CHAPTER-V

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

5.1 OVERVIEW OF STATE PUBLIC SECTOR UNDERTAKINGS

Executive Summary

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India (CAG).These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory Corporation is governed by the respective legislation. As on 31 March 2011, the State of Jharkhand had 12 working Public Sector Undertakings (PSUs) (11 companies and one Statutory corporation). The working PSUs registered a turnover of ₹ 1,442.90 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 1.33 per cent of State Gross Domestic Product indicating a minor role played by State PSUs in the economy. However, the State working PSUs incurred an overall loss of ₹ 702.85 crore in the aggregate for 2010-11 as per their latest finalised accounts as on 30 September 2011.

Investments in PSUs

As on 31 March 2011, the total investment in State PSUs was ₹ 5,195.28 crore. This total investment consisted of 2.78 per cent towards capital and 97.22 per cent in long-term loans. The investment has increased by over 110.01 per cent from ₹ 2,473.87 crore in 2005-06 to ₹ 5,195.28 crore in 2010-11.

Performance of PSUs

During the year 2010-11, out of 12 PSUs, five PSUs earned profit of ₹ 21.57 crore and four PSUs incurred loss of ₹ 724.42 crore. The remaining three PSUs did not submit their accounts. Heavy losses were incurred by the Jharkhand State Electricity Board and Tenughat Vidyut Nigam Limited to the extent of ₹ 653.29 crore and ₹ 70.94 crore as per their latest finalised accounts for the years 2004-05 and 1993-94 respectively. The losses of working PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of ₹ 3,850.52 crore and infructuous investment of ₹ 63.07 crore which were controllable with better management. Thus, there is tremendous scope to improve the functioning of PSUs and minimise losses.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 12 accounts finalised by working PSUs during October 2010 to September 2011 eight accounts received qualified certificates. Reports of Statutory Auditors on internal control of the companies indicated certain weak areas.

Arrears in accounts

All the 12 PSUs had arrears of 46 accounts as of September 2011. The PSUs need to set targets for the work relating to preparation of accounts with special focus on arrears.

Introduction

5.1.1 The State Public Sector Undertakings (PSUs) consist of State Government companies and a Statutory Corporation. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. The PSUs registered a turnover of ₹ 1,442.90 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover constituted 1.33[1] *per cent* of State Gross Domestic Product (GDP) for 2010-11**.** Major activities of State PSUs / Statutory Corporation are concentrated in the power sector. The State PSUs incurred an aggregate loss of ₹ 702.85 crore as per their latest accounts finalised during 2010-11. They had employed 7,815 employees as of 31 March 2011. The State PSUs do not include 31 Departmental Undertakings (DUs), which carry out commercial operations but are part of Government departments. Audit findings of these DUs are incorporated in Audit Report (State Finances) Government of Jharkhand for the year ended 31 March 2011.

5.1.2 As on 31 March 2011, there were eleven Government companies and one Statutory corporation (all working). No company was listed on the stock exchange(s).

5.1.3 During the year 2010-11, one PSU[2] was established and no PSU/Statutory Corporation closed down.

Audit Mandate

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

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

5.1.6 Audit of Statutory corporation is governed by its respective legislation. CAG is the sole auditor for Jharkhand State Electricity Board (JSEB).

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[1] Percentage is based on advance estimate figure of GDP (as on 22 June 2011).

[2] Jharkhand State Beverage Corporation Limited (JSBCL)

Investment in State PSUs

5.1.7 As on 31 March 2011, the investment (capital and long-term loans) in 12 PSUs (including one Statutory Corporation) was ₹ 5,195.28 crore as per details in **Table-1.**

Table-1

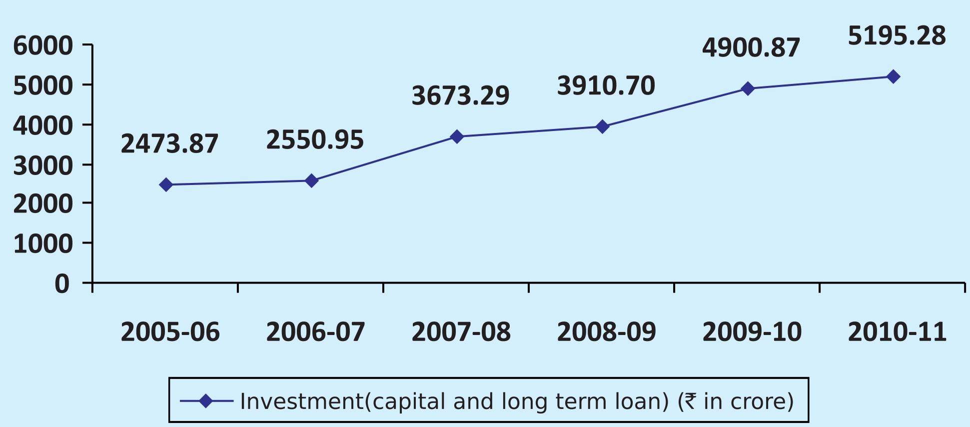
(₹ in crore)

Government Companies			Statutory Corporation			Grand Total
Capital	Long term loans	Total	Capital	Long term loans	Total	
144.60	674.18	818.78	-	4376.50	4376.50	5195.28

A summarised position of Government investment in State PSUs is detailed in ***Appendix-5.1***.

5.1.8 As on 31 March 2011, investment in PSUs was 2.78 *per cent* towards capital and 97.22 *per cent* in long-term loans of the total investment. The investment has grown by 110.01 *per cent* from ₹ 2,473.87 crore in 2005-06 to ₹ 5,195.28 crore in 2010-11 as shown in **Chart-1**:

Chart-1



5.1.9 The thrust of PSU investment was mainly in the power sector during the past six years which increased by 109.30 *per cent* from ₹ 2,460.82 crore in 2005-06 to ₹ 5,150.48 crore in 2010-11 due to loan amounting to ₹ 4,376.50 crore given by Government and others to JSEB and also investment in Karanpura Energy Limited (KEL) and Tenughat Vidyut Nigam Limited (TVNL).

Budgetary outgo, grants/subsidies, guarantees and loans

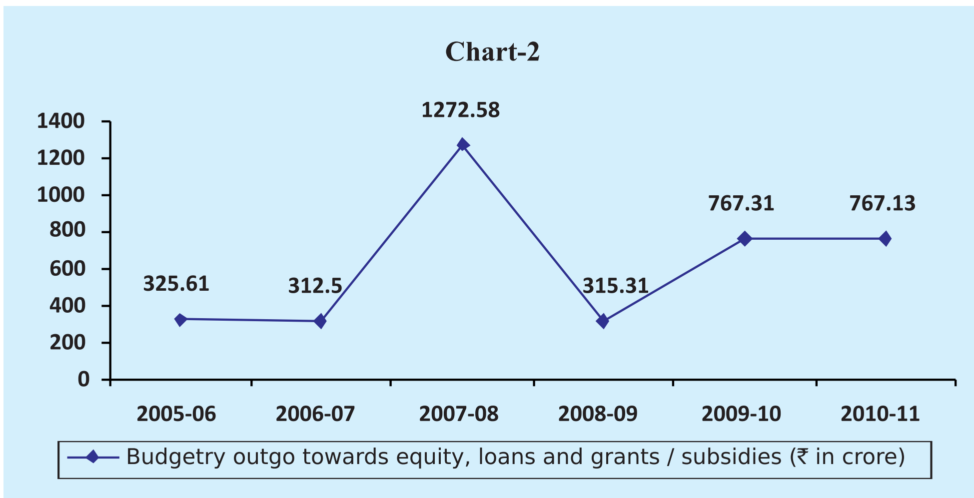
5.1.10 The details regarding budgetary outgo towards equity, loans and grants/subsidies in respect of State PSUs at the end of March 2011 are given in ***Appendix-5.3***. The summarized details are given below in **Table-2** for three years ended 2010-11.

Table-2

(₹ 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	10.40	4	2.75	3	3.00
2.	Loans given from budget	1	224.91	1	362.76	1	313.55
3.	Grants/Subsidy received	1	80.00	2	401.80	3	450.58
4.	Total outgo	3	315.31	6	767.31	5[3]	767.13

5.1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past six years are given in **Chart-2**.



The budgetary outgo during the year has increased from ₹ 315.31 crore in 2008-09 to ₹ 767.13 crore in the year 2010-11 mainly because of budgetary support in respect of subsidy given to JSEB.

Reconciliation with Finance Accounts

5.1.12 The figures in respect of equity, loans 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 are required to conduct reconciliation of differences. The position in this regard as at 31 March 2011 is stated in **Table-3:**

[3] Total outgo represents total number of PSUs (JHALCO, JIIDCO, JHARCRAFT, JTDC and JSEB).

Table-3

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	20.30	144.55	124.25
Loans	6414.76	4906.06	1508.70

5.1.13 We observed that the difference occurred in respect of seven[4] PSUs including JSEB and was pending reconciliation since 2001-02. The Principal Accountant General had taken up the issue with the Secretary to Finance Department of the Government of Jharkhand and JSEB to reconcile the differences after examination. This was not done nor was any concrete measures initiated in this regard.

Performance of PSUs

5.1.14 The financial results of PSUs, financial position and working results of working Statutory Corporations are detailed in ***Appendices-5.2 and 5.5.*** The percentage of PSU turnover to State GDP shows the extent of PSU activities in the State economy. **Table-4** provides the details of turnover of PSUs *vis-à-vis* State GDP for the period 2005-06 to 2010-11.

Table-4

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Turnover[5]	1,216.12	30.77	364.90	1,552.32	1565.52	1442.90
State GDP	62,239.00	73,579.00	87,620	75,710.78	83077.90	108400.86[6]
Percentage of turnover to State GDP	1.95	0.04	0.42	2.05	1.88	1.33

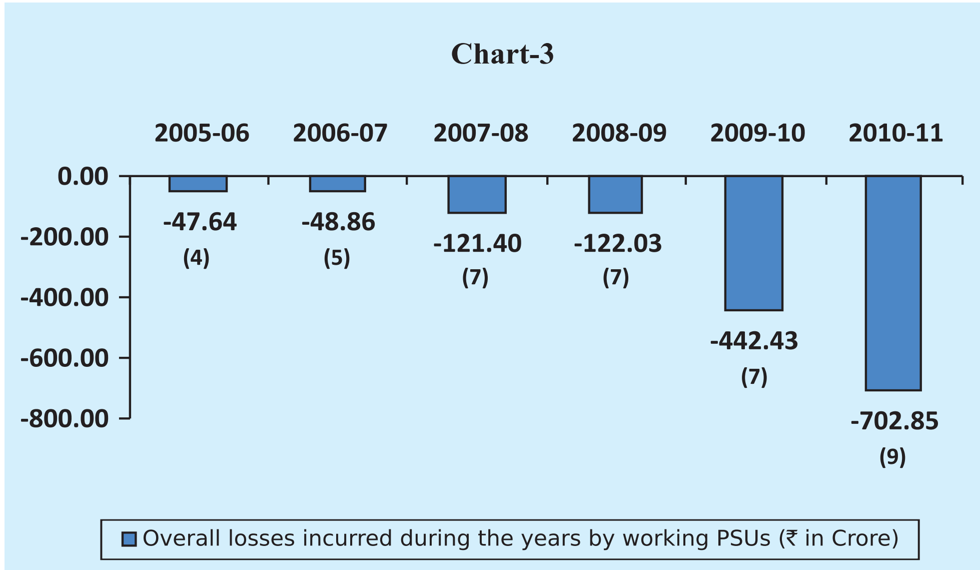
The percentage of turnover of PSUs to the State GDP has declined from 1.88 in 2009-10 to 1.33 in 2010-11, although there was an increase in state GDP during the current year as compared to previous year.

5.1.15 The aggregate losses (net) incurred by State PSUs increased from ₹ 47.64 crore to ₹ 702.85 crore during 2005-06 to 2010-11 as given below in **Chart-3**.

[4] Tenughat Vidyut Nigam Ltd., Jharkhand Industrial Infrastructure Development Corporation Ltd., Jharkhand Tourism Development Corporation Ltd., Jharkhand Silk Textile and Handicraft Corporation Ltd., Greater Ranchi Development Agency Ltd., Jharkhand Hill Area Lift Irrigation Corporation Ltd. and Jharkhand State Electricity Board.

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

[6] The figure of GDP for 2010-11 based on advance estimate at current prices (as of June 2011).



(Figures in brackets show the number of working PSUs in respective years based on finalised Accounts)

As per the latest accounts finalised, out of 12 PSUs, five PSUs earned a profit of ₹ 21.57 crore and four PSUs incurred loss of ₹ 724.42 crore. The above included heavy losses incurred by JSEB (₹ 653.29 crore) and TVNL (₹ 70.94 crore) as per their latest finalized accounts for the years 2004-05 and 1993-94 respectively. Remaining three PSUs did not submit any accounts (September 2011).

5.1.16 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of their activities, their operations and monitoring. A review of the latest Audit Reports of CAG show that the State PSUs incurred losses to the tune of ₹ 3,850.52 crore and infructuous investment of ₹ 63.07 crore. Year-wise details are stated below in **Table-5**:

Table-5

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	Total
Net loss	122.02	442.43	702.85	1267.30
Controllable losses as per CAG's Audit Report	57.25	1142.38	2650.89	3850.52
Infructuous Investment	16.49	0.41	46.17	63.07

5.1.17 The above losses pointed out by Audit Reports of CAG are based on a test check conducted by Audit. The actual controllable losses could be much more. The above indicates the need for effective management and control and ensuring accountability in the functioning of PSUs.

5.1.18 Other key parameters pertaining to State PSUs, as per their latest finalized accounts, are given in **Table-6:**

Table-6

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Debt	2466.07	2537.65	3550.89	3774.90	4760.27	5050.68
Turnover[7]	1216.12	30.77	364.90	1552.32	1565.52	1442.90
Debt/Turnover Ratio	2:1	82:1	10:1	2:1	3.04:1	3.50:1
Interest Payments	-	3.61	6.00	-	123.55	194.75
Accumulated losses	43.86	42.90	265.45	269.30	589.81	1646.52

5.1.19 The State Government had not formulated any dividend policy under which all PSUs are required to pay a minimum return on the paid up share capital contributed by the State Government. As per their latest finalised accounts, five[8] PSUs earned an aggregate profit of ₹ 21.57 crore but did not declare any dividend.

