection efficiency.

4.2.16.1 Loss of ₹ 45.64 crore due to extension of open access facility to ineligible Captive Generating Plants at concessional rates

Non withdrawal of concessions extended to ineligible captive generators led to loss of ₹ 45.64 crore.

The Electricity Act, 2003 defines "Captive Generating Plant (CGP)" as a power plant set up by any person for his own use. Electricity Rules, 2005 further provides that no power plant shall qualify as a CGP unless not less than fifty one *per cent* of the aggregate annual electricity generated in such plant is consumed for its own use. If any plant does not qualify as CGP for any year the entire electricity generated shall be treated as if it is a supply by a generating Company. The Act further provides (Section 42) that open access shall be allowed to the distribution system on payment of a surcharge in addition to the wheeling charges. However, such surcharge shall not be leviable in case open access is provided to CGP. In Chhattisgarh State there were 49 CGPs during the period 2008-11 availing open access facility from Distribution Company without paying the surcharge.

On scrutiny of the data regarding generation and consumption of electricity, it was observed that captive consumption of electricity by 16 out of 49 power plants during 2008-11 was less than 51 *per cent* prescribed in the Rules and hence they stood to lose the status of CGP. Though the Company was aware of this, it did not make any effort to withdraw the concessions already allowed despite enabling instructions in this regard. This resulted in undue financial advantage to the power generating plants and loss to the Company to the extent of ₹ 17.64 crore worked out at the rate of cross subsidy surcharge fixed by the commission. Further, for the year 2010-11, the Company stand to loose ₹ 28.00 crore in respect of 16 power plants if the status of CGP for them is not revoked.

The Management stated (April 2011) that the Commission itself took the responsibility to verify the status of CGP based on the submission of monthly data by the generators and as such, the Company cannot take its own decision. It was further stated that as soon as the commission take the decision, the Company will recover the charges. For 2009-10, the Commission intimated (June 2011) to the Company regarding the status of six CGPs and accordingly, the bill was raised on these to pay cross-subsidy charges. However, it may be mentioned that as the Company stands to lose heavily on account of extension of concession to ineligible CGPs and the generation records being available with it, the Company should have taken up the matter with the Commission to avoid losing on that account. Further, the Commission in few instances took *suo moto* petition and passed its ruling in favour of the Company to recover the cross subsidy surcharge from ineligible CGPs. Despite these favourable orders, the Company failed to initiate action against the ineligible CGPs and did not withdraw the concession already extended.

4.2.16.2 Non initiation of action for Permanent Disconnection despite default in payment of outstanding dues of ₹91.82 crore

As per the provisions contained in the Supply Code, the consumers who were not paying the bills consecutively for more than three months were liable for temporary disconnection. The amount due from the temporary disconnected consumers and remaining unpaid for more than six months were liable for permanent disconnection. Audit observed that as on 31 March 2011, an amount of ₹ 91.82 crore was due for recovery from the temporary disconnected consumers who happen to be other than Government/water works/street lights. However, the management neither disconnected the connections permanently nor filed C forms for recovery of the arrears as arrears of land revenue.

4.2.16.3 Non reconciliation of UI income of ₹5.95 crore

Test check in audit of the records of the Company revealed that in respect of the UI income recoverable from captive power producers such as M/s IEEL, Real Ispat and SKSIP for the period of the open access transactions in 2008-09, an amount of ₹ 5.95 Crore though shown as recovered from these consumers but the same was not actually credited into the books of accounts of the Company even after lapse of more than two years. Despite this, the CSEB/Company had neither reconciled the accounts nor taken steps for recovery of the amount from the agencies.

Management replied that the matter would be pursued with SLDC. During exit Conference, it was acknowledged that the amount has not been recovered till date as per records and the issue is being vigorously pursued.

4.2.17 Financial Management

Efficient fund management serves as a tool for decision making, for optimum utilization of resources and borrowing at favorable terms at appropriate time. The financial management of the company includes revenue collection, billing, borrowings, transfer of funds, interest recovery/payments, restructuring of loans, and other related transactions. While revenue and billing have dealt with in preceding paragraphs, certain irregularities noticed in audit in respect of financial management are discussed below:

4.2.17.1 Blockage of ₹ 49.11 crore due to storage of non moving and slow moving inventory

As of March 2011, the Company had an inventory of ₹ 36.48 Crore as non moving inventory as against the total inventory of ₹ 100.85 Crore and some of these items were lying in the Stores since 1987. Besides, the Company also had slow moving inventory of ₹ 12.63 Crore. Despite such huge accumulation of non moving and slow moving inventory, the Company had not taken any steps for disposal of the same. This resulted in blockage of funds worth ₹ 49.11 crore. The non removal of these items had an impact on the enhanced stores carrying cost and was detrimental to the financial interests of the Company. The Company should lay down a policy to identify the slow moving and non moving inventory lying in its seven Area Stores and should frame an action plan for the alternate uses of these inventory through a task force.

The management replied that the company is already having a policy on non moving and slow moving inventory and further stated that due to problems in the SAP software, the slow moving and non moving were not reckoned properly. The management failed to address the fact that some of the inventory was lying as early as from 1987 onwards. During exit conference, the State Government acknowledged that proper policy in the matter needs to be in place.

4.2.17.2 Avoidable expenditure of ₹ 38.52 lakh on bank charges due to transfer of funds through Demand Drafts

The test check of records of 20 Distribution Centers of five Divisions, namely, Siltara, Bhatapara, Gariyaband, Dhamtari and Urla, revealed that these Distribution Centers were transferring funds through demand drafts and sending the same by Post to the Regional Accounts Office, Raipur. The existing method followed by the Distribution Centers was time consuming in realizing the money to the CSEB/Company's account and also costlier. Computerised Banking Solutions (CBS) i.e. direct credit to the head office account or the issue of standing instructions to transfer the funds directly to the head office account was not availed. This resulted in avoidable expenditure of ₹ 38.52 lakh on bank charges during the years 2006-07 to 2010-11.

The management stated that as per prevailing bank rules amount exceeding ₹ 50,000 cannot be deposited by Distribution Circle into third party RAO account. Accordingly commission on DD cannot be avoided. However, the CBS facility in respect of giant organization/Corporate houses is commonly available with many banks and the Company/State Government may consider formulating a policy on the matter.

4.2.18 Consumer Satisfaction

One of the key elements of the Power Sector Reforms was to protect the interest of the consumers and to ensure better quality of service to them. The consumers often face problems relating to supply of power such as non-availability of the distribution system for the release of new connections or extension of connected load, frequent tripping on lines and/or transformers and improper metering and billing.

The CSERC also notified Chhattisgarh State Electricity Regulatory Commission (Standards of Performance in Distribution of Electricity) Regulations – 2006 prescribing the overall standards of performance towards discharge of various functions. However, the detailed records in this regard was not maintained at the Distribution Centre level. The Head Office of the company was also not reviewing whether such standards were adhered to in its day to day functions.

Some of the other irregularities noticed in this regard are detailed below:

- As against the time limit of 15 days from the date of remittance of deposit in case of LT connections (if connection is required to be given from existing network) and 30 days from the date of receipt of estimated charges in case of HT connections (if no extension work is involved) provided in the Supply Code, the delay in providing new service connection ranged between 15 days to 4.5 years.

- There was delay in providing service connection to the agricultural pumps up to more than one year as against the time limit of 180 days from the date of payment by consumer.
- The meter reading was awarded to private contractors. However, it was observed that the meter reading was not regularly undertaken by these contractors. As a result, the consumers were issued the bills on average basis for months together and with the huge amount of bill on the basis of actual meter reading resulting in accumulation of arrears besides inconvenience to the consumer in repaying such huge amount in one single bill.
- The fuse call registers maintained in the DCs did not indicate the time when the consumer grievance was settled/addressed.
- Though the bills issued to the consumers were subsequently revised on the basis of complaints received from consumers, the detailed records and authentication of such correction is not maintained through Debit/Credit registers in the Distribution Centers.

The management replied that the meter readings contracts were awarded under “Meter Vaachan Yojana” as the Meter Readers post was abolished. The faulty meters were normally replaced and the consumption was assessed on the basis of past six months readings. Management reply failed to address the hardships and problems faced by the consumers.

Further, the Company was required to introduce consumer friendly mechanism such as introduction of computerized billing, establishment of customer care centers, etc. to enhance satisfaction of consumers and reduce the advent of grievances among them. While the billing issues have already been discussed in preceding paragraphs, as regards the redressal of grievances, the Company as on March 2011 was having two Consumer Redressal fora at Raipur and Bilaspur. To enable the compilation of complaints for assessing the performance on this account, separate registers were maintained by the Company. Audit observed that as against the total number of 679 complaints received during the review period by the Consumer Redressal Fora, 416 complaints were settled within the prescribed time limit. Audit further observed that the company did not create any awareness among public about the prevalence and functioning of such redressal fora as is evident from a few number of complaints received as compared to the total consumers.

The management replied that one more member has been deputed to the forum to settle the redressal of grievances in time.

4.2.19 Energy Conservation

Recognizing the fact that efficient use of energy and its conservation is the least-cost option to mitigate the gap between demand and supply, the GoI enacted the Energy Conservation Act, 2001. The conservation of energy being a multi-faceted activity, the Act provides both promotional and regulatory roles on the part of various organizations. The promotional role includes awareness campaigns, education and training, demonstration projects, R & D and feasibility studies. The regulatory role includes framing rules for mandatory audits for large energy consumers, devising norms of energy

consumption for various sectors, implementation of standards and provision of fiscal and financial incentives. It was observed that the Company, other than celebrating Energy Conservation week and creating awareness among the public about energy conservation, had not initiated any other effective steps towards Energy Conservation. The SERC also in its tariff orders had repeatedly directed the CSEB/Company to introduce energy conservation measures involving distribution of CFL to ensure substantial load reduction which was not complied with. The irregularity noticed in this regard is furnished in the succeeding paragraph.

4.2.19.1 Non achievement of savings of ₹ 168 crore due to non implementation of BLY in the State

Non implementation of energy conservation measures led to non achievement of savings of ₹ 168 crore.

The CSEB in July 2007 entered into an Agreement with Banyan Environmental Innovations Private Limited, Hyderabad towards the introduction of the Bachat Lamp Yojana (BLY) in the State envisaging the distribution of the CFL lamps at a rate of ₹ 10 per CFL in place of incandescent lamps by Banyan to the Domestic Category consumers in the State. As the usage of the CFL results in reduction in carbon emission levels, the Banyan was entitled for carbon credit which would be monitored by Bureau of Energy Efficiency and based on their certification; the Banyan would be entitled for financial assistance from foreign countries which would be shared between Banyan and CSEB in the ratio of 95:5.

The review of the implementation of the BLY in the State revealed that despite the directives (October 2007 and May 2009) of CSERC to implement the Scheme in the whole State, the scheme was implemented only in the Rajnandgaon District. Though the Agency had again offered (October 2010) to Company for implementation of the BLY in other districts of the State, the scheme was not yet implemented. (September 2011) Though the Scheme envisaged the reduction in load saving during the peak hours to the extent of 480 MUs per year, the reasons for the non implementation of the Scheme in the State especially involving savings in load during peak hours to the extent of 480 MUs was not on record. It was observed in Audit that as the CSEB/Company was resorting to power purchases from various sources at the rates ranging between ₹ 1.44 per unit and ₹ 3.01 per unit, the implementation of the scheme would have resulted in substantial savings of ₹ 168.00 Crore (reckoned at ₹ 3.50 for 480 MUs for peak hours for one year).

Management replied that the distribution of CFL through the same agency was carried out in Rajnandgaon district and the distribution of CFL has not brought down the consumption. Management reply ignored the directives issued by the commission in this regard and the efforts initiated in this regard only indicate that the management was not proactive.