Arrears in finalisation of accounts

5.1.20 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 the Statutory corporation, the accounts are to be finalised, audited and presented to the Legislature as per the provisions of the Act. **Table-7** provides the details of working PSUs in the finalisation of accounts (September 2011)**.**

Table-7

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Number of Working PSUs	8	9	10	11	12
2.	Number of accounts finalised during the year	6	3	7	14	12
3.	Number of accounts in arrears	24	43	48	46	46
4.	Average arrears *per* PSU (3/1)	3	4.78	4.80	4.18	3.83
5.	Number of Working PSUs with arrears in accounts	8	9	10	11	12
6.	Extent of arrears (years)	1 to 5	1 to 14	1 to 15	1 to 16	1 to 17

5.1.21 The number of arrears of accounts of the PSUs had increased over the years. The number of arrears of accounts during 2006-07 in respect of eight PSUs was 24 which had increased to 46 in 2010-11 in respect of 12 PSUs including one Statutory corporation.

5.1.22 The State Government had invested ₹ 4,165.25 crore (Equity ₹ 21.25 crore, loans: ₹ 1,652.01 crore, grants: ₹ 2,491.99 crore) in eight PSUs including one Statutory corporation during the years for which accounts have not been finalised as detailed in ***Appendix-5.4***. In the absence of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested had

[7] Turnover of PSUs as per the latest finalised accounts as of 30 September 2011.

[8] JHARCRAFT, JPHC, JSFDC, JSMDC Ltd. and JTDC

been achieved. Thus, Government's investment in such PSUs remained outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

5.1.23 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalized and adopted by these PSUs within the prescribed period. Though attention of the concerned administrative departments and officials of the Government on the issue of arrears in finalization of accounts was drawn by the Principal Accountant General, no significant remedial measures were taken. As a result the Net Worth of these PSUs could not be assessed in audit. Attention of the Chief Secretary / Principal Secretary, Finance Department was also invited by the Principal Accountant General in August 2011 towards arrears in finalisation of annual accounts and the need to expedite the clearance of the backlog in accounts in a time bound manner was highlighted.

5.1.24 In view of the above state of arrears, it is recommended that the Government should monitor and ensure timely finalization of accounts in conformity with the provisions of the Companies Act, 1956.

Accounts Comments and Internal Audit

5.1.25 As of 30 September 2011 six companies forwarded their 12 accounts (including arrears accounts) to PAG during the year 2010-11. Of these, five accounts of four 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 require to be improved substantially. The details of aggregate money value of comments of CAG are given in **Table-8**:

Table-8

(₹ 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	1	0.37	2	0.74	2	7.70
2.	Increase in loss	3	3.13	1	0.03	-	-
3.	Non-disclosure of material facts	-	-	2	-	-	-

(The aggregate money value are based on CAG's comments only)

5.1.26 During the year 2010-11, twelve accounts of six Companies were finalized, out of which the Statutory Auditors had given unqualified certificates for four accounts and qualified certificates for eight accounts.

5.1.27 Some of the important comments in respect of accounts of companies are stated below:

Jharkhand Police Housing Corporation Limited (2009-10)

- Non-provision towards interest earned on the amount of work advances received from State Government and payable to the State Government as per decision taken by the Company in its Annual General Meeting held in September 2007 resulted in understatement of provisions and overstatement of earnings by ₹ 7.18 crore. Consequently, the Profit for the year was overstated.

Jharkhand State Forest Development Corporation Limited (2009-10)

- Old stock of Kendu leaves lying at Giridih Division (6,953.880 Std. bags) and Garhwa Division (50 Std. bags) valuing ₹ 31.99 lakh could not be sold despite several attempts to sell these through tendering. As possibility of sale of the old stock of Kendu leaves is remote, non-provision for the same in the accounts has resulted in overstatement of Closing Stock as well as Net Profit by ₹ 31.99 lakh.

- Non-provision of ₹ 3.44 lakh being the amount of interest u/s 234 A of Income Tax Act, 1961 payable to Income Tax Department due to delay in filing of return and ₹ 16.04 lakh for short payment of advance tax under section 234 B and 234 C of the Income Tax Act, 1961 resulted in understatement of Provisions and overstatement of Net Profit after Tax by ₹ 19.53 lakh.

Annual account of Jharkhand State Electricity Board (JSEB)

5.1.28 Annual Accounts for the years 2007-08 to 2009-10 had been received during the year from JSEB for which the CAG is the sole auditor. The audit of accounts upto 2004-05 was completed and in respect of annual accounts for the year 2005-06 and onwards it was in progress. The Audit Reports of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. Some of the important comments are stated below:

Accounts for the year 2002-03

- Grants-In-Aid for debt services included ₹ 75 crore received by the Board from State Government as Grant for Capital Work for implementation of various operational activities. As benefits of these activities would accrue for several financial years, the grant should have been treated as a capital grant instead of treating it as revenue grant. This resulted in overstatement of Income and understatement of Loss to the extent of ₹ 75 crore.

- Railways waived a sum of ₹ 1.57 crore towards demurrages. Instead of adjusting the Demurrage Payable Account, it was shown as Receivable from Railways which resulted in overstatement of Sundry Receivables and Current Liabilities by ₹ 1.57 crore.

Accounts for the year 2003-04

- An amount of ₹ seven crore was debited to Advance for Fuel Supplies against BHEL. However, the same should have been accounted for as Advance for O&M Supplies/Works. Thus, advance for O&M Supplies/Works was understated and advance for Fuel Supplies overstated to the same extent.

- JSEB accounted the short receipt of coal of ₹ 4.78 crore as Receivable from CCL during 2003-04. However, similar claims were rejected by CCL in earlier years. Hence, the short receipt of coal was to be accounted as 'Fuel related Losses'. Failure to do the same resulted in understatement of Expenditure and Loss to the extent of ₹ 4.78 crore and overstatement of Receivables to the same extent.

- Failure to account the claim of inferior grade coal correctly resulted in overstatement of both Assets and Liabilities to the extent of ₹ 3.62 crore. The unit accounted the same as Receivable on one side and Liability on the other side.

- Two fire accidents occurred at Patratu Thermal Power Station (PTPS) during January 2002 and August 2003 and JSEB lodged a claim of ₹ 27.49 crore with the insurance company. However, value of Assets lost due to fire accidents and Accumulated Depreciation thereon were not deleted from the Gross Block and Accumulated Depreciation respectively.

Accounts for the year 2004-05

- Non-adoption of new rates of depreciation with effect from August 2004 resulted in overstatement of Depreciation and Deficit as well as understatement of Net Fixed Assets to the extent of ₹ 20.16 crore.

- JSEB accounted the short receipt of coal of ₹ 3.41 crore as Receivable from CCL during 2004-05. However, similar claims were rejected by CCL in earlier years. Hence, the short receipt of coal was to be accounted as 'Fuel related Losses'. Failure to do the same resulted in understatement of Expenditure and Loss to the extent of ₹ 3.41 crore and overstatement of Receivables to the same extent.

- Failure to account the claim of inferior grade coal correctly resulted in overstatement of both Assets and Liabilities to the extent of ₹ 2.99 crore. The unit accounted the same as Receivable on one side and Liability on the other side.

- Provision for Audit Fee of ₹ one crore was not made. This has resulted in understatement of Administration and General Expenses as well as provision for Outstanding Liabilities and Deficit by ₹ one crore.

- Two fire accidents occurred at PTPS in April/May 2004 and loss of assets due to fire was assessed ₹ 2.95 crore and ₹ 0.26 crore respectively. The claim against loss due to fire were lodged with the insurance company in June 2004 and January 2005. However, loss of assets was not taken into account resulting in overstatement of Fixed Assets and understatement of Provision for Loss as well as Deficit to the extent of ₹ 3.21 crore.

5.1.29 The details of aggregate money value of comments of CAG are given in **Table-9** :

Table-9

(₹ in crore)

Sl. No.	Particulars	2010-11	
		No. of accounts	Amount
1.	Decrease in profit	-	-
2.	Increase in loss	3	63.84
3.	Non-disclosure of material facts	1	-
4.	Errors of classification	2	82.00
Total		**3**	**145.84**

(The aggregate money value are based on CAG's comments only)

5.1.30 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3) (a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system in respect of three companies[9] on the accounts finalised during the year 2010-11 are given in **Table-10**:

Table-10

Sl. No.	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 5.2
1.	Absence of internal audit system commensurate with the nature and size of business of the company	1	A-06
2.	Non-maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	3	A-01, A-04, A-06

Reforms in Power Sector

5.1.31 The State has Jharkhand State Electricity Regulatory Commission (JSERC) formed in April 2003 under Section 82 of the Electricity Act, 2003 with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and

[9] Sl. No. A-01, A-02 & A-03 in Appendix–5.2.

issue of licenses. During 2010-11, JSERC issued five orders on annual revenue requirements and 28 other orders.

5.1.32 Memorandum of Understanding (MoU) was signed in April 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated in **Table-11**:

Table-11

<table>
<tr><th>Sl. No.</th><th colspan="2">Milestone</th><th>Achievement[10]</th></tr>
<tr><td>1.</td><td colspan="2">To reduce system losses at the level of 18 per cent</td><td>System losses came down to 35.04 per cent (November 2010)</td></tr>
<tr><td rowspan="4">2.</td><td rowspan="4">100 per cent metering of all consumers</td><td>Single Phase (Urban)</td><td>87.78 per cent</td></tr>
<tr><td>Single Phase (Rural)</td><td>64.13 per cent</td></tr>
<tr><td>Three Phase (LTCT & whole current)</td><td>96.03 per cent</td></tr>
<tr><td>HT</td><td>98.14 per cent</td></tr>
</table>

[10] Achievement *per cent* up to November 2010

Section 'A' Performance Audit

5.2 Power Distribution Utilities in Jharkhand

Executive Summary

Introduction

With the objective of assessing the progress achieved in the State in respect of various parameters stipulated in National Electricity Policy/Plan with regard to distribution of power, performance audit of Jharkhand State Electricity Board was conducted. The performance audit covered network planning, rural electrification, billing and collection efficiency, tariff fixation and subsidy support by the State Government during 2006-07 to 2010-11.

Financial Position and Working Results

The revenue of the Board from sale of power increased from ₹ 1,407 crore in 2006-07 to ₹ 1,634 crore in 2009-10. However, the Board incurred losses during performance audit period and accumulated losses increased from ₹ 2,400 crore in 2006-07 to ₹ 5,356 crore in 2009-10. The Board had suffered loss of ₹ 1.47 per unit in 2006-07 which increased to ₹ 1.58 in 2009-10. There was revenue gap of ₹ 450 crore in 2006-07 which increased to ₹ 707 crore in 2009-10, total revenue gap amounted to ₹ 3,407 crore during the performance audit period. The loss was mainly due to high cost of power purchased, low electricity tariff due to its non revision from 2003-04 to 2009-10 and poor revenue realisation against amount billed. The borrowings of the Board increased from ₹ 5,484 crore in 2006-07 to ₹ 7,090 crore in 2009-10.

Distribution Network Planning

The Board had not prepared long term plan for the upkeep of the existing network and additions in distribution network. The Board had no internal resource and was dependent on the GoJ for funding of capital expenditure. The Board had planned for addition of 133 Power Sub-stations against which only 71 sub-stations were actually added. There was a growth of connected load from 1,406 MW (1,654 MVA) in 2006-07 to 1,895(2,229 MVA) MW in 2010-11. The increase in transformation capacity was from 1,947 MVA to 2,490 MVA in respect of power transformers and from 1,676 MVA to 2,415 MVA in respect of distribution transformers during 2006-07 to 2010-11.

Rural Electrification

The projects under RGGVY were not complete as out of 27,174 villages to be electrified, 21,101 villages (78 per cent) were electrified and 13,468 villages (64 per cent) were energized (March 2011). As 360 electrified villages remained un-energised for 1 to 36 months, investment of ₹ 58.23 crore remained idle. Out of 107 PSSs planned for construction under the scheme, 67 PSSs have been completed though only 47 PSSs were commissioned and energized. Against the target of 18.92 lakh BPL connections only 11.44 lakh connections have been released.

Further, the expenditure of ₹ 38.40 crore incurred on purchase and installation of meters to BPL consumers were rendered unfruitful due to billing of these consumers at fixed rate.

The Board had received ₹ 975.43 crore towards grant and loan from the GOI out of which ₹ 100.11 crore could not be utilized (October 2011).

Implementation of APDRP

APDRP projects in 17 town of the State was undertaken at a cost of ₹ 444.83 crore out of which projects in respect of 5 towns are completed though the APDRP scheme has already been closed by the GOI in March 2009.

There were instances of avoidable payments due to delay in execution and inefficient execution of turnkey contract (₹ 10.72 crore), payment made to the contractor without ensuring possession of land (₹ 1.23 crore). Further, in some projects, materials valuing ₹ 4.82 crore remained unutilized due to delay in approval of drawing, procurement before survey by the contractor and subsequent reduction in scope of work. The AT&C losses ranged between 59 and 42 per cent during the period of performance audit and the targeted reduction in the AT&C loss could not be achieved.

The number of unmetered consumers was 8.92 lakh (57 per cent) as on November 2010 and energy assessed in respect of unmetered consumers ranged between 17 per cent and 31 per cent of total energy billed during 2007-08 to 2010-11.

Operational efficiency

The power demand in the State could not be met during the performance audit period; deficit remained between 31 MUs to 303 MUs. Due to lack of its own transmission system, the Board had to purchase power at higher cost in DVC command area, thereby incurring additional expenditure of ₹ 1,325.16 crore. T&D loss amounted to 46 per cent in 2006-07 which decreased to 35 per cent in 2010-11 but was higher than the targets fixed by the JSERC. Consequently, the Board incurred loss of ₹ 668.84 crore towards abnormal T&D losses during 2006-07 to 2009-10.