4.2.19.2 Energy Audit

A concept of comprehensive energy audit was put in place with the objective of identifying the areas of energy losses and take steps to reduce the same through system improvements besides accurately accounting for the units purchased/ sold and losses at each level. The main objectives of energy audit are as follows:

- better and more accurate monitoring of the consumption of electricity by consumers;
- elimination of wastages;
- reduction of downtime of equipment;
- Massive savings in operational costs and increase in revenue, etc.

CSERC in its tariff orders directed (October 2010) the Company to form Energy Conservation Cell and implement the Energy Audit measures. Accordingly, the Energy audit involving the comparison of the units sent out of the feeder with the units billed in that area and the reasons for the disparity between the two were being analysed. However, this system was introduced only in 524 feeders out of 2445 feeders of 11 KV constituting only 21.43 *per cent*. Further, no corrective measures were initiated out of such exercise.

4.2.20 Monitoring by top Management

The Power Distribution Company plays an important role in the State economy. For such a giant organisation to succeed in operating economically, efficiently and effectively, there has to be a Management Information System (MIS) for monitoring by top management. We observed that

- No Audit Committee has been constituted so far (August 2011) though the Company started functioning way back in January 2009.
- The monitoring mechanism prevalent in the industries towards the performance of the outsourcing agencies to whom the contracts for meter reading, spot billing, and franchisee was awarded was inadequate. This is indicative from the fact that the average consumption per consumer recorded a declining trend subsequent to spot billing though the power consumed by the State has shown an increasing trend over the review period.
- Though the post reforms scenario has totally redefined the procurement of power from the open market, the Company had not laid down any monitoring mechanism towards the UI income, over drawal/under drawal of electricity, procurement of power from private power generators based on grid frequency as discussed in previous paragraphs.
- In one case of R.R.Energy (firm), CSERC directed (October 2008) that since the status of the firm has changed from being a bio mass consumer to non Bio mass consumer, it was not entitled for any concessions applicable to such consumers. Accordingly, CSEB/Company should have levied the demand charges in accordance with the changed status. However, this was not done (up to February 2011) resulting in under billing to the extent of ₹ 33.68 lakh. In the reply, the management stated (August 2011) that the same has been recovered from the firm. The time taken from October 2008 to February 2011 itself indicates the casual monitoring approach.
- Despite occurrence of frauds through drawal of materials from stores for the turn key contracts causing loss to the erstwhile Board, the

management has not issued any circular/directions preventing the issuance of materials in respect of the turnkey contracts.

The management stated that the monitoring mechanism is not inadequate now. The field engineers could not monitor due to overloading of their work and other assignment.

4.2.20.1 Inordinate delay in implementation of ERP

The erstwhile CSEB embarked upon a project to introduce Enterprise Resource Planning (ERP) through SAP. The contract to this effect was entered into (July 2005) with Tata Consultancy Services at a project cost of ₹ 16.50 crore and the project was to be completed within a period of 15 months (September 2006). Though a period of more than five years had lapsed, the total project was not completed so far (September 2011). As a result, ERP was not commissioned fully even after incurring expenditure of ₹ 59.18 crore. Though the management claimed to have achieved success, the total implementation was not done as is evident from the followings:-

- The integration of individual modules involving the inventory management, finance management, billing module, etc. was not completed (June 2011).
- The inventory management though claimed to have been introduced successfully, the actual implementation was only to the generation of the Purchase Order. The inventory module did not verify the availability of the same item in the stock before generation of the Purchase order. Further, the software did not facilitate the age wise analysis of inventory. Besides, the software did not check the reservation of transformers against the indents. In respect of Bilaspur Area Stores 29 transformers were issued to the field offices against the indent for 14 transformers.
- The billing module in vogue through this software, suffered from the following deficiencies :-
 - Though the tariff rules provides for the levy of penalty on the LT industrial consumers who do not maintain power factor above 0.85, the software continued to generate the bills even without recording power factor which might have resulted in under billing.
 - Though the rules provided for the levy of surcharge at the rate of 0.30 paise per unit for non installation of capacitor banks, the software had no such facility causing loss of revenue on this account.
 - The system had no validation checks towards the arrears amount as the system accepted the arrears amount in negative while such events can never occur.
- Though the rules provided for the recovery of the additional security deposit from the consumers whose consumption exceeded the contract demand twice in a year, the system failed to generate such reports.

- Despite the options available under the software to auto generate reports in respect of the consumers who exceeded their contract demand, such reports were never generated by the field offices as part of the monitoring activity. This assumed importance especially in respect of the LT industrial consumers with 100 HP and in case of the excess availment of the contract demand, these consumers should have been converted into HT consumers and auto generation of the reports would have enabled such conversion.

Management replied (August 2011) that the all individual modules including Billing, Finance, Inventory, HR, etc. are well integrated since their implementation. However, despite the implementation of an ERP software at a cost of ₹ 59.18 crore, the Company awarded a separate contract for preparation of Assets Register in August 2011 at a cost of ₹ 3.00 lakh. Further, the Company also awarded (March 2011) a separate contract for preparation of trial balance and final accounts at a cost of ₹ 33.10 lakh.

During the course of Audit, it was observed that the information furnished by the company on different occasions did not match/tally with that furnished earlier. In view of the same, it was felt that credentials of the data base/information lacked integrity. The management may consider establishing a strong ERP cell/system to ensure the same information in respect of any particular aspect is furnished to all authorities.

4.2.21 Internal Controls

Internal control is a management tool used to provide reasonable assurance that the objectives of the industries are being achieved in an efficient, effective and orderly manner. A good system of internal control comprises proper allocation of functional responsibilities within the industries, proper procedures for operating and co-ordination among different units/ wings of the organization. Effective internal control system also helps the management in taking preventive & corrective measures. Review in Audit of the Internal Controls prevalent in the CSEB/Company revealed the following inadequacies:

- The directives issued by the Board of Directors were not adhered. This is evident from the fact that State's Principal Secretary (Finance), as member of the Board of Directors, directed (March 2006) to write a letter to the CSERC requesting for the prescription of minimum and maximum rates in the PPA which was not complied with.
- Internal audits were conducted (August 2009) by Chartered Accountants for the period from 2006-07 to 2010-11 at the cost of ₹ 88.98 lakh, but the Reports were not submitted to higher authorities and even recoveries aggregating to ₹ 52.51 lakh (for the period pertaining to 2008-09) pointed out in the Reports were not made.
- In an effective internal control system, involvement of Finance in process of procurement starting from invitation of NIT to passing the bill is must. However, in the Company, the same was very negligible resulting in occurrence of the fraudulent drawal of materials of ₹ 2.57 crore.

The management stated that the non recovery of amount pointed out by Internal Auditor was due to the fact that their reports were received belatedly after two years. The management reply only reinforces the basic fact that the company has no effective Internal Audit mechanism and even the outsourcing in this regard did not yield results. Besides, the firm to whom the work was awarded in 2008-09 and the recovery was not made due to belated receipt of their reports, were again favored with orders worth ₹ 23.32 lakh in January 2011 revealing the inadequate internal control.

Conclusion

- Company failed to develop & augment the distribution network system. As against the planned additions of 385 sub-stations over the review period; only 222 sub-stations were actually added. Further, the increase in the transformation capacity was not commensurate with the increase in connected load resulting in high gap between the two.
- The Phase II of *Atal Jyoti Yojana* was lagging behind the schedule (2009-10) resulting in non achievement of targeted load saving and consequent reduction in line loss aggregating to ₹ 115.09 crore.
- Under Rajeev Gandhi *Grameen Vidyutikaran Yojana* as on 31 March 2011, out of 20126 villages in the State (as per 2011 census), 19177 villages were electrified (95.28 *per cent*). However, in respect of Restructured Accelerated Power Development Reforms Programme, Company could utilize only ₹ 8.10 crore against ₹ 36.74 crore received from GOI.
- The Company failed to enter into long term Power Purchase Agreements in time. Consequent purchase of power on short term basis resulted in avoidable expenditure of ₹ 420.57 crore.
- The lack of proactive approach in restricting private power producers from under injection of electricity beyond specified limits led to loss of ₹ 102.40 crore.
- During the last five years ending 31 March 2011, the energy losses increased from 28.90 to 36.88 *per cent* mainly because of non installation of capacitor banks, low power factor, heavy quantum of unmetered consumers, theft of electricity etc.
- Company was not able to recover its cost of operations. During the last three years ending 2010-11, realization per unit was ranging between ₹ 3.57 and ₹ 4.28 against the cost per unit of ₹ 3.72 and ₹ 4.85.
- Delay in filing tariff petitions ranging from 117 days to 352 days in each year of the review period resulted in loss of ₹ 668.55 crore.
- Revenue collection efficiency of the company declined from 63.88 to 58.38 *per cent* over the review period. However, the revenue of ₹ 2084.21 crore was outstanding as on 31 March 2011. Out of this the amount of arrears outstanding for more than three years was ₹ 1384.33 crore constituting 66.42 *per cent* of the total arrears recoverable.

- The Company had not laid down any inventory policy resulting in accumulation of non moving and slow moving inventory of ₹ 34.20 crore and ₹ 12.63 crore as on 31 March 2011.
- The ERP software implemented at a cost of ₹ 59.18 crore suffers from system deficiencies and is not implemented in total.

Recommendations

The Company should:

- have comprehensive plan in place for complete implementation of in time to improve network & distribution system besides enhancing the transformation capacity to achieve the objective of National Electricity Policy;
- ensure timely execution of civil works through effective control and monitoring so as to ensure that various Schemes are implemented as scheduled to achieved the desired results;
- regularly approach the State Regulatory Commission/ State Government for enforcing the various regulations so as to restrict undue benefits by private power players in the State ;
- take concrete measures for bringing reduction in energy losses like installation of capacitor banks, ensuring optimum power factor, avoidance of theft of electricity, etc;
- file tariff petition in time with the Regulatory Commission to avoid loss of revenue;
- improve revenue collection so as to minimize the outstanding arrears especially those due from private parties;
- devise proper inventory policy and stores procedures ensuring timely determination of non moving and slow moving inventory and its proper utilization/weeding out;
- give wide publicity about the mechanism of consumer grievances redressal forum so as to enhance early satisfaction of end consumers;
- constitute an audit Committee and install a strong and viable internal audit system alongwith adequate follow-up of their Reports for ensuring exhaustive coverage of the core areas; and
- install proper billing module under SAP ensuring 100 *per cent* compliance with the tariff order provisions. The field level staff should also be adequately trained in using SAP.

4.3 Transaction Audit Observations

Chhattisgarh Mineral Development Corporation Limited

4.3.1 Acceptance of lower rates for commercial mining of Coal Block led to potential loss of revenue

Potential loss of ₹ 1052.20 crore due to acceptance of lower rates for commercial mining of Coal Block

Anticipated loss of ₹ 1052.20 crore due to acceptance of lower rates

The Government of India allotted (July 2007) the Shankarpur Coal Block comprising of Bhatgaon II and Bhatgaon II Extension to Chhattisgarh Mineral Development Corporation Limited (Company) for commercial mining purpose. The Company decided (June 2008) to float separate joint venture companies for undertaking exploration, development, mining and marketing of coal from the Bhatgaon II and Bhatgaon II Extension blocks. Accordingly, the Company invited tenders (2 July 2008) for the purpose of identifying firm(s) for formation of joint venture companies. In response, five firms for Bhatgaon II Block and two firms for Bhatgaon II Extension Block submitted their offers before the due date and the bids for both the blocks were opened (25 July 2008). The techno-commercial part of the bids were scrutinised and two firms for Bhatgaon II and one firm for Bhatgaon II Extension were found to be technically qualified. The price bids of these firms were opened on 28 July 2008 and evaluated. The highest consideration received for the two blocks were found to be ₹ 552 (460 *per cent* of royalty of ₹ 120) and ₹ 129.60 (108 *per cent* of royalty of ₹ 120) per metric tonne (MT) of coal excavated/ sold for the Bhatgaon II and Bhatgaon II Extension Block respectively. Though the rates obtained for Bhatgaon II Extension Block was abnormally low, the Company accepted (August 2008) these rates offered by the bidder and accordingly created two joint venture companies.