Billing Efficiency

The Board could bill only 54 per cent to 65 per cent of the total energy available for sale. The Board could not bill 1,386 MUs of energy valuing ₹ 505 crore in respect of unmetered consumers in four Circles. Also, delay in replacement of defective meters of HT consumers resulted in revenue loss of ₹ 18.20 crore.

Revenue Collection Efficiency

The Board had outstanding balances of ₹ 3,482.92 crore. Further, the Board could not recover outstanding dues of ₹ 395 crore from the GoJ under one time settlement of dues due to incorrect computation of arrear amount.

Subsidy support and cross subsidisation

The Board did not claim subsidy from the GOJ during 2006-07 to 2010-11 though some categories of consumers remained heavily subsidized. GoJ provided grant of ₹ 967.27 crore as resource gap for meeting liabilities against payment of power purchase, payment of employees etc. National Tariff policy envisaged that the tariff of all categories of consumers should range within plus minus 20 per cent of the cost of supply. However, the gap in tariff fixation was more than plus minus 20 per cent during 2010-11.

Tariff fixation

Due to non revision of tariff, the Board had to supply power during 2006-07 to 2009-10 at the tariff for the year 2003-04. Besides, revenue requirement of ₹ 3,278 crore remained uncovered as some items of expenditure had been disallowed/ partially allowed by JSERC.

Conclusion and recommendations

The Board had not prepared long term plan for upkeep of the existing network and additions in distribution network. The Central schemes viz. RGGVY and APDRP was not completed timely and the objectives of the Central schemes were not fully achieved. The number of unmetered consumers was 8.92 lakh in 2010-11, which was 57 per cent of the total consumers, 100 per cent metering of DTRs and Feeders was not achieved and there was delay in replacement of defective meters of HT consumers. The Board had purchased energy at higher cost due to non availability of transmission line in DVC command area. The T&D losses decreased from 46 per cent to 35 per cent during 2006-07 to 2010-11 though these were higher than the JSERC norms. No mechanism exists for correct assessment of unmetered consumers as 1,386 MUs energy remained unbilled during 2006-07 to 2010-11 in four supply circles. Outstanding balance of ₹ 3,483 crore remained to be realized by the Board which was equivalent to 22 months assessment. The Audit recommendations include preparation of long term plan for development of distribution network, strengthening mechanism for charging the electrified villages under RGGVY and billing of the BPL consumers as per meter reading, metering of all consumers, DTRs and feeders, establishing transmission line to purchase power at the lowest cost in DVC command area, bringing down the T&D losses in areas with huge distribution losses, correct assessment of unmetered consumers, pursuing vigorously for realisation of outstanding energy bills from the consumers.

Introduction

5.2.1 The distribution system of the power sector constitutes the final link between the power sector and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. However, it constitutes the weakest part of the sector, which is incurring large losses. In view of the above, the real challenge of reforms in the power sector lies in efficient management of the distribution system. The National Electricity Policy (NEP) in this regard *inter-alia* emphasises on the adequate transition from financing support to aid restructuring of distribution utilities, efficiency improvements and recovery of cost of services provided to consumers to make power sector sustainable at reasonable and affordable prices.

In Jharkhand, Generation, Transmission and Distribution of power is carried out by Jharkhand State Electricity Board (Board), created in March 2001 as a result of Bihar Re-organisation Act, 2000. Restructuring of the Board into separate entities for generation, transmission and distribution has not yet been done. The Management of the Board is vested with a Board comprising four members consisting of the Chairman, Member (Finance), Member (Distribution) and Member (Technical) appointed by the Government of Jharkhand (GOJ). The day-to-day operations of the Board are carried out by the Chairman, who is the Chief Executive of the Board, with the assistance of Chief Engineers at Board Headquarters supervising various functions relating to distribution of power as Supply & Distribution, Commercial & Revenue, Stores & Purchase, Accelerated Power Development & Reform Programme (APDRP) and Rural Electrification as well as six General Manager-cum-Chief Engineers in Area offices. As at the end of March 2011, the Board had six Supply Area Offices, 13 Supply Circles and 39 Supply Divisions.

During 2006-07, energy sold by the Board was 3,742 MUs, which increased to 5,492 MUs in 2009-10, *i.e.* an increase of 46.77 *per cent* during 2006-10. As on 31 March 2011, Board had distribution network of 237 sub-stations, 81,531 CKM of LT lines, 25,782 Distribution transformers and the number of consumers was 15.64 lakh.

NEP aims to bring out reforms in the Power Distribution sector with focus on system upgradation, controlling and reduction of Transformation & Distribution (T & D) losses and power thefts and making the sector commercially viable besides financing strategy to generate adequate resources. It further aims to focus on conservation to optimize utilisation of electricity with focus on demand side management and load management. In view of the above, a performance audit on the working of the Board was conducted to ascertain whether it was able to adhere to the aims and objectives stated in the National Electricity Policy and Plan.

Scope and Methodology of Audit

5.2.2 The present performance audit conducted between February 2011 and June 2011 covers the performance of the Board during the period from 2006-07 to 2010-11 as regards distribution of power. The performance audit mainly deals with Network Planning and 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 of the Board and detailed examination of records of three Supply Area offices[11], five Supply Circles[12], 12 Supply Divisions[13] and records of the State Load Despatch Centre (SLDC).

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

Audit Objectives

5.2.3 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 the central schemes such as, APDRP, Restructured APDRP and Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY);
- operational efficiency in meeting the power demand of the 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; and
- that a monitoring system is in place and the same is utilised in review of overall working of the Board.

Audit Criteria

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

- Provisions of Electricity Act, 2003;
- National Electricity Plan, Plans and norms concerning distribution network of the Board and planning criteria fixed by the Jharkhand State Electricity Regulatory Commission (JSERC);

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[11] Dhanbad, Jamshedpur and Ranchi Electric Supply Area.

[12] Chaibasa, Dhanbad, Jamshedpur Loyabad, and Ranchi Electric Supply Circles.

[13] Adityapur,Chaibasa, Dhanbad, Ghatshila, Govindpur, Jharia, Ranchi East, Ranchi Central, Doranda, Kokar, Loyabad and Saraikela Electric Supply Divisions.

- 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; and
- Guidelines/instructions/directions of GOJ/JSERC.

Financial Position and Working Results

5.2.5 The financial position of the Board as per Annual Accounts of the Board for the years ending 31 March of 2006-07 to 2009-10 is given in **Table-12**. The Board has not yet prepared its Annual Accounts for the year 2010-11.

Table-12

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10
A. Liabilities				
Paid up Capital	-	-	-	-
Reserve and Surplus (Contributions, Grants and Subsidies towards cost of Capital Assets)	751.99	1031.89	1396.20	1494.91
Borrowings (Loan Funds)				
Secured				
Unsecured	5484.01	6184.86	7011.43	7089.60
Current Liabilities and Provisions	2139.86	3002.63	3065.53	3681.82
Total	**8375.86**	**10,219.38**	**11,473.16**	**12,266.33**
B. Assets				
Gross Block	1698.50	1832.39	1940.72	1984.30
Less: Depreciation	925.80	969.18	1014.76	1064.55
Net Fixed Assets	772.70	863.21	925.96	919.75
Capital works-in-progress	397.55	869.82	1515.15	1815.02
Investments	217.99	288.04	108.10	162.09
Current Assets, Loans and Advances	4587.63	4596.83	4274.23	4013.18
Accumulated losses	2399.99	3601.48	4649.72	5356.29
Total	**8375.86**	**10219.38**	**11473.16**	**12266.33**

It may be seen from **Table-12** that the accumulated losses of the Board increased by 123 *per cent* from ₹ 2,399.99 crore in 2006-07 to ₹ 5,356.29 crore in 2009-10. Current Liabilities of the Board had increased from ₹ 2,139.86 crore to ₹ 3,681.82 crore mainly on account of increase in Liabilities for purchase of power (₹ 1,915 crore) and non-payment of coal bills (₹ 373 crore) which amounted to ₹ 2,288 crore. The Board had suffered losses for all the years since its inception. The Board received loan of ₹ 1,605.59 crore mainly from the GOJ during the period 2006-07 to 2009-10. The operation of the Board was sustained by the grants/

loans received from the GoJ. Thus, the financial position of the Board was not sound and was heavily dependent on the Government support.

5.2.6 The particulars of cost of electricity *vis-à-vis* revenue realization per unit during 2006-07 to 2009-10 are indicated in **Table-13**:

Table-13

(₹ in crore)

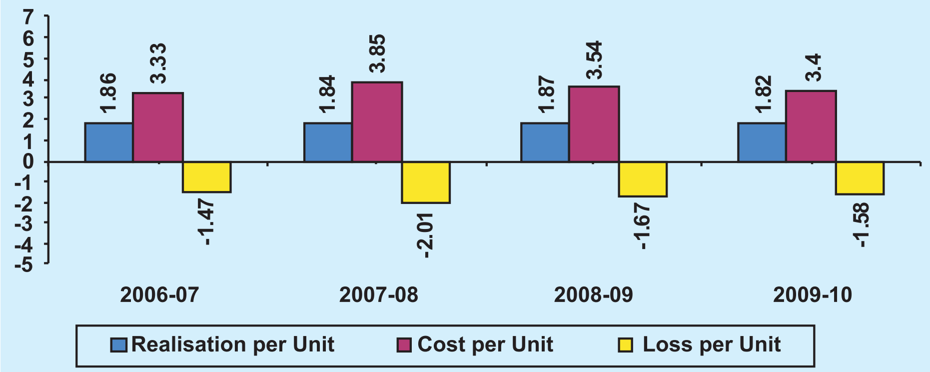
Sl.No.	Description	2006-07	2007-08	2008-09	2009-10
1.	**Income**				
(i)	Revenue from Sale of Power	1406.96	1391.23	1584.91	1634.37
(ii)	Grants for resource gap	200.00	77.27	80.00	400.00
(iii)	Other Income	457.24	232.18	285.07	301.44
	Total Income	**2064.20**	**1700.68**	**1949.98**	**2335.81**
2.	**Distribution (In MUs)**				
(i)	Power available for Sale	7559.20	7541.69	8502.08	8959.81
(ii)	Less: Transmission and distribution losses	3247.66	3166.95	3493.06	3171.14
(iii)	Less :Sale of Power outside State (Unscheduled Interchange)	569.46	131.42	339.17	296.31
	Net Sale of power to Consumers	**3742.08**	**4243.32**	**4669.85**	**5492.36**
3.	**Expenditure on Distribution of Electricity**				
(a)	**Fixed cost**				
(i)	Employees Cost	169.15	168.86	189.24	207.83
(ii)	Administrative and General Expenses	32.68	34.09	55.06	41.22
(iii)	Depreciation	35.55	43.53	48.40	49.79
(iv)	Interest and Finance Charges	482.96	458.5	452.08	454.49
(v)	Other Expenses	126.92	390.69	257.5	147.44
	Total fixed cost	**847.26**	**1095.67**	**1002.28**	**900.77**
(b)	**Variable cost**				
(i)	Purchase of Power	1599.12	1619.66	1885.66	1946.61
(ii)	Electricity Duty	3.58	4.70	4.97	5.44
(iii)	Transmission/other charges	28.39	124.96	37.02	121.42
(iv)	Repairs and Maintenance	36.32	57.18	68.29	68.14
	Total variable cost	**1667.41**	**1806.50**	**1995.94**	**2141.61**
(c)	**Total cost 3(a) + (b)**	**2514.67**	**2902.17**	**2998.22**	**3042.38**
4.	Realisation (₹ per unit) (excluding revenue subsidy)	1.86	1.84	1.87	1.82
5.	Fixed cost (₹ per unit)	1.12	1.45	1.18	1.01
6.	Variable cost (₹ per unit)	2.21	2.40	2.36	2.39
7.	Total cost per unit (in ₹) (5+6)	3.33	3.85	3.54	3.40
8.	Contribution (4-6) (₹ per unit)	(0.35)	(0.56)	(0.49)	(0.57)
9	**Profit (+)/Loss(-) per unit(in ₹) (4-7)**	**(1.47)**	**(2.01)**	**(1.67)**	**(1.58)**

It may be seen from **Table-13** that during the period 2006-07 to 2009-10, the variable cost, comprising mainly the cost of purchase of power increased from from ₹ 2.21 in 2006-07 to ₹ 2.39 in 2009-10 per unit whereas realisation per unit decreased from ₹ 1.86 to ₹ 1.82.

Recovery of cost of operations

5.2.7 The Board was not able to recover its cost of operations and suffered loss of ₹ 1.47 per unit in 2006-07 to ₹ 1.58 per unit in 2009-10 as given in **Chart-5:**

Chart-5



We observed from the working results that there was a revenue gap of ₹ 450.47 crore in 2006-07 (after considering grants received from the GOJ and other non-tariff income) which increased to ₹ 706.57 crore in 2009-10. Total revenue gap amounted to ₹ 3,406.77 crore during the years 2006-07 to 2009-10. The loss was mainly due to high cost of power purchased, low electricity tariff due to its non revision from 2003-04 to 2009-10 and poor revenue realisation against amount billed. The steep increase in revenue gap needs immediate attention of the GoJ for necessary remedial action.

Audit Findings

5.2.8 We explained the audit objectives to the Board during an 'Entry Conference' held on 25 February 2011. Subsequently, audit findings were reported to the Board and the State Government in June 2011. The reply of the Board was received on 24 October 2011. The observations in the draft report along with the reply were discussed with the Chairman of the Board in an 'Exit Conference' held on 24 October 2011. Responses of the Board have been incorporated in the performance audit report. The State Government, however, did not submit its response to the audit findings. The audit findings are discussed in subsequent paragraphs.

Distribution Network Planning

5.2.9 The Board is required to prepare long term/ annual plan for creation of infrastructural facilities for efficient distribution of electricity in the State. Besides, the upkeep of the existing network, additions in distribution network are to be planned keeping in view the demand/ connected load, anticipated new connections and growth in demand based on Electric Power Survey.

The Board had not prepared any long term plan for upkeep of the existing network and additions in distribution network. The Board prepared Annual Development Plan (ADP) on the basis of annual work plans prepared by its Supply Area Offices for strengthening the existing system. However, Board was dependent on the GoJ for the fund as it had no internal resource to fund the expenditure. As such, ADP is finalized depending on the availability of fund from the GoJ. The details of Annual Plan/Budget Estimate for Supply and Distribution *vis-à-vis* the actual expenditure for the years 2006-07 to 2010-11 are indicated in **Table-14**:

Table-14

(₹ in crore)

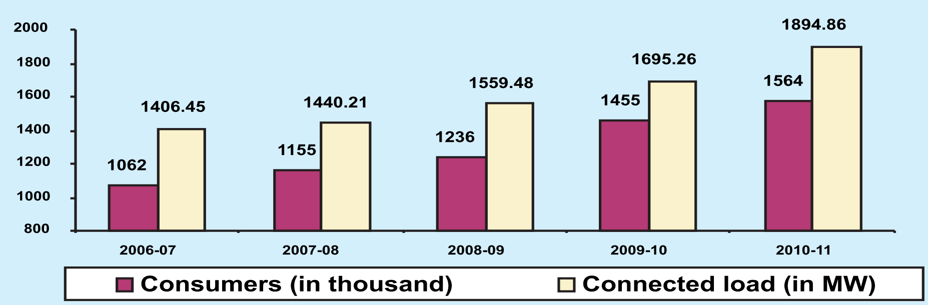
Year	Value of Work programme	Opening Balance	Fund received from GOJ	Actual Expenditure	Balance
2006-07	106.11	3.32	65.00	51.92	16.40
2007-08	156.25	16.40	50.00	62.95	3.45
2008-09	244.78	3.45	50.00	53.45	Nil
2009-10	306.63	Nil	60.00	14.17	45.83
2010-11	400.20	45.83	80.00	32.21	93.62

We observed that against the requirement of ₹ 1,213.97 crore as per work programme during 2006-07 to 2010-11, GOJ released funds amounting to ₹ 305 crore only during the same period. The Board was unable to utilise the amount and the unspent balance as on 31 March 2011 was ₹ 93.62 crore. Thus, against the requirement of ₹ 1,213.97 crore the Board could utilise only ₹ 214.70 crore during the period 2006-07 to 2010-11. This led to non-achievement of the planned additions in the distribution network.

The Board stated (October 2011) that it was dependent on the funds received from GOJ for creation of network. However, the facts remains that the Board could not utilise the funds received from GOJ to the extent of ₹ 93.62 crore during 2006-07 to 2010-11.

The particulars of consumers and their connected load during 2006-07 to 2010-11 are given in **Chart-6**:

Chart-6



While the system improvement and rural electrification schemes have been dealt with separately under subsequent paragraphs, the particulars of distribution network planned vis-à-vis achievement there against in the State as a whole is depicted in ***Annexure-5.6***. It may be seen from the annexure that against the planned additions of 133 power sub-stations over the audit period, only 71 sub-stations were actually added. The reasons were delays in obtaining forest clearance, railway clearance, diversion of lines besides objections raised by land owners and forest offices.

We observed that there was a growth of connected load from 1,406 MW (1,654 MVA) in 2006-07 to 1,895 MW (2,229 MVA) in 2010-11. The transformation capacity of power transformers and distribution transformers increased from 1947 MVA to 2490 MVA and 1676 MVA to 2415 MVA respectively during 2006-07 to 2010-11. Thus, there was adequate increase in transformation capacity to match the pace of growth in consumer demand.

Implementation of Centrally Sponsored Schemes

Rural Electrification

5.2.10 The NEP states that the key objective of development of the power sector is to supply electricity to all areas including rural areas for which the GOI and the State Governments would jointly endeavour to achieve this objective. Accordingly, the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in April 2005, to provide access to electricity to all households within five years in Jharkhand. As per the scheme the GOI had to provide 90 *per cent* capital subsidy and rest 10 *per cent* as loan from REC. Under RGGVY, electrification of 27,174 villages comprising 19,712 Un-electrified (UE)/De-electrified (DE) villages and Un-electrified Tolas in 7,462 Electrified Villages (EVUT) was to be done at the total cost of ₹ 2,662.61 crore during X and XI Five Year Plan periods. The scheme was to be implemented by the Board (6 districts[14]), DVC (8 districts) and NTPC (8 districts). A report on performance audit on implementation of RGGVY by the Board was included in the Audit Report (Civil and Commercial) for the year ended 31 March 2009. Our further observations on the scheme are as follows:

Number of villages electrified under RGGVY as on 31 March 2011 was 21,101[15] (16,469 UE/DE and 4,632 EVUT) which was 78 *per cent* of the total villages to be electrified under the scheme. Thus, the scheme which was to be completed by March 2009 was not complete even after a lapse of 30 months. Reasons for the same were delays in various stages i.e. preparation of Detailed Project Reports (DPR), award and execution of the works due to frequent bandhs, delays in obtaining forest clearance and requisite approvals from Railways.

Out of the 21,101 villages electrified under RGGVY, only 13,468 villages (9,831 UE/DE and 3,637 EVUT) *i.e.* 64 *per cent* of them were energised. On analysis of electrification of villages done by the Board, we observed that 360 villages remained un-energised for 1 to 36 months as a result of which investment of ₹ 58.23 crore[16] incurred on electrification of these villages remained idle for the period. Similarly, in respect of electrification done by DVC and NTPC, 7,273

[14] Chaibasa, Garhwa, Jamshedpur, Latehar, Palamau and Saraikela.

[15] Excluding 1,032 villages electrified departmentally by the Board during 2006-07 to 2010-11.

[16] ₹ 17.22 lakh for each of 279 UE & DE villages and ₹ 12.58 lakh for each of 81 EVUT villages.

Investment of ₹ 58.23 crore remained idle due to non energisation of 360 electrified villages

villages remained un-energised as on 31 March 2011. Further, out of 107 Power Sub-Stations (PSSs) planned for construction in the State under the scheme, constructions of 67 PSSs were complete. However, 47 PSSs have only been commissioned and charged (March 2011).

The Board stated (October 2011) that the main reason for not charging of the villages and PSS was lack of grid connectivity.

Against the target of 18.92 lakh electricity connections to BPL households to be given under the scheme, only 11.44 lakh connections had been released out of which 6.31 lakh connections were not energized. We observed that supply of materials and execution of the works were not done in a synchronized and timely manner. Thus, due to deficient implementation of the project, full benefits of RGGVY as envisaged by the GOI *viz.* facilitating rural development, employment generation and poverty alleviation remained unachieved.

Billing of BPL consumers at fixed rate, rendered the expenditure of ₹ 38.40 crore incurred on purchase of meters unfruitful

We further observed that metered connections for only one point were to be given to the BPL households. However, billing of the BPL consumers was done at fixed rate of ₹ 30 per connection per month as unmetered consumers. Since these consumers were metered, billing should have been done as per meter readings. This rendered the expenditure of ₹ 38.40 crore incurred on purchase and installation of these meters, unfruitful.

The Board stated (October 2011) that billing of BPL consumers were done as per tariff and metering of BPL consumers was needed for assessment of the units consumed for assessment of subsidy.

The reply is not based on facts as tariff provides for separate rates for metered and unmetered BPL consumers. As such, billing should have been as metered BPL consumers.

Funds amounting to ₹ 100.11 crore received under RGGVY remained unutilized during 2006-07 to 2010-11

5.2.11 The Board had received ₹ 975.43 crore towards grant and loan from the GOI during 2006-07 to 2010-11, out of which ₹ 792.18 crore was spent during the same period. Further, ₹ 83.14 crore was accounted for as overhead charges. Thus, fund of ₹ 100.11 crore remained unutilized (October 2011).

5.2.12 Besides RGGVY, electrification of some villages was also being done under the State Plan. Materials for electrification of each village were issued as per the approved estimate against work orders. We observed that in one Electric Supply Division[17], materials were issued without taking into account the materials issued earlier against the work order. As a result excess materials valuing ₹ 45.38 lakh, over and above the approved quantity of materials had been issued for electrification of 32 villages (March 2005 to May 2007). These materials had neither been adjusted against other works nor returned to the store till date (October 2011). Thus, lack of internal control led to issue of excess materials worth ₹ 45.38 lakh against various works.

The Board stated (October 2011) that the matter was under investigation.

[17] Chatra Division under Hazaribagh Circle.

Accelerated Power Development and Reforms Programme (APDRP) and Restructured APDRP

5.2.13 The Government of India (GOI) approved (March 2003) the Accelerated Power Development and Reforms Programme (APDRP) to focus on Up-gradation of Sub-transmission and Distribution system in urban and industrial areas and improvement in commercial viability of State Electricity Boards. The major benefits envisaged in APDRP were to reduce Aggregate Technical and Commercial (AT&C) losses by 9 *per cent* per annum in project towns/areas and to improve revenue realisation and provide reliable and quality power supply by reducing outages and interruptions. The main activities to be undertaken were 100 *per cent* metering of feeders/consumers, implementation of energy accounting and audit, reduction of transmission and distribution losses to 18 *per cent*. The GOI had approved (September/November 2002) eight APDRP projects under eight Electric Supply Circles[18] in 17 towns of the state for implementation at a total project cost of ₹ 444.83 crore.

A report on performance audit on implementation of APDRP by the Board was included in the Audit Report (Civil and Commercial) for the year ended 31 March 2008. Further observations on the implementation of the programme are given below:

Tendering and Project Management

- Two work orders for supply and erection/renovation of new/existing 33/11 KV line/LT line, renovation and augmentation of Distribution Sub-Station (DSS) etc. for Jamshedpur town were issued (January 2005) to Ramjee Power Construction Ltd. (RPCL) on turnkey basis at a firm price of ₹ 28.17 crore. The work was to be completed within eight months (September 2005). The progress of work was very slow due to delay in approval of drawings, carrying out survey, issue of road permits, non preparation of Bill of Quantities (BOQ) taking into account the actual survey carried out etc. The Board granted (November 2006) extension of time upto July 2007 without escalation in price but with Liquidated Damages (LDs) for delay in completion subject to review of the progress made in next two months. As there was delay in progress of the work, it was decided to obtain approval of the Apex Board for termination of the contract. Though the draft agenda note was submitted (December 2006) to the Chairman it was not placed before the Apex Board. Subsequently, the Chairman approved the appointment of sole Arbitrator (July 2007). The arbitrator delivered the award (December 2008) allowing extension of time upto March 2009 with price variation on supply of material and erection during extended schedule. The Board paid (May 2008 to May 2009) ₹ 10.72 crore towards price variation (₹ 6.88 crore) and other claims (₹ 3.84 crore).

[18] ESC Daltonganj, Deoghar, Dhanbad, Dumka, Hazaribag, Jamshedpur, Loyabad , and Ranchi.

Delay and inefficient execution of the turn key contract led to arbitration resulting in avoidable payment of ₹ 10.72 crore.

Thus, the decision on termination of the contract and appointment of the Arbitrator was not taken in a transparent manner. Besides, delay and inefficient execution of the turn key contract resulted in avoidable payment of ₹ 10.72 crore and 44 *per cent* work remained to be completed (March 2011).

The Board stated (October 2011) that the award of arbitration had since been challenged in the court of 'Sub-judge', Ranchi.

- The work of Dhanbad Package-I, project involving renovation of PSS, construction/reconductoring of lines, cables and DTRs, awarded in January 2005, was completed in March 2009. The contractor had to conduct survey for finalising the scope of work and BOQ of materials before the work commenced. We observed that the contractor supplied materials before finalisation of the scope of work. As the scope of work was reduced after survey (July 2007), materials valuing ₹ 2.40 crore supplied by the contractor remained unutilized. Materials valuing ₹ 2.42 crore in respect of Dhanbad Package-II and Ghatshila also remained unutilized on similar grounds.

  The Board stated (October 2011) that the matter regarding Dhanbad package was under investigation.

- As per provision in the Finance and Account Code of the Board, expenditure on work should be incurred after taking possession of the land. We observed that for construction of PSS in Dumka town, though the land was not made available by the Board to the contractor, an advance payment of ₹ 1.23 crore was made to him.

  The Board stated (October 2011) that the payment was made to the contractor according to terms of the contract under the contract clause. The reply was not acceptable as the terms of contract were in violation of the provisions of the code of the Board.

- The works of Jharia town (to be completed by January 2010) included construction of a new PSS, and renovation and augmentation of the existing PSS. The work was awarded (January 2009) at a price of ₹ 6.34 crore. The contractor supplied materials valuing ₹ 3.41 crore for which ₹ 1.06 crore had been paid to the contractor. However, erection of the equipments was not started by the contractor due to delay in approval of drawings for civil construction which was approved (November 2009) by the Board nine months after awarding of the work. The contractor stopped the work and sought extension of time. A committee constituted to review the work recommended (April 2010) extension for completion of the work in view of overloading/poor condition of the existing PSS. However, the Board did not grant the extension of time and the materials supplied by the contractor were lying with him without being installed. Thus, due to inefficient contract management, the work remained incomplete for which the responsibility was required to be fixed by the Board.

The Board stated (October 2011) that the matter would be looked into.

Financial Performance

5.2.14 The GOI had to finance 50 *per cent* of the project cost (25 *per cent* grant and 25 *per cent* loan) and remaining 50 *per cent* of the fund was to be arranged by the Board as loan from financial institutions. Funds amounting to ₹ 374.50 crore was received under the project which comprised grant and loan amounting to ₹ 188.79 crore from GOI and loans of ₹ 185.71 crore from PFC against which expenditure incurred upto 2010-11 was ₹ 343.28 crore. Thus, ₹ 31.22 crore remained unutilized though the scheme has already been closed in March 2009.

The Board stated (October 2011) that while five projects were completed, remaining twelve projects were on the verge of completion.