It was observed that both the coal blocks were contiguous and the quality of coal available in both the blocks was similar. Bhatgaon II Extension Block contained superior grade A to C of coal (55 *per cent*) which is scarce and highly priced. Even the Company while seeking environmental clearance (July 2009) had claimed that about 57 *per cent* of coal reserve is of superior quality, which is a Coal Asset. Further, about 90-95 *per cent* of this can be extracted through Open Cast Mining, which is less expensive. Though the Company was aware of all these facts, it accepted the lower rate quoted by the single bidder. Thus, the evaluation and acceptance of the rate offered by the bidder in respect of Bhatgaon II Extension Block was not in order. In view of the above, the Company should have either extended the tender opening date or re-invited the tenders in respect of Bhatgaon II Extension Coal Block to generate fair competition instead of justifying the low rate quoted by the lone bidder. This resulted in potential loss of revenue of ₹ 1052.20 crore* over the lease period of 32 years (as per Mining Plan) as compared to the rate obtained for

* (₹ 552.00 – ₹ 129.60) per MT x 24.91 Million MTs (being the total coal reserve available in the block) = ₹ 1052.20 crore

the contiguous Bhatgaon II Coal Block since the ratio of various grades of coal in the two coal blocks was more or less on the similar pattern.

The Management stated (April 2011) that a conscious decision was taken to accept the rates offered by the lone bidder in respect of the Extension Block on the basis of the advice from the Coal Advisor since the average grade of coal in the mine was D only as per Mining Plan. It was further stated that Extension Block requires removal of very large amount of overburden as compared to Bhatgaon II Block for winning the same quantity of coal. The State Government further added (June 2011) that the consideration receivable by the Company would be additional royalty (₹ 129.60 per metric tonne) or 51 per cent of the net profit of the Joint Venture Company, whichever was higher and as such there would be no loss to the Company. However, it may be mentioned that the detailed seam-wise coal reserve in the Mining Plan (prepared according to the Geological Report and approved by the Government of India) indicated that Grade A to C constitute around 55 *per cent* of the total reserve in the Extension Block. Further, in respect of the Bhatgaon II Block also the average grade of coal indicated in the Mining Plan was D only and Grade A to C was also in the similar range and comparable to that of Extension Block. It may be added that the opinion of the Coal Advisor, who was a private consultant, was not in accordance with the approved Mining Plan and the Geological Report. This does not justify the core issue of getting guaranteed consideration which is abnormally low in case of Bhatgaon II Extension as compared to Bhatgaon II Block. Before floating the tender for selection of the bidder, the Company failed to fix the minimum reserve price based on the quality of coal available in both the mines.

Superior Grade (A to C) coal being highly priced and scarce in the country, the Company could have taken all earnest efforts to allot the mining lease at most competitive rates so as to maximise its revenue and to protect its financial interest.

4.3.2 Non compliance with contractual provisions led to loss of revenue

Non recovery of value of Bauxite for the minimum contracted quantity as provided in the agreement resulted in loss of ₹ 43.88 lakh to the Company

Non recovery of value of Bauxite for the minimum contracted quantity resulted in loss of ₹ 43.88 lakh

Chhattisgarh Mineral Development Corporation Limited (Company) invited (November 2006) open tenders for mining and marketing of Mainpat Bauxite deposit at Surguja District. After due evaluation of the tender, it was decided (December 2006) to award the work to Bharat Aluminum Company Limited, Korba (contractor) at the highest offered rate of ₹ 160 *per* MT. Accordingly, an agreement was entered (January 2007) for mining and marketing of bauxite, which was valid for three years with effect from 16 February 2007. As per the agreement, the contractor should mine and market minimum quantity of 120000 MT of Bauxite per year. The total quantity lifted during a year was to be compared with contracted quantity and payment for excess quantity mined, if any, was to be made in the first month of next year. It was further specified in the agreement that even if the contractor fails to mine and

market the contracted quantity annually, for whatsoever reasons, the payment was to be made to the Company for the annual contracted quantity.

On scrutiny of records, it was noticed that the contractor mined only 96993.74 MT and 115583.42 MT in 2007-08 and 2008-09 respectively against the contracted quantity of 120000 MT each year but paid ₹ 1.92 crore in the respective years towards the value of annual contracted quantity. During 2009-10, the contractor mined 207465.50 MT against the revised contracted quantity of 195000 MT. However, the Company treated the contracted quantity for 2009-10 as 180000 MT and adjusted the excess quantity of 27465.50 MT mined during the year against the shortfall of 27422.84 MT mined in 2007-08 and 2008-09 as compared to the contracted quantity. Consequently, it recovered only ₹ 2.88 crore in 2009-10 for the balance quantity of 180042.66 MT. This resulted in loss of ₹ 43.88 lakh[∞] to the Company since the recovery was to be made for the minimum contracted quantity or actual quantity mined, whichever was more on yearly basis.

The Company stated (February 2011) that the tendered quantity of Bauxite as per agreement was 360000 MT for the contract period as provided in various clauses of the agreement and the monthly schedule fixed for production of Bauxite. Further, for the entire contract period of three years against the minimum guarantee of ₹ 5.76 crore, the contractor remitted ₹ 6.72 crore and hence there was no loss. The State Government further stated (May 2011) that the provisions of the agreement was not clear as to how the shortfall in mining during each year was to be treated. However, it may be mentioned that the agreement provisions clearly stipulated that the contractor should mine and market a minimum quantity of 120000 MT per annum and the contractor was bound to pay for the contracted quantity even if he fails to mine and market the contracted quantity of Bauxite for what so ever reasons. Though the contract did not provide for compensation of shortfall in the preceeding years by the excess production in the succeeding years, the Company adjusted the excess production towards the shortfall in the production of preceeding years. As a result, it failed to ensure the receipt of revenue of ₹ 43.88 lakh for the agreed minimum production in the respective years.

The Company should interpret the provisions of the agreement correctly and ensure strict compliance of the same in future so as to avoid loss of revenue.