Restructured APDRP

5.2.15 In order to carry on the reforms further, the GOI launched the Restructured APDRP (R-APDRP) in September 2008 as a Central Sector Scheme for XI Plan. The R-APDRP scheme comprises Part A and B. Part-A was dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA[19]/Distribution Management System. For this, 100 *per cent* loan is provided by the GOI through the nodal agency *i.e.* Power Finance Corporation (PFC), which was convertible into grant along with interest thereon once the project was completed within three years from the date of sanctioning of the project duly certified by the Third Party Independent Evaluating Agency (TPIEA). The Part B of the scheme deals with strengthening of regular sub-transmission & distribution system and upgradation projects.

The Board entered into a quadripartite agreement in July 2009 with the GOJ, Ministry of Power (MOP) and PFC, the nodal agency for implementation of the scheme. The MOP, GOI had approved Detailed Project Reports (DPRs) of 30 towns in September 2009 under Part-A of R-APDRP at a project cost of ₹ 225.72 crore. PFC had sanctioned ₹ 160.60 crore as loan to the Board in September/ November 2009 and the balance ₹ 65.12 crore which was for providing basic infrastructure like buildings, precision air conditioning, fire fighting, network connectivity *etc.* was to be met by the GoJ/ Board's internal resources.

The work for IT implementation has been awarded (March 2011) to M/s HCL on turnkey basis at a total cost of ₹ 138.31 crore. Advance of ₹ 12.04 crore was

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

paid (August 2011) to HCL as per terms of contract. As per guidelines of Central Vigilance Commission (CVC), payment of mobilisation advance to the contractor should be against Bank Guarantee (BG) and its recovery should be time based. We, however, observed that submission of BG against the advance, mode of recovery and interest recoverable thereon was not stipulated in the contract.

The Board stated (October 2011) that provisions for submission of BG was not incorporated in the contract as the model Request for Proposal (RFP) by PFC did not have such provision. We, however, noticed that in the State of Bihar, provision for submission of BG was incorporated in the work order for R-APDRP.

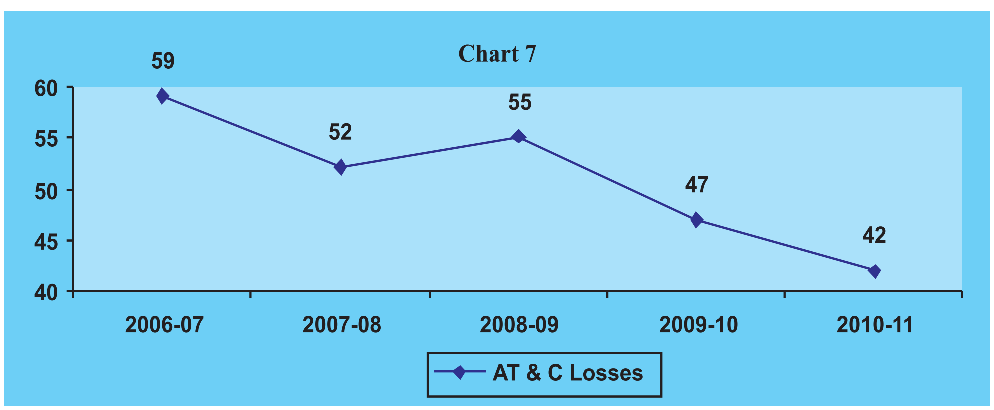
Loan of ₹ 30 crore obtained from PFC remained unutilized for a period of 15 months till June 2011

We observed that the Board had availed (March 2010) a loan of ₹ 30 crore from PFC which largely remained unutilized till June 2011 for a period of 15 months on which interest of ₹ 4.31 crore had already accrued. The interest liability would have been avoided had the loan drawal been synchronised with actual execution of the project.

The Board stated (October 2011) that delay was due to its inexperience in implementation of such projects. The reply is not convincing as it had earlier executed turnkey projects like RGGVY/ APDRP and could have avoided such lapses through proper planning.

Aggregate Technical & Commercial (AT&C) Losses

5.2.16 While launching APDRP, it was envisaged that AT&C losses would be brought down from the existing level of about 60 *per cent* to around 15 *per cent* in five years in the urban and high density/consumption areas initially. This implied reduction of AT&C loss at the rate of 9 *per cent* per annum for the first five years. The percentage of AT&C losses suffered by the Board during the years 2006-07 to 2010-11 are depicted in **Chart-7**.



It may be seen from the above that the targeted reduction in the AT&C loss could not be achieved. However, AT&C losses of the Board during the year 2006-07 to 2010-11 decreased from 59 per cent to 42 *per cent*. Reasons for high AT&C loss were poor revenue realisation, theft of power, unmetered and defective meter connections, inefficiency in billing and collection and other technical loss etc.

The Board stated (October 2011) that efforts were being made to reduce AT & C losses further by adopting various measures viz segregation of feeders, constitution of Anti Power Theft Team etc.

Consumer metering

5.2.17 Attainment of 100 *per cent* metering of feeders/consumers was one of the objectives of the APDRP scheme. In the MOU signed (April 2001) with MOP, GOI, the GOJ had committed to achieve 100 *per cent* metering of all consumers by March 2008. Also, JSERC had directed (2003-04) the Board to complete metering of all consumers and not to issue new connection without a meter. It also directed (2006-07) the Board to formulate and submit a metering plan within a period of three months and also to report the number of non-performing/ defective meters category wise in the system and an action plan to replace all such meters within three months.

We observed that number of service connections increased from 11.55 lakh in 2007-08 to 15.64 lakh in 2010-11. On the other hand number of unmetered service connections increased from 5.47 lakh to 8.92 lakh during the same period. Thus, 3.45 lakh new connections were given without meters during this period. Computation of energy consumed by these unmetered consumers was made on assessment basis which ranged between 17 *per ce*nt and 31 *per cent* of total energy billed during 2007-08 to 2010-11. Also, the Board had not submitted the report regarding number of non-performing/defective meters and the metering plan to JSERC.

The Board admitted (October 2011) that there was scope of increased metered supply and stated that meters were being installed.

Unfruitful expenditure on Feeder and Distribution Transformer metering

5.2.18 In order to achieve 100 *per cent* metering of Feeders and Distribution Transformers, the Board procured and installed (September 2004/July 2006) 769 Feeder meters and 13,200 DTRs meters at a cost of ₹ 52.17 crore under APDRP. We, however, observed that in the four test checked Circles, 222 feeders were metered, out of which only 81 meters were in working order and remaining 141 meters were defective. Besides, as on 31 March 2011, seventy six feeders were yet to be metered. Thus, the Board had not achieved 100 *per cent* metering of feeders as envisaged in the Scheme.

Operational efficiency

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

Purchase of Power

5.2.20 The demand for energy has been increasing year after year in the State due to economic development. 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.

JSERC approves the sources of purchase of power and the purchase cost based on the estimates made in the ARR. To meet the demand of power of its consumers within Jharkhand, the Board generates energy through its power plants (hydel power station at Sikidiri and thermal power station at Patratu). The Board also purchases energy from TVNL, power generating undertaking wholly owned by the State and central public sector undertakings (CPSUs) such as Damodar Valley Corporation (DVC), National Thermal Power Corporation (NTPC), National Hydroelectric Power Corporation (NHPC), Power Trading Corporation (PTC) etc.

The details of demand of power assessed for the State based on the 17th Electric Power Survey, purchase of power approved by JSERC and actual power purchased during the period 2006-07 to 2010-11 is given in **Table-15**:

Table-15

(in Million Units)

Year	Demand assessed in EPS	Purchases approved by JSERC	Own Generation	Power purchase[20]	Total power available	Power Deficit as compared to demand
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7) = (2-6)*
2006-07	7196	6458	725	6265	6990	206
2007-08	7713	6666	804	6606	7410	303
2008-09	8194	7066	1096	7067	8163	31
2009-10	8863	7583	1084	7579	8663	200
2010-11	7908	8021	553	8762	9315	(-)1407

The Board failed to meet the power demand during the years 2006-07 to 2009-10. The deficit as compared to demand increased from 206 MUs in 2006-07 to 303 MUs in 2007-08 which decreased to 31 MUs in 2008-09. The deficit again increased to 200 MUs in 2009-10. We observed that own generation declined from 1084 MUs in 2009-10 to 553 MUs in 2010-11 which resulted in more purchase of power even in excess of the JSERC approval by 741 MUs due to holding of National Games in the State. We further observed that while the cost of power generation was ₹ 2.22, ₹ 2.04 and ₹ 2.22 per unit in 2007-08, 2008-09 and 2009-10 respectively the average cost of power purchased remained ₹ 2.46, ₹ 2.42 and ₹ 2.45 per unit in the respective years. Thus, own generation was cheaper than power purchased during 2007-08 to 2009-10. Therefore, the Board should make efforts to enhance its own generation to avoid purchase of power at higher cost.

[20] Excluding UI power sold.

The Board accepted (October 2011) the audit observation and stated that efforts are being made to enhance power generation of the Board.

Due to lack of its own transmission system in DVC command area, the Board purchased power at an additional cost of ₹ 1,325.16 crore

An instance of purchase of power at higher rate from Damodar Valley Corporation (DVC) is discussed below;

As per Section 18 of the DVC Act, 1948, DVC is supplying power to HT consumers at 30 KV voltages and above in its command area[21] of Jharkhand. The Board was supplying power mainly to LT consumers in the area. As per Electricity Act, 2003, the Board is allowed to construct transmission line in DVC command area also. However, the Board did not set up its own transmission system and power for supply in the DVC command area is being drawn from DVC. We observed that the rate at which power was purchased from DVC was higher than the average cost of power purchase by the Board. As a result, the Board had to incur additional expenditure of ₹ 1,325.16 crore on power purchase during 2006-07 to 2010-11**.**

The Board accepted (October 2011) the audit observation and stated that construction of transmission line in DVC command area was planned in 2005 but no progress was made till date.

Sub-transmission and Distribution Losses

5.2.21 The distribution system is an important and essential link between the power generation source and the ultimate consumer of electricity. For efficient functioning of the system, it must be ensured that there are minimum losses in sub-transmission and distribution of power. While energy is carried from the generation source to the consumer, some energy is lost in the network. The losses at 33 KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. These are based on the difference between energy received (paid for) by the Board and energy billed to consumers. The percentage of losses to available power indicates the ineffectiveness of Distribution system. 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 JSERC in its tariff order directed the Board to reduce T&D loss by four *per cent* every year till the achievement of normative T&D loss. Actual T&D loss suffered by the Board during 2006-07 to 2010-11 is given in **Table-16**:

[21] Spread over whole of Dhanbad and Bokaro districts, part of Hazaribagh, Koderma, Giridih, Chatra, Palamau, Ranchi, Lohardaga and Dumka districts.

Table-16

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11[22]
1.	Energy purchased (including own generation) (MU)	6990	7410	8163	8663	6106
2.	Energy sold/ billed (MU)	3742	4243	4670	5492	3969
3.	Energy losses (1 – 2) (MU)	3248	3167	3493	3171	2137
4.	Percentage of energy losses (*per cent*) {(3 / 1) x 100}	46	43	43	37	35
5.	Percentage of losses allowed by JSERC (*per cent*)	36.66	32.66	28.66	24.66	20.66
6.	Excess losses (in MUs)	685	747	1153	1035	876
7.	Average realisation rate per unit (in ₹)	1.86	1.84	1.87	1.82	N.A.
8.	Value of excess losses (₹ in crore) (6 x 7)	127.41	137.45	215.61	188.37	N.A.

Board suffered abnormal T&D losses during 2006-07 to 2009-10 incurring revenue loss of ₹ 668.84 crore

Reduction in T&D losses is the most significant step towards making the Board financially self-sustaining. The importance of reducing losses can be gauged from the fact that a one *per cent* decrease in losses could save 85.70 MUs and increase the revenue of the Board to the extent of ₹ 15.60 crore[23]. It would be seen from **Table-16** that the actual energy loss suffered by the Board on Transmission and Distribution during 2006-07 was 46 *per cent* which had reduced to 35 *per cent* in 2010-11 (upto November 2010) which was higher than the target fixed by the JSERC. As such JSERC had not allowed the actual loss and considered only the T&D loss as per the target fixed by them while truing up the expenses for the respective years. Consequently, the Board had suffered a loss of ₹ 668.84 crore due to the abnormal T&D loss during 2006-07 to 2009-10. The main reasons for such high energy losses were heavy quantum of unmetered/defective metered consumers, theft of electricity, *etc*.

The Board stated (October 2011) that for reduction of T&D loss measures such as replacement of burnt meters, conducting surprise inspection by Anti Power Theft (APT) team, Tele-metering of HT and LTIS consumers *etc*. were taken. However, the facts remains that T&D loss had been substantially higher than the norm of JSERC and required more efforts in this regard by the Board.

Transformation capacity

5.2.22 Transformer is a static device installed for stepping up or stepping down voltage in transmission and distribution of electricity. The energy received at

[22] Figures in respect of April 2010 to November 2010 were only available due to non finalization of accounts for the year 2010-11 and non-availability of data due to change of computerized billing agency.

[23] (Energy lost 3,171 MU/ 37 *per cent* loss) = 85.70 MUs x ₹ 1.82 realisation per unit = ₹ 15.60 crore) calculated at 2009-10 rates.

high voltage (132 KV, 66 KV, 33 KV) from primary sub-stations is transformed to lower voltage (11 KV) at 33/11 KV sub-stations to make it usable by the consumers. In order to cater to the entire connected load, the transformation capacity should be adequate. The optimum tolerance of a distribution transformer is 80 *per cent* of its rated capacity to prevent transformer from burning/developing defects. The connected loads *vis-a-vis* Transformation capacity in the Board at 80 *per cent* rating during the years 2006-07 to 2010-11 is given in **Table-17**:

Table-17

(in MVA)

Year	Connected Load	DTRs capacity required at 80 *per cent* rating	Actual DTRs Capacity	Gap in transformation capacity
(1)	**(2)**	**(3)**	**(4)**	**(5=3-4)**
2006-07	1654	2068	1676	392
2007-08	1694	2118	2092	26
2008-09	1835	2294	2182	112
2009-10	1994	2493	2305	188
2010-11	2229	2786	2415	371

It can be seen from **Table-17** that the gap in transformation capacity has decreased from 392 MVA in 2006-07 to 26 MVA in 2007-08, though it increased consistently from 112 MVA in 2008-09 to 371 MVA in 2010-11. The mismatch in distribution capacity and connected load resulted in overloading of distribution transformers which contributed to higher failure rate of transformers, fluctuation in voltages, higher trippings and outages besides excess line loss.