Chhattisgarh Infrastructure Development Corporation Limited

4.3.3 Deficient long-term investment policy led to loss of interest

Loss of ₹ 20.14 lakh on interest earned due to investment of surplus funds for shorter period

Deficient investment plan resulted in loss of interest of ₹ 20.14 lakh

The Company received (upto March 2005) ₹ 4.20 crore from the State Government towards initial Share Capital contribution. As the Company had

[∞] $\{ \{ (120000 + 120000 + 207465.50) \times 160 \} - \{ 19200000 + 19200000 + 28806825 \} \} = ₹ 43.88 \text{ lakh}$

not undertaken any major works, the major part of the funds so received remained unutilised. For investment of surplus funds, the State Government had issued (April 2003) the guidelines, which required that the surplus fund should be invested in Fixed Deposits at least for one year.

The Company invested (10 May 2008) surplus funds of ₹ 2.80 crore in term deposit with Bank of India for 365 days at the rate of 9.15 *per cent* at quarterly rests. On maturity, these funds were reinvested (May 2009 and May 2010) for 365 days each at the rate of 8.00 and 6.50 *per cent per annum* respectively, thereby earning a total interest of ₹ 68.24 lakh over three years. It was observed that in respect of investment for a fixed term of three years, the bank offered (May 2008) higher rate of 9.25 *per cent*. Had the Company invested the funds initially for three years instead of one year and re-investing every year, it could have earned additional interest of ₹ 20.14 lakh[▼].

The Management stated (March 2011) that as per clause 4 (iv) of the directions issued (April 2003) by the State Government, surplus funds should be invested in Fixed Deposits at least for one year. Therefore, the Company deposited the funds for one year. It was further stated that the Company had liability of ₹ 3.00 crore towards Chhattisgarh State Industrial Development Corporation Limited and anticipated payment of the same in a short period. However, it may be mentioned that the State Government's directions encouraged investment for longer period by prescribing minimum period of at least one year. Further, the Company was having fixed deposits of more than ₹ 6.00 crore continuously from July 2008 onwards which were sufficient for discharging the above liability.

The Company should formulate long-term investment policy to maximise the internal resources by investing surplus funds judiciously. Further, the State Government may also consider utilising the surplus fund lying with the PSUs for its financial and budgetary planning.

The matter was reported (March 2011) to the Government; their reply had not been received (August 2011).

Chhattisgarh State Beverages Corporation Limited

4.3.4 Under insurance

Loss of ₹ 26.99 lakh due to failure of the Company to declare the highest value of stock for insurance cover

Loss of ₹ 26.99 lakh due to failure to declare the highest value of stock for insurance cover

Chhattisgarh State Beverages Corporation Limited, Raipur (Company) purchases Indian Made Foreign Liquor (IMFL) from different suppliers on landing price and stores it in the two godowns at Raipur and Bilaspur rented from State Warehousing Corporation (SWC). The hire charges of godowns include insurance charges as stocks are insured by the SWC against loss/damages with Bajaj Allianz General Insurance Company Limited

▼ $\{ \{ ₹ 2.80 \text{ crore} (1+9.25/4 \times 100)^{3 \times 4} \} - ₹ 2.80 \text{ crore} \} - ₹ 68.24 \text{ lakh} = ₹ 20.14 \text{ lakh}$

(Insurer) through Standard Fire and Special Perils Policy (material damage). The Company was required to declare the value of its stock based on the highest value at risk during every month to the insurer under Declaration Clause of the policy. It was further stipulated that if after the occurrence of any loss, it is found that the amount of the last declaration, previous to the occurrence of the loss was less than the amount ought to have been declared, then the admitted insurance claim shall be reduced proportionately as the amount of the said last declaration bears to the amount that ought to have been declared.

During scrutiny of records of the Company (January 2011) it was observed that on 10 June 2007, due to cyclone and heavy rainfall, godown at Bilaspur was inundated causing damage to the stored stock of IMFL worth ₹ 44.14 lakh. The godown was having insurance cover for stock worth ₹ 4.60 crore and the Company assessed the stock as on 9 June 2007 at ₹ 3.43 crore. Accordingly, it filed (September 2007/ March 2008) claim for ₹ 44.88 lakh (including ₹ 0.74 lakh on salvaging) with the insurer through SWC. While assessing the damages as ₹ 40.17 lakh, the insurer found that the Company was having stock of IMFL worth ₹ 6.32 crore on 9 June 2007 as against ₹ 3.43 crore reported and the company accepted the same. As the Company failed to declare the monthly stock, the SWC declared ₹ 3.00 crore on adhoc basis in the declaration in May 2007 for insurance cover. Based on this, the insurer restricted (December 2010) the claim proportionate to the declared amount and admitted ₹ 13.18 lakh invoking the provisions of the declaration clause.

Had the Company declared the value of stock based on the highest stock holding and enhanced the insurance coverage, it could have got admitted the assessed loss of ₹ 40.17 lakh. Thus, failure of the Company to declare the actual stock resulted in loss of ₹ 26.99 lakh.

The Management while accepting the fact stated (March 2011) that though they had to submit the date wise statement of stock to SWC they did not furnish the same as the prescribed format was not made available by SWC. It was further stated that the Company did not suffer any loss since the Company incurred the costs for the stock only when the retail sales were made there against. Till such sales, the Company holds the stock only as custodian of manufacture / suppliers. However, since the admitted loss was ₹ 40.17 lakh against which the Company received only ₹ 13.18 lakh, had the Company furnished the actual stock position, it could have got ₹ 26.99 lakh more from the insurer. The Company should take all earnest efforts to furnish the date wise statement of stock to SWC as per the agreement so as to get full insurance coverage.

The matter was reported (March 2011) to the Government; their reply had not been received (April 2011).

Chhattisgarh State Industrial Development Corporation Limited

4.3.5 Undue favour to the allottee

Undue benefit to the allottee to the extent of ₹ 5.34 crore due to adoption of rate lower than the market rate fixed as per CVB guideline

Undue benefit to the allottee to the extent of ₹ 5.34 crore due to adoption of lower rate

Chhattisgarh State Industrial Development Corporation Limited (Company) allots Government land outside industrial areas on request of entrepreneurs for establishing their projects. Land is allotted after collecting land premium at market rate fixed annually as per the guidelines issued by the Central Valuation Board (CVB). It was observed in Audit that Jaiprakash Associates Limited (firm) applied (September 2009) for allotment of 46.172 hectare of land in Devsundra Village, Palari Tehsil in Raipur district for setting up a Cement Industry. After considering the application, the company intimated (October 2009) the firm that the total land premium was ₹ 1.21 crore and requested the firm to remit ₹ 12.10 lakh being 10 per cent of the same as advance. On receipt of the same (October 2009), the company allotted (December 2009) 46.172 hectare of land on lease for 99 years at a land premium of ₹ 1.21 crore (land value ₹ 83.11 lakh, solatium ₹ 24.93 lakh, interest ₹ 1.91 lakh and service charge ₹ 11.00 lakh) reckoning the land value at ₹ 1.80 lakh per hectare. The annual lease rent was also fixed at ₹ 3.02 lakh.

Our scrutiny revealed that the allotted land was facing Pradhan Mantri Gram Sadak Yojana road on one side. Accordingly, as per CVB guidelines, it should have been valued at ₹ 3.60 lakh per hectare as against ₹ 1.80 lakh per hectare adopted by the company. This resulted in undue benefit to the allottee to the extent of ₹ 1.22 crore towards land premium and Security Deposit (₹ 9.16 lakh) besides loss of lease rent of ₹ 4.03 crore over the lease period of 99 years.

Management while accepting the Audit observation stated (April 2011) that they have issued Demand Notice to the allottee demanding remittance of ₹ 1.34 crore towards land premium short recovered as pointed out by Audit together with Security Deposit. However the amount has not been recovered so far (September 2011). Further, lease rent (₹ 6.08 lakh) for the year 2010-11 was also not included in the Demand notice. The company should be allotted land as per guidelines of CVB for financial benefit in future.

The matter was reported (April 2011) to the State Government; their reply had not been received so far (September 2011).

Despite the similar instances being pointed out in the Para No. 6.2.26 of the Report of the Comptroller & Auditor General of India (Civil & Commercial) for the year ended 31 March 2008, Government of Chhattisgarh, the Company is yet to evolve a strengthened system to ensure that the land is allotted by the Company in accordance with the guidelines issued by CVB.

4.3.6 Absence of investment policy led to loss

Absence of investment policy resulted in loss of interest amounting ₹ 1.12 crore

Absence of investment policy resulted in loss of interest amounting ₹ 1.12 crore

Chhattisgarh State Industrial Development Corporation Limited (Company) allots Government /private land to potential industrialists and collects land premium, lease rent, etc on behalf of the Government. The Government allowed the company to retain the same and to utilize the interest earned by investing it in Fixed Deposits. Accordingly, the company invests these funds in fixed deposits with banks and utilises the interest earned there from for meeting its establishment expenses. During the period 2009-11, the company invested surplus funds around ₹ 500 crore in Fixed deposits with various nationalised /scheduled banks at interest rates ranging between five *per cent* and 10.50 *per cent*.

Test check in Audit of investment made in fixed deposits, it was noticed that the Company invested ₹ 43.69 crore in seven fixed deposits during 2008 to 2010 initially for one year at interest rates ranging from 7.50 to 9.75 *per cent*. It was observed that these deposits were subsequently renewed during 2009 to 2011 further for the periods from one to two years at lower interest rates ranging from five to nine *per cent* only. Had the Company invested these funds at least for a period of five years initially, it could have earned additional interest of ₹ 60.49 lakh in seven instances noticed by Audit. It was also observed that the reinvestment decision in two of these seven instances of ₹ 36.10 crore were inordinately delayed by nine months. During this period, the Company earned the interest at the minimum rate of five *per cent* only.

Further, though the company invited prevailing interest rates from few banks, it did not prepare comparative statements and failed to invest the funds judiciously to optimize the interest income. On test check in Audit of the deposits made in February and April 2010, it was observed that the Company invested ₹ 28.00 crore at rate of interest ranging from five to 6.50 *per cent* instead of higher rate of interest available in other Banks. This resulted in loss of interest of ₹ 9.11 lakh in 37 instances. Thus, non-formulation of long term investment policy, non-preparation of periodical cash/fund flow statements to assess surplus funds available for investment and inadequacy in monitoring of investments led to loss of interest of ₹ 69.60 lakh.

On being pointed out (8 February 2011) by Audit, the Company short closed (19 February 2011) two Fixed Deposits aggregating ₹ 49.02 crore which were carrying lower interest rates (six *per cent* and 6.75 *per cent* respectively) and reinvested in fixed deposits bearing higher interest (9.25 *per cent* and 9.96 *per cent* respectively). The reinvestment was made at two interest rates (9.25 *per cent* / 9.96 *per cent*) resulting in loss of interest of ₹ 42.22 lakh on ₹ 19.82 crore invested at the lower rate. Thus, due to lack of proper investment policy the Company incurred a loss of ₹ 1.12 crore.

Management stated (March 2011) that keeping in view of the factors such as maximisation of interest earning, to meet the immediate and anticipated

obligations/expenditure, safety of funds, etc., funds are invested or retained for investment. The State Government also added (June 2011) that the higher interest rates as mentioned by the Audit were not available at the time of renewal. Further, higher interest offered by Banks was available subsequently only after the investment had been made. However, it may be mentioned that the higher rates mentioned were offered by nationalised banks only and hence the safety of the funds was not at stake. Moreover, the funds mentioned above were not encashed and reinvested, hence the contention regarding retention of fund for immediate and anticipated expenditure does not hold good.

In view of the huge funds available for investment and the Company should formulate long term investment policy, prepare periodical cash flow/ fund flow statements and should set up a committee to monitor the investments so as to maximise the revenue from interest on Fixed Deposits.