The Board stated (October 2011) that augmentation of distribution transformation capacity was being undertaken to reduce the transformer failure rate.

Performance of Distribution Transformers (DTRs)

5.2.23 The details of DTRs failed over the norm and the expenditure incurred on their repairs is depicted in **Table-18**:

Table-18

S.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Existing DTRs at the close of the year (in Number)	19821	20439	21341	21958	23518
2.	DTR failures (in Number)	851	1008	1329	1549	1962
3.	Percentage of failures	4.29	4.92	6.19	6.45	7.65
4.	Norm allowed by MOP (in percentage)	1.50	1.50	1.50	1.50	1.50
5.	Excess failure percentage over norms	2.79	3.42	4.69	4.95	6.15
6.	Expenditure[24] on repair of failed DTRs (₹ in crore)	N.A	1.70	4.51	5.28	4.81

[24] Excluding establishment cost

The above table shows that the percentage of failure of DTRs increased from 4.29 to 7.65 *per cent* during the audit period which was far higher over the norm of 1.50 *per cent* though it was lower than the rate of failure of transformers in the State Electricity Board in the neighbouring state of Bihar which ranged between 10.40 and 17.46 *per cent* during 2006-07 to 2010-11. We observed that preventive maintenance of the transformers such as load checking of every transformer during peak load hour once in a month, checking of earth resistance in six months, test checking of transformer oil in six months as per the manual for Operation & Maintenance (O&M) was not done. The Board attributed load growth and non implementation of the APDRP and R-APDRP scheme in time as the reasons for high percentage of DTR failures. It also stated that preventive maintenance as per O&M Manual was not fully operative. However, no records for conduction of any operation and maintenance work as per the manual was maintained by the O&M wing.

Commercial losses

5.2.24 The majority of commercial losses relate to consumer metering and billing besides pilferage of energy. While the metering and billing aspects have been covered under implementation of APDRP scheme and billing efficiency respectively, the other observations relating to commercial losses are discussed below:

Theft of Energy and performance of Raid Teams

5.2.25 Substantial commercial losses are caused due to theft of energy by tampering of meters by the consumers and unauthorised tapping/hooking by the non-consumers. As per Section 135 of Electricity Act, 2003, theft of energy is a punishable offence under the Act. In order to minimise the cases of pilferage/ loss of energy, Section 163 of Electricity Act, 2003 provides that the licensee may enter in the premises of a consumer for inspection and testing the apparatus. **Table-19** gives the position of raids conducted during audit period.

Table-19

(₹ in crore)

Year	Total number of consumers as on 31 March	No. of consumers checked	Theft cases detected	Assessed amount	Realised amount	Unrealised amount
2006-07	1061806	2294	1455	26.97	0.56	26.41
2007-08	1154599	1779	1118	10.50	0.59	9.91
2008-09	1236322	4592	3235	26.69	4.90	21.79
2009-10	1455454	7268	4238	24.76	4.59	20.17
2010-11	1563943	22489	9437	25.01	5.91	19.10

We observed that the Board had not fixed any target for checking of service connections. The number of consumers checked had increased from 2,294 in 2006-07 to 22,489 in 2010-11 though the percentage of consumers checked was low ranging between 0.22 to 1.44 *per cent*. The number of theft cases detected had increased from 1,455 to 9,437 during the period indicating very high incidence of theft by the consumers. Thus, more raids were needed to be conducted to reduce theft of energy and follow-up action needed to be taken on theft cases detected.

The Board stated (October 2011) that realisation was low as the consumers resort to legal recourse in most of the cases for restoration of electricity connection and the matter becomes sub-judice. However, the Board had not developed a suitable monitoring mechanism to ensure the expeditious settlement of cases.

Billing Efficiency

5.2.26 The Board takes the reading of energy consumption of each consumer at the end of the notified billing cycle and issue bill to the consumers. The assessed units refer to the units billed to consumers in case of unmetered connection. Billing of the consumers was done at Division level in case of LT connections and at Circle level for HT connections.

The efficiency in billing of energy lies in distribution/sale of maximum energy to its consumers to realise the revenue therefrom in time is given in **Table-20**:

Table-20

(in MUs)

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11[25]
1.	Energy available for sale	6990	7410	8163	8663	6106
2.	Energy billed (*per cent*)	3742 (54)	4243 (57)	4670 (57)	5492 (63)	3969 (65)
3.	Energy metered	NA	3523	3631	4069	2741
4.	Energy assessed for unmetered sales	NA	720	1039	1423	1228
5.	Assessed sales as percentage of metered sales	N.A	20.44	28.61	34.97	44.80

It would be seen from **Table-20** that the Board could bill only 54 *per cent* to 65 per cent of the total energy available for sale. Also, the percentage of unmetered assessed sales was 20.44 *per cent* in 2007-08 which increased continuously and risen upto 44.80 *per cent* in 2010-11. The reasons for the low billing percentage were high T&D loss, theft etc. An instance of under billing is given below:

Unmetered consumers were not billed for 1,386 MUs as per assessment

On test check of records in four Circles,[26] we observed that the Board assessed consumption of energy by unmetered consumers as 1,858 MUs for the respective categories during 2006-07 to 2010-11. However, the Board billed these consumers for 472 MUs at fixed rates in accordance with tariff for unmetered consumers. Thus, 1,386 MUs of energy valued at ₹ 504.67 crore remained unbilled without any justification, though the same was considered as consumption in assessment.

The Board did not submit any reply in this regard.

[25] For the period April 2010 to November 2010.

[26] Dhanbad, Chaibasa, Jamshedpur and Loyabad Circles.

Incorrect application of tariff

5.2.27 As per applicable tariff, consumers having contract demand /connected load above 107 HP/100 KVA were to be categorized under High Tension Services (HTS) and billed accordingly. We observed that in one Division (Adityapur) 16 consumers with connected load ranging between 114 HP to 243 HP had been billed under Low Tension Industrial Service (LTIS) category for a period ranging between 3 months to 58 months (upto November 2010) resulting in revenue loss of ₹ 56.04 lakh. Similarly, in three Circles[27], 12 LTIS consumers[28] having monthly maximum demand above 100 KVA were not categorized as HTS and were billed as LTIS for a period ranging seven to 30 months (upto March 2011) due to which the Board suffered revenue loss of ₹ 35.83 lakh. Thus, incorrect application of tariff resulted in loss of ₹ 91.87 lakh.

The Board stated (October 2011) that the matter would be investigated.

Delay in replacement of defective meters

5.2.28 As per Electric Supply Code, 2005 of JSERC, in case meter becomes defective or burnt and has stopped recording accurately the energy consumption reading, the consumer shall be billed on the basis of the average consumption of the preceding twelve months subject to a maximum period of three months. Thereafter, the defective meters should be replaced.

Average billing of 22 HT consumers, whose meters were defective, resulted in revenue loss of ₹ 18.20 crore

We observed that in three Electric Circles[29], meters of 22 HT consumers were defective during 2004. However, the Circle offices did not replace/repair the meters within the stipulated three months time and continued to bill the consumers at average rate for a period of 12 months to 74 months. Subsequently, on replacement of the defective meters the average energy consumption by the consumers for the succeeding 12 months was found to be high during the period meters remained defective beyond three months. Presuming the average energy consumed during this period the revenue loss worked out to ₹ 18.20 crore.

The Board stated (October 2011) that all HT consumers have since been metered. The reply is not based on facts as in one Supply Circle, meters of 2 HT consumers were defective since 2004 and meters of other three HT consumers remained defective for a period of four to 16 months (September 2011).

Under charging of Security Deposit

5.2.29 As per Tariff for the year 2010-11 effective from 1st May 2010, Security Deposit by the consumers was to be estimated by the distribution licensee based on the tariff, contract demand, sanctioned load, load factor *etc.* The Board issued order regarding fixation of the security deposit on 30 June 2010 *i.e.,* after two months from the effective date of tariff. We observed that in test checked 19 sub-divisions, recovery of security deposit at the new rates was started after a delay

[27] Dhanbad, Jamshedpur and Loyabad.

[28] Four consumers were subsequently categorized as HTS.

[29] Dhanbad, Chaibasa and Loyabad,

ranging upto seven months. Thus, security deposit of ₹ 49.09 lakh could not be recovered in respect of 4,223 new consumers.

The Board accepted (October 2011) audit observation.

Non-levy of surcharge for exceeding contracted demand

5.2.30 As per clause 16.5 of BSEB Tariff 1993, adopted by JSERC Tariff order 2003, if during any month in a financial year the actual maximum demand of a consumer exceeds 110 *per cent* (subsequently revised to 115 *per cent*) of the contract demand, then the highest demand so recorded shall be treated as the contract demand for that financial year and billing would be done accordingly. On test check of HT bills of 13 service connections relating to three Supply Circles[30], we noticed that the Board failed to levy surcharge of ₹ 19.88 lakh whose recorded demand exceeded 115 per cent of their contract demand during 2008-09 and 2009-10.

The Board did not submit any specific reply in this regard.

Revenue collection efficiency

5.2.31 As revenue from sale of energy is the main source of income of the Board, prompt collection of revenue assumes great significance. JSERC had fixed the collection efficiency of 100 *per cent* in the 'JSERC Distribution Tariff Regulations, 2010' as it was the responsibility of the Board to ensure collection of the amount for energy billed and if it fails to collect the billed amount it has no right to pass on its inefficiency to the paying consumers.

Table-21 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.

Table-21

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11 (Upto November 2010)
1	Balance outstanding at the beginning of the year	3885.46	4252.73	3576.73	3901.81	3337.12
2	Revenue assessed/Billed during the year	1536.93	1553.57	1691.57	1788.12	1285.73
3	Total amount due for realisation (1+2)	5422.39	5806.30	5268.29	5689.93	4642.85
4	Amount realised during the year	1178.42	1834.39	1339.94	1492.44	1139.88
5	Amount of prior period adjustment and other adjustments	(-)8.56	395.18	26.54	6.95	-
6	Balance outstanding at the end of the year	4252.73	3576.73	3901.81	3337.12	3482.92

[30] Chaibasa , Dhanbad and Loyabad.

7	Percentage of amount realised to total dues (4/3)	22	32	25	26	25
8	Arrears in terms of No. of months assessment	33	28	28	22	22

We observed from the above details that the amounts realized during the years were lower than the amount assessed during the respective years except in 2007-08 in which the Board had received ₹ 526 crore as one time settlement against the outstanding amount of GOJ. The arrears in terms of number of month's assessment came down from 33 months in 2006-07 to 22 months in 2010-11. In addition, the following further observations are made with regard to collection of revenue.

In one test checked Circle (Dhanbad), outstanding from HT consumers was ₹ 151.93 crore (March 2011) of which ₹ 100.68 crore were due from disconnected HT consumers supply to whom had been disconnected for over three years. We observed that ₹ 32.85 crore, outstanding from these consumers were involved in various disputes/certificate cases. The Board should follow up to resolve the cases for speedy realisation of the amount.

Age-wise analysis of the outstanding dues in three test checked circles as on 31 March 2011 revealed that individual dues valuing ₹ 10,000 or more which remained outstanding for more than three years amounted to ₹ 21.96 crore in respect of 2,335 LT consumers. The Board should monitor the outstanding dues effectively and follow up for their realisation.

On analysis of line disconnected consumers in two Supply Divisions[31], we observed that ₹ 23.01 lakh was outstanding against 89 consumers whose name/address had not been recorded in the consumer ledger. Possibility of recovery of this amount is bleak as matter is not being pursued with the disconnected consumers.

Due to incorrect computation of outstanding amount against Government departments/ Undertakings ₹ 395.17 crore remained unrealized

- The energy dues of the consumers of Government departments/ Undertakings as on 31.03.2007, as estimated by the Board was ₹ 928.64 crore (energy dues ₹ 525.92 crore and Delayed Payment Surcharge (DPS) ₹ 402.72 crore. GOJ paid only the energy dues of ₹ 526 crore towards one time settlement of all the dues up to 31.03.2007 and the DPS amount of ₹ 402.72 crore was waived by the Board. We observed that the Board did not consider the outstanding amount of ₹ 395.17 crore against *viz.* Tenughat Dam (₹ 193.59 crore), MADA (₹ 140.39 crore) and dues against some other Govt. consumers (₹ 61.19 crore) while working out the dues. These dues comprising energy charges of ₹ 323.12 crore and DPS of ₹ 72.05 crore remained outstanding even after one time settlement.

  Further, as per the scheme of settlement, the Board had to replace all the old Government connections with new meters and new consumer numbers so as to start billing afresh with effect from April 2007 to realise the energy bills of the State Government departments/Undertakings on regular basis. However, the Board did not take the measures as per the scheme and accumulation of

[31] New Capital, Ranchi and Doranda Electric Supply Division.

dues continued as earlier. The outstanding dues as on 31.08.2010 went up to ₹ 606 crore (including the arrear of ₹ 395.17 crore pertaining to the period before March 2007). The GOJ paid only ₹ 100 crore treating the payment as one time settlement of all dues against it. The Board, however, did not agree to this and requested for payment of balance ₹ 506 crore. No further payment has been received as yet (October 2011).

The Board stated (October 2011) that all out efforts were being made to recover the dues from State Government Departments.

Failure to disconnect supply of consumers having arrears

5.2.32 As per Electric Supply Code, 2005 of JSERC, energy supply shall be disconnected temporarily in case electricity dues are not deposited by the consumer within due date indicated in the bill. We observed in five test checked Circles that Service connections of 17,253 LT consumers with dues of more than ₹ 10,000 and having accumulated arrears of ₹ 93.16 crore were not disconnected though the arrear amount exceeded the amount of Security deposit. Of this, dues of ₹ 53.46 crore in respect of 7,936 consumers remained outstanding for more than one year. This indicates that prompt action was not taken as per rules for effective realisation of energy dues.

The Board, stated (October 2011) that it had started monitoring of disconnection of defaulting consumers and hoped to recover the dues of running consumers by way of disconnecting their lines within three / four months.

Delay in encashment/ Non-encashment of cheques

Failure to deposit cheques amounting to ₹ 4.33 crore in the bank resulted into non-realisation of revenue besides interest loss of ₹ 1.55 crore

5.2.33 In Electric Supply Sub-Division (Jhumritalaiya), we observed that 22 cheques amounting to ₹ 4.33 crore received from one HT consumer during the period September 2007 to December 2008 were not deposited in the Bank and remained (January 2009) in the cashier's custody. The validity of 15 cheques out of the 22 cheques amounting to ₹ 2.06 crore had already expired. The remaining seven cheques amounting to ₹ 2.27 crore which were valid on that date were deposited in the Bank. But the same were dishonoured and the amount remained un-realized (February 2011). Proper monitoring of timely collection of the amount in the Board's Account was not done at the level of Division/Circle Office and Board Headquarters due to which the incidence of non deposit of cheques in the bank remained un-detected and ₹ 4.33 crore remained un-realised with consequential interest loss of ₹ 1.55 crore.

The Board stated (October 2011) that necessary administrative and disciplinary action had been taken against the erring officers.

Dishonoured cheques

5.2.34 As per clause 11.6.6 of JSERC Electricity Supply Code 2005, in case the cheques of consumers are dishonoured, action may be initiated for disconnection, treating it as a case of non-payment. Payment through cheque may not be accepted from such consumer for a period of one year thereafter. In Adityapur Sub-division – II of Jamshedpur Circle we noticed that a High Tension Special Services (HTSS)

consumer (KYS Manufacturing & Import consumer No. HJAP-144) was making payment against energy bill by cheques. During May 2006 to November 2010 cheques deposited were rejected by the bank which were subsequently presented to the bank and were credited in the Board account after a delay ranging between 9 to 41 days from the due date of payment. The Board should have asked the consumer to pay future bills by means of demand draft which was not enforced. We observed that during May 2006 to November 2010, DPS amounting to ₹ 15.20 lakh was not recovered in such cases though realisation of the energy dues was delayed. Rather rebates amounting to ₹ 1.87 lakh for timely payment were also allowed to the consumer resulting in loss of ₹ 17.07 lakh to the Board.
In two Electric Supply Circles (Loyabad and Chaibasa) we observed that five revenue cheques deposited by two consumers (Renuka Ispat (P) Ltd. - HTSS consumer No. KT1719 and Nova Metals-consumer No. HN17) were dishonoured and were subsequently paid by cheque. Despite delay in payment of energy bills, DPS was not levied besides allowing the consumer timely payment rebate, load factor rebate resulting in a loss of ₹ 7.24 lakh to the Board.

The Board stated (October 2011) that report had been called for from the concerned Electrical Superintending Engineer.

Non-realisation of revenue due to time bar

Energy dues aggregating ₹ 53.55 crore became time barred

5.2.35 As per Section 3 of Limitation Act 1963, any suit initiated for recovery of sale price after a prescribed period of three years shall be dismissed. Further, as per Section 56(2) of the Electricity Act, 2003, any sum due from any consumer shall not be recoverable after a period of two years from the date when such sum became due. In case of consumers, whose electricity supply has been disconnected due to non-payment of energy dues, recovery certificates are required to be filed promptly to realise the dues within three years from the date of disconnection so that the dues will not become time barred. We observed in three test-checked circles[32] that the Board had disconnected the lines of 29,287 consumers. However, legal action was not taken during the limitation period. As a result, dues aggregating to ₹ 53.55 crore[33] became irrecoverable.

The Board accepted the audit contention and stated (October 2011) that now all out efforts are being taken by the Board to file certificate cases within time.

Financial Management

5.2.36 Efficient fund management serves as a tool for decision making, for optimum utilisation of available resources and borrowings at favourable terms at appropriate time. The financial management of the Board includes revenue collection, billing, borrowings, grants, transfer of funds, interest recovery/ payments, restructuring of loans, security deposits, bank reconciliations and other related transactions.

[32] Chaibasa, Dhanbad and Loyabad.

[33] Excluding the amount already reported in Audit Report 2006-07.

The Board had outstanding dues of ₹ 3,337.12 crore against the consumers at the end of the year 2009-10, on the other hand it was availing overdrafts from the banks for payment of power purchase bills. The bank overdrafts amounted to ₹ 73.92 crore at the end of the year 2009-10. The interest paid on overdrafts amounted to ₹ 3.67 crore in 2009-10.

Delay in remittance

Daily collections at Sub-Divisions of the Board were deposited in a non-operating account on day-to-day basis in the specified bank branches from where these are credited to the Board's Collection account. The funds are required to be transferred to the Head Office account on daily basis if the daily deposits exceeded ₹ one lakh. In case of delay in remittance, the Board was entitled for interest at the prescribed rate from the bank. During test check in one Sub-division (Ghatshila) we noticed that cheques pertaining to revenue amounting to ₹ 55.48 crore deposited in the Bank during 2006-11 was remitted to the Headquarters account with a delay ranging between 1 and 57 days resulting in interest loss of ₹ 13.53 lakh. The Board has not claimed the interest from the banks.

The Board stated (October 2011) that the matter of remittance of fund from field offices on daily basis had been taken up with the banks.

Subsidy Support and Cross-Subsidisation

5.2.37 There is an urgent need for ensuring recovery of cost of service from consumers to make the power sector sustainable. The State Government is providing subsidy with a view to ensure supply of power to specific category of consumers at concessional rates of tariff.

Subsidy Support

5.2.38 Recovery of the cost of electricity in a reasonable manner is one of the guiding principles for determination of tariff. The Act also gives discretion to a State Government to grant subsidy to any consumer or class of consumers in a tariff determined by SERC which the State Government is required to pay, in advance. As per the tariff order for the Board for 2003-04, JSERC had granted subsidy ranging between 63 to 86 *per cent* of the average cost of supply to domestic consumers, street light, non-domestic-I, irrigation and agricultural services and directed the GOJ to pay the subsidy. Accordingly, the Board submitted claim of ₹ 40 crore which had not been paid so far by GOJ. The Board had not claimed subsidy from the GoJ during the years 2006-07 to 2010-11. On the other hand GOJ provided grant of ₹ 967.27 crore as resource gap during the years 2006-07 to 2010-11 for meeting liabilities against payment of power purchase, payment to employees, *etc.*

The Board stated (October 2011) that the resource gap provided by the GOJ was to meet the mandatory requirement of the Board like power purchase and increased rural consumption. It was also stated that the Board needed subsidy on account of domestic, rural and urban consumers as well as for irrigation and agriculture connections.

Cross-subsidisation

5.2.39 Section 61(g) of the Electricity Act, 2003, stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and the Commission reduces cross subsidy within a specified period. National Tariff Policy 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 as regards cross-subsidies in various sectors, during 2010-11 is depicted in **Table-22**:

Table-22

Particulars	2010-11	
Average cost of supply (ACOS)(Paise per unit)		357
	Paise per Unit	**Per centage of ACOS**
Domestic	137	38.37
Non-domestic	442	123.81
Low Tension	521	145.94
Irrigation & Agriculture	73	20.45
High Tension Service	451	126.33
Public Water Works	451	126.33
Railway Traction	497	139.22
Street Light Services	124	34.73
Military Engineering Service	276	77.31

It may be seen from **Table-22** that during 2010-11, the average revenue in respect of Domestic, Irrigation/Agriculture, Street Light Services and Military Engineering Services consumers was lower than the ACOS at 23 to 80 *per cent* in 2010-11. The average revenue was higher than ACOS in case of Non-domestic, Low-tension, High tension, Public Water Works and Railway Traction consumers by 24 to 46 *per cent* in 2010-11. Thus, the gaps in tariff fixation under various categories of consumers were more than plus minus 20 *per cent* of ACOS and were not reduced during the years of audit.

The Board stated (October 2011) that the JSERC had fixed the tariff on the basis of provisional accounts which have to be trued up on the basis of audited accounts of the Board and the subsidisation/cross subsidisation would be firmed up accordingly.

Tariff Fixation

5.2.40 The financial viability of the Board depends upon generation of surplus (including fair returns) from the operations to finance their operating needs and future capital expansion programmes by adopting prudent financial practices.

Revenue collection is the main source of generation of funds for the Board. While other aspects relating to revenue collection have been discussed in preceding paragraphs, the issues relating to tariff are discussed here under:

The Board was required to file the ARR for each year 120 days before the commencement of the respective financial year. The JSERC accepts the application filed by the Company with such modifications/conditions as may be deemed just and appropriate and after considering all suggestions and objections from public and other stakeholders. JSERC had issued first Tariff Order for the Board for the financial year 2003-04 and thereafter issued Tariff Orders for 2006-07 in August 2007. As the tariff order for 2006-07 was not favourable to the Board it filed an appeal before the Appellate Tribunal for Electricity (APTEL). The APTEL directed (May 2008) the Commission to relook the entire tariff setting exercise in pursuance of which JSERC directed the Board to submit their audited accounts. As the Board failed to submit the audited accounts, JSERC did not accept the tariff petition. JSERC also did not consider the ARR for 2007-08 and 2008-09 and Tariff petition for 2008-09 due to same reason. JSERC passed (April 2010) suo-motu order fixing the tariff for 2010-11 and provisionally trued up the ARR for 2003-04 to 2008-09. Thus, Board failed to submit its audited accounts for the year 2006-07 to 2009-10 due to which the JSERC did not finalise the tariff order for the above years.

The Board admitted (October 2011) that non-submission of tariff petitions in time was due to the reason that annual accounts could not be finalized on account of settlement of Assets and Liabilities of the Board and BSEB.

We, however, observed that the distribution of Assets and Liabilities between the Board and erstwhile BSEB was notified by the Ministry of Power, GOI in November 2004. However, the accounts for 2001-02, submitted (June 2005) for audit was not prepared adopting the opening balances notified by the MOP. The Board decided (March 2008) to recast the accounts taking into account the opening balances notified by the MOP. The accounts were presented for audit of CAG in December 2009 on which the Separate Audit Report (SAR) was issued in August 2010. Thus, unwarranted delay of seven years occurred in preparation of annual accounts for 2001-02. Subsequently, annual accounts for the years 2002-03 to 2009-10 were presented during April 2010 to January 2011, for audit by CAG; of which annual accounts upto 2005-06 have been audited.

Due to non revision of tariff, the Board had to supply power during the years 2006-07 to 2009-10 to the consumers at the tariff for the year 2003-04 which impacted the working capital of the Board. Detailed analysis revealed that the tariff was not sufficient even to recover the Variable costs as shown in **Table-23**:

Table-23

(₹ in crore)

Year	Sales (excluding subsidy)	Variable costs	Contribution
(1)	(2)	(3)	(4)=(3-2)
2006-07	1406.96	1667.41	260.45
2007-08	1391.23	1806.50	415.27
2008-09	1584.91	1995.94	411.03
2009-10	1634.37	2141.61	507.24

Though, lower tariff due to its non-revision from 2004-05 to 2009-10, was one of factors for non recovery of the costs, the same could have been controlled to a large extent by improving operational efficiency, *viz.,* reduction in/ control of AT&C losses, metering of unmetered connections, replacement of defective meters, improving billing and collection efficiency, *etc,* which have been discussed earlier in the review.

The Revenue Gaps in the Tariff for the years 2006-07 to 2009-10 are as given in **Table-24**:

Table-24

(₹ in crore)

Particulars	2006-07	2007-08	2008-09
Annual Revenue Requirement	2902	3142	3651
Revenue at the existing tariff (2003-04) including grants as resource gap	2171	1482	1603
Revenue Gap	731	1660	2048
Revenue gap approved by JSERC	390	382	389

There was a revenue gap of ₹ 4,439 crore as per the ARR filed by the Board during the period 2006-07 to 2008-09 against which JSERC had approved a revenue gap of only ₹ 1,161 crore. Thus, revenue requirement of ₹ 3,278 crore remained uncovered.

We observed that JSERC had not approved following expenditure treating them as the cost of inefficiency of the Board:

- ₹ 550.82 crore towards inefficient cost of generation of electricity in its thermal power plant (PTPS) during 2006-07 to 2010-11.
- ₹ 1,769.85 crore due to high Transmission and Distribution losses.
- ₹ 66.58 crore on Repair and Maintenance during 2006-07, 2007-08 and 2008-09 and Interest/Finance charges of ₹ 298.34 crore in 2007-08 and ₹ 496.13 crore in 2008-09.

Consumer Satisfaction

5.2.41 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. The Board was required to introduce consumer friendly actions to enhance satisfaction of consumers and reduce the advent of grievances among them. The billing issues have already been discussed in preceding paragraphs. The redressal of grievances is discussed below:

Redressal of Grievances

5.2.42 The JSERC specified the mode and time frame for redressal of grievance in JSERC (Distribution Licensee's Standards of Performance) Regulations, 2005 in pursuance of the Electricity Act, 2003. The Commission had also prescribed the Standards of Performance for the Board in which the time limit for rendering services to the consumers and compensation payable for not adhering to the same was prescribed. The nature of services contained in the Standards *inter-alia* include action to be taken in the event of line breakdowns, Distribution Transformer failures, period of load shedding/ scheduled outages, voltage variations, meter complaints, installation of new meters/ connections or shifting thereof, *etc.*

In the Tariff Order for 2006-07, JSERC had directed the Board to implement the Standards of Performance (SOP) by January 2008 and submit the compliance report, failing which the energy charges for all categories was to be reduced by 2.5 *per cent* from January 2008. As the Board had not submitted the compliance report, JSERC had imposed penalty of ₹ 68.42 crore for the years 2007-08 to 2009-10. However, the Board had submitted the compliance report stating that it had implemented the various SOPs like setting up of fuse call centres and computerized complaint registration & monitoring system, organizing customer meets, resolving consumer grievances within the specified timeframe etc. and further stated that no consumer had either made any claim for non-compliance against any of the standards nor it had to pay any compensation due to its failure so far. Considering the compliance of the SOPs, JSERC, in its Tariff Order for 2011-12 had not imposed any penalty in subsequent years though it had not refunded the penalty of ₹ 68.42 crore to the Board.