4.3.7 Non compliance with statutes

Non-recovery of Workers' Welfare Cess in violation of statutory provisions led to loss of ₹ 50.21 lakh

**Non-recovery of
Workers'
Welfare Cess
amounting to
₹ 50.21 lakh**

With a view to augment the resources of the Building and Other Construction Workers' Welfare Board, the Government of India notified (August 1996) the Building and Other Construction Workers' Welfare Cess Act, 1996. Under the Act, one *per cent* cess was to be levied and collected from the contractor where the cost of construction was more than ₹ 10 lakh. It was also provided that in relation to buildings or other construction works of a public sector undertaking, the cess shall be collected by way of deduction at source. In pursuance to the Act, the Government of Chhattisgarh notified (June 2008) the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. The State Government also constituted (September 2008) the Chhattisgarh Building and Other Construction Workers Welfare Board (Board) and directed all the public sector undertakings to deduct at source one *per cent* of the cost of construction (excluding cost of land) of building or other works as cess and remit the same to the Board within thirty days of deduction. Further, failure to pay the cess as above attracted interest on the amount of outstanding cess at the rate of two *per cent per month* or part thereof till such amount is actually paid.

It was observed that Chhattisgarh State Industrial Development Corporation Limited (Company) executed building and other construction works through contractors and made payments of ₹ 50.21 crore during the period from June 2008 to March 2010. The Company, however, did not deduct the cess amounting to ₹ 50.21 lakh while releasing the above payments. After March 2010, the Company has been regularly recovering and depositing the cess with the Board. Thus, failure of the Company to deduct the same resulted in violation of the provisions of the Act and extension of undue financial benefit of ₹ 50.21 lakh to the contractors. Further, due to non-deduction and failure to remit the cess, Company became liable to pay interest at the rate of two *per cent per month* which worked out to ₹ 20.28 lakh upto March 2011.

The State Government stated that (May 2011) that suitable clause on recovery of Workers' Welfare Cess have been incorporated by the Company in the subsequent tenders issued after 31 December 2009 and amount is recovered accordingly. For non-recovery of cess for the period prior to 31 December 2009, the State Government stated that the same could not be recovered because there was no such enabling provision in the tender and moreover there was no loss to the Company because the Company had to pay and recover the cess from the contractors. However, it may be mentioned that this does not justify non-adherence to the provisions of the Building and Other Construction Workers' Welfare Cess Act. The non-compliance with the provisions resulted in loss of ₹ 50.21 lakh to the State Exchequer.

Chhattisgarh State Power Transmission Company Limited

4.3.8 Non-synchronisation of work

Non-synchronisation of work resulted in idling of asset valuing ₹ 23.96 crore and non-achievement of reduction of energy loss of ₹ 9.00 crore

Non-synchronisation of work resulted in idling of asset valuing ₹ 23.96 crore

To maintain the reliability of supply and considering the load growth in Raipur city and adjoining areas, the Chhattisgarh State Power Transmission Company Limited (Company – a successor of Chhattisgarh State Electricity Board) approved (March 2005) the proposal for construction of 220 KV sub-station at Doma (Boriakurd) District Raipur which *inter alia* included erection of one 40 MVA power transformer with the feeder line of 220 KV Bhatapara – PGCIL Raipur. It was envisaged that the construction of the sub-station would help in reduction of energy losses worth about ₹ 3.00 crore *per annum*.

Scrutiny of records of the construction of sub-station revealed that the Company placed an order (November 2005) with EMCO Limited, Thane (the firm) for supply of structures, equipments and accessories at a total cost of ₹ 21.50 crore, which was completed in November 2006. However, the work for construction of feeding transmission line was awarded in January 2008 to M/s Easkay at a total cost of ₹ 1.52 crore after a lapse of more than two years and nine months from the date of sanction (March 2005). The reasons for this delay were not on record. Further, the same was completed in July 2010 against the scheduled completion date of October 2008. In the meantime, the dispatch instruction for the 40 MVA transformer with accessories was issued (16 January 2008) to the firm by the Company after ensuring that the foundation for the same was ready. Accordingly, the transformer was received (21 January 2008) at the construction site and payment of ₹ 2.46 crore (being 90 *per cent* of the cost of the transformer) was released in February 2008. As per the purchase order, the transformer was guaranteed for a period of 24 months from the date of commissioning or 30 months from the date of receipt, whichever was earlier. Though the above transformer was charged in August 2010 after completion of the 220 KV Bhatapara – PGCIL line in July 2010, but the same failed immediately due to manufacturing defects. Alternative transformer was diverted to Doma sub-station and line was finally charged in November 2010. Further, though the failed transformer was sent for repair the same was repaired by the firm in July 2011. No action was initiated by the

Company against the firm on the ground that the firm had agreed to repair the transformer free of cost.

We observed that as both the works of sub-station and transmission line were interlinked, the same could have been taken up simultaneously. Thus non-synchronization of work and improper planning in procurement of power transformer resulted in locking up of funds of ₹ 21.50 crore for more than 47 months in respect of sub-station and ₹ 2.46 crore for more than 32 months in respect of transformer up to November 2010. Further, the anticipated reduction in energy loss worth approximately ₹ 9.00 crore also could not be achieved.

The Company stated (February 2011) that the delay in completion of the transmission line was due to delay in grant of permission by Railway Authorities (about two years and five months) and PGCIL for the overhead power line crossing. Pending completion of the works, the transformer could not be charged. However, the reply does not explain the reasons for not taking up of the transmission line work alongwith the construction of sub-station simultaneously. Thus, non-synchronization of the two works resulted in idling of assets. Further, the Management could have postponed the delivery of 40 MVA transformer till the line was ready instead of issuing the dispatch instructions just when the foundation for the transformer was ready thereby losing the benefits of warranty of 24 months from the date of installation. The Company needs to take up the linked works in a co-ordinated manner to ensure timely completion.

The matter was reported (June 2011) to the Government; their reply is awaited.

**Raipur
The**

**(PURNA CHANDRA MAJHI)
Accountant General (Audit), Chhattisgarh**

Countersigned

**New Delhi
The**

**(VINOD RAI)
Comptroller and Auditor General of India**