Delay in release of new service connections

5.2.43 As per Section 43(3) of the Electricity Act, 2003, every distribution licensee, shall on application by the owner of any premises, give supply of electricity to such premises, within one month after receipt of the application. If the licensee fails to supply the electricity within the specified period, it shall be liable to pay a penalty to the applicants/consumers which may extend to one thousand rupees for each day of default.

The position of the number of applications received vis-a-vis connections released in respect of LT consumers in 15 Sub-divisions of the Board for the last five years upto 2010-11 was as given in **Table-25**:

Table-25

Year	No. of applications received	Connections released as on 31 March 2011	No. of pending applications as on 31 March 2011
2006-07	32263	22179	10084
2007-08	30438	21370	9068
2008-09	33652	25075	8577
2009-10	33897	23252	10645
2010-11	49517	19127	30390
Total	**179767**	**111003**	**68764**

Connections to 62 *per cent* applicants only were released during 2006-07 to 2010-11

It may be seen from **Table-25** that service connections were released in respect of 62 *per cent* of the total applications received during the last five years upto 2010-11 and 68,764 applications remained pending as on 31 March 2011. JSERC had observed that the Board did not have a robust system to ensure that the consumers who are unable to get the new connections in time do not resort to hooking and theft of energy. As such, there was every possibility of theft of energy by these applicants during the period connections were not provided to them.

The Board stated (October 2011) that the applications for new connections remain pending in cases where the Board faced constraints like extension of HT/ LT lines, installation of Distribution transformers and non availability of meters. Reply of the Board is not acceptable as 10,084 applicants were not provided the connection which remained pending for a period above four years.

5.2.44 We further observed that the Board received applications for new connections from Drinking Water and Sanitation Department, Jamshedpur and Multi Mineral Processing Ltd., Dhanbad for HT connections in February 2008 and September 2008 respectively. Load sanction/energisation in respect of these connections was made in May 2010 and October 2009 *i.e.* after a delay of 22 months and 8 months respectively leading to loss of ₹ 64.50 lakh towards Minimum Monthly Charges due to delay in energizing the connections. No reasons were assigned by the Board for the delay in giving connections.

Disposal of complaints

5.2.45 JSERC directed (April 2010) the Board to implement the complaint redressal mechanism at the grass root level within six months and to submit the compliance report to JSERC. However, no such mechanism has been implemented by the Board.

The overall position regarding receipt of complaints and their clearances is depicted in **Table-26**:

Table-26

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Total complaints received	66	55	24	18	53
2.	Complaints redressed within time	36	18	04	04	09
3.	Complaints redressed beyond time	30	37	20	14	44
4.	Percentage of complaints redressed beyond time to total complaints	45	67	83	78	83

It can be seen from **Table-26** that redressal of complaints was not prompt as 45 to 83 *per cent* of the complaints received during the years were redressed beyond the prescribed time. However, no compensation was paid to the consumers in this regard.

Monitoring by top Management

5.2.46 The Company plays an important role in the state economy. For an organization to succeed in operating economically, efficiently and effectively, there should be well documented management system of operations, service standard and targets. Further, there has to be a Management Information System (MIS) to report on achievement of targets and norms. The achievement need to be reviewed to address deficiencies and also to set targets for subsequent periods so as to make an organization self-reliant.

In this regard, we observed as follows:

- The Board did not have a long term plan for creation of distribution infrastructure and the annual plan was not fully implemented within the same year.

- A reliable and comprehensive MIS on distribution network was not in existence to facilitate quick decision making at the apex level and the Board had to collect the data from field units time and again.

- The Board has a system of reporting the monthly status of collection of revenue. However, remittance of the same to the Board account by its Supply Sub-divisions was not monitored at Headquarters as there were instances of delay in remittance of the daily collections to the Board account, dishonor of revenue cheques received from the consumers remaining undetected for a considerable period. This indicates deficient monitoring and lacking in follow up of the MIS.

- Due to lack of monitoring and failure in taking prompt decision at the Government/Board level, the Board could not resolve the issues relating to distribution of assets & liabilities with the GOJ promptly after its formation which delayed the finalization/audit of its first accounts by about seven years and the Board failed to submit its audited accounts to JSERC resulting in non issue/delay in issue of tariff order.

- The Board did not monitor the energy assessment for unmetered consumers to contain the T&D and AT&C losses.

Conclusion

- **The Board had not prepared long term plan for upkeep of the existing network and additions in distribution network.**
- **The Board failed to implement the Central schemes *viz*. RGGVY and APDRP schemes in economical, efficient and effective manner as these schemes could not be completed timely, their objectives were not fully achieved. Also there was no proper mechanism to charge the already electrified villages under RGGVY and to bill the BPL consumers as per the meter reading.**
- **The number of unmetered consumers was 8.92 lakh in 2010-11, which was 57 *per cent* of the total consumers. Target of 100 *per cent* metering of DTRs and feeder was not achieved and there was delay in replacement of defective meters of HT consumers.**
- **The Board had purchased energy at higher cost due to non availability of transmission line in DVC command area.**
- **The transmission and distribution losses decreased from 46 *per cent* to 35 *per cent* during 2006-07 to 2010-11. However, they were above the JSERC norms.**
- **No mechanism exists for correct assessment of unmetered consumers resulting in unbilled energy of 1,386 MUs during 2006-07 to 2010-11 in four supply circles.**
- **Outstanding balance of ₹ 3,483 crore remained to be realized by the Board which was equivalent to 22 months assessment.**

Recommendations

The Board may consider:

- **preparing long term plan for upkeep of the existing network and additions in distribution network;**
- **immediate completion of the Central schemes, strengthening mechanism for charging the electrified villages under RGGVY and billing of the BPL consumers as per meter reading to ensure that the full benefits of the schemes are passed on to eligible beneficiaries;**
- **metering of all consumers, DTRs and feeders and replacement of the defective meters promptly;**
- **establishing transmission line to ensure purchase of power at the lowest cost in DVC command area;**
- **concentrating on areas with high distribution losses to bring down the same within the permissible norm of JSERC;**

- **developing mechanism for correct assessment of unmetered consumers; and**
- **pursuing vigorously the recovery of outstanding energy bills from the consumers.**

Section 'B' Transaction Audit Observations

Important audit findings emerging out of test check of transactions of the State Government companies/corporation are included in this Chapter.

Government Companies

Jharkhand State Mineral Development Corporation Limited

5.3 Re-imbursement of Service Tax

The Company re-imbursed Service Tax amounting to ₹ 2.41 crore during 2010-11 in violation of the provision of the agreement leading to extension of undue benefit to the contractor.

The Company entered into an agreement (November 2004) with M/s Sanjay Transport Agency (contractor) for hiring of Heavy Earth Moving Machinery (HEMM) for deployment at its Sikni Coal Project at a rate of ₹ 271.87 per MT of coal raised and dispatched from the mines. The agreement, *inter alia*, stipulated that all taxes, whether local, municipal, State or Central, payable or becoming payable, shall be on the Agency's account and shall be deemed to have been included in the HEMM hiring rate.

The Finance Act, 2007 brought mining operations into the Service Tax net with a stipulation that services provided or to be provided on or after 1 June 2007 were liable for payment of Service Tax at the rate of 12.36 *per cent*. The onus to pay Service Tax was on the service provider under the provisions of the Act.

We noticed (February 2011) that the contractor claimed (February 2008) reimbursement of Service Tax of ₹ 2.41 crore payable on the services relating to mining operation provided to the company from May 2008 to December 2009. However, the Company reimbursed (January 2011) Service Tax to the mining contractor in contravention of the provision in the agreement**.** This included Service Tax of ₹ 5.90 lakh for the work done before 1 June 2007. Thus, the company paid ₹ 2.41 crore towards re-imbursement of the Service Tax in contravention of the provision in the agreement. This led to extension of undue benefit to the contractor.

The Management stated (May 2011) that reimbursement of the Service Tax to the contractor was made as per legal opinion obtained by the Company which opined that Service Tax payable by the contractor on services provided to the Company was reimbursable. The reply of Management is not acceptable as the Service Tax was not reimbursable to the contractor in terms of Clause 6 of the agreement.

The matter was reported to Management/Government in May 2011; their reply is awaited.

Jharkhand Police Housing Corporation Limited

5.4 Avoidable payment of interest on Income Tax

Delay in filing the Income Tax Return and non-payment of Advance Income Tax resulted in avoidable payment of interest amounting to ₹ 25.06 lakh.

Section 211 of the Income Tax Act, 1961 (Act) provides that each company is required to pay advance tax at the prescribed rates on the due dates. In the event of non/short payment of Advance Tax and/or underestimation of installments of Advance Tax, the company is liable to pay interest under section 234B and 234C of the Income Tax Act. Further in terms of the provision of section 234A, in case, the return of income for any Assessment Year is furnished after the due date, simple interest at the rate of one *per cent* for every month or part of a month is chargeable on the amount of Tax on the Assessed Income less Advance Tax Paid and Tax deducted/collected at source.

During audit scrutiny (March 2011), we observed that the Company paid Advance Income Tax for the Assessment Year 2009-10 (Financial Year 2008-09) after a delay of 15 months and filed the Return after a delay of nine months. This attracted imposition of interest under the Act. The Company computed its Taxable Income as ₹ 215.87 lakh and paid (July 2010) ₹ 81.84 lakh, including interest of ₹ 8.47 lakh, to the Income Tax Department under sections 234A, 234B and 234C of the Act due to non-payment of advance income tax in time and delay in filing of the Return.

Similarly, the Company paid Advance Tax for the Assessment Year 2010-11 also after a delay of seven months. As against the Tax Liability of ₹ 219.05 lakh on Taxable Income of ₹ 644.45 lakh for the Assessment Year 2010-11, the Company paid interest of ₹ 16.59 lakh on Income Tax for the Assessment Year 2010-11. The Return was filed after a delay of one month. Thus, owing to failure to comply with provisions of the Income Tax Act, the Company paid avoidable interest of ₹ 25.06 lakh for the Assessment Year 2009-10 and 2010-11.

The Management stated (July 2011) that the Income-tax liability during 2008-09 and 2009-10 arose due to interest income earned by investment of the funds received from the GOJ/GOI as mobilization advance. As the funds were kept as flexi deposits in bank for which no fixed interest was stipulated, it was difficult to ascertain in advance the interest income likely to accrue on them. It was also stated the Board of Directors of the Company did not take decision regarding payment of interest to GOJ against the interest income received on these funds due to which amount of advance tax could not be ascertained.

The reply confirms the Company's failure to assess the interest income and comply with legal provisions of the Income Tax Act, resulting in avoidable payment of interest of ₹ 25.06 lakh as also violation of the provisions of the Act.

It is recommended that the Management should ensure payment of advance tax on due dates as also filing of the Return within the prescribed time to avoid violation of the provisions of the Act.

The matter was reported to Government in May 2011; their reply is awaited.

Tenughat Vidyut Nigam Limited

5.5 Wasteful procurement

The Company procured APH Baskets for Hot End valuing ₹ 66.31 lakh in September 2009 from an unauthorised vendor and the same remained unutilized.

Under the Partnership-in-Excellence Programme of Ministry of Power, capital overhaul of Unit I and II of Tenughat Thermal Power Station (TTPS), Lalpania was to be carried out by the National Thermal Power Corporation Limited and BHEL was associated for finalising work scope and delivery of spares. Accordingly, the Company made an enquiry (30 June 2006) from M/s BHEL for supply of spares which included two sets of Air Pre Heater (APH) Baskets for Hot End (HE), Intermediate End (IE) and Cold End (CE). A Purchase Order (PO) was placed (December 2006) on M/s BHEL for supply of two sets of APH Baskets for HE, IE and CE at a cost of ₹ 3.80 crore**.** These spares were the proprietary items of BHEL. Simultaneously, the Company was also processing procurement of two sets of APH Baskets through open tender. Accordingly, the Company, requested (February 2007) M/s BHEL to supply only one set of APH Baskets for HE, IE and CE instead of two sets. BHEL refused (February 2007) to reduce the quantity stating that two sets of APH Baskets were manufactured and dispatched to TTPS. Further, BHEL stated that they had come to understand that the Company was in the process of placing PO for another set of APH Basket on a supplier who had no design, drawings and other details for manufacturing of APH Baskets and added that they had not licensed any vendor to manufacture the same.

We observed that despite refusal from BHEL to reduce the quantity (February 2007) and the need to adhere to the proprietary items, the Purchase Committee recommended (March 2007) to place POs for procurement of two sets of APH Baskets for HE on M/s Balaji and CE and IE on M/s ASPA at a total cost of ₹ 1.88 crore, being lowest tenderers. POs were issued to M/s ASPA & M/s Balaji in October 2008 with scheduled delivery period of nine months. M/s Balaji supplied (August/September 2009) two sets of APH Baskets for HE at a cost of ₹ 66.31 lakh. POs issued to M/s ASPA were cancelled (June 2011). It was also observed that two sets of the APH Baskets supplied by BHEL were utilized in Capital overhauling of Unit No.I (January-May 2008) and Unit No.II (November-December 2009). However, HEs procured from M/s Balaji could not be utilized (June 2011). Thus, the Company incurred wasteful expenditure of ₹ 66.31 lakh on procurement of HEs from an unauthorized vendor.

The Management stated (June 2011) that orders were placed on M/s ASPA and M/s Balaji to take advantage of competitive price of M/s BHEL and keep them as spares to meet unforeseen situation. The reply is not convincing because the Company should have not procured proprietary items from an unauthorized vendor.

The matter was reported to Management/Government in June 2011;their reply is awaited.

Ranchi, **(MRIDULA SAPRU)**
The **Principal Accountant General (Audit)**
Jharkhand

Countersigned

New Delhi, **(VINOD RAI)**
The **Comptroller and Auditor General of India**