# EXECUTIVE SUMMARY

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## Introduction

With the objective of improving the health of State-owned DISCOMs, the Ministry of Power (MoP) of Government of India (GoI) launched the Ujwal DISCOM Assurance Yojana (UDAY) Scheme in November 2015. The Scheme envisaged reforms for realising affordable and accessible 24x7 power for all through financial turnaround and improving operational efficiency of DISCOMs. A tripartite Memorandum of Understanding (MoU) was signed amongst GoI, Government of Kerala (GoK) and Kerala State Electricity Board Limited (KSEBL) in March 2017, specifying the responsibilities of the respective parties for achieving the operational parameters only, and not for financial turnaround part under UDAY.

This Performance Audit was taken up to assess the performance of KSEBL for achieving the intended goals, *viz.*, better financial performance of DISCOM as well as the targeted operational improvement and intended outcomes envisaged in the Scheme and the tripartite MoU. Audit selected a sample of 12 out of 43 Restructured Accelerated Power Development and Reforms Programme (R-APDRP) towns for analysing the performance of KSEBL on reducing Aggregate Technical and Commercial (AT & C) loss, a key performance indicator under UDAY.

## Planning

As per MoU, KSEBL was required to prepare a detailed action plan for various targeted activities focusing on AT & C loss reduction for its implementation. Audit noticed that though KSEBL prepared and submitted action plan to MoP, the works related to improving the HT:LT ratio, optimising Distribution Transformer capacity, constructing more unmanned 33 kV sub-stations etc. were not completed.

## Financial Management

While executing the MoU, KSEBL did not opt for take-over of DISCOM debt by GoK stating that its debt position, financial loss and AT & C loss were relatively low when compared to other DISCOMs in the country. Nonetheless, the MoU envisaged that KSEBL would improve its financial performance and report profits for 2017-18 and 2018-19. The activities of KSEBL, however, resulted in financial losses, and its loss increased by 161.47 *per cent* from ₹696.96 crore in 2015-16 to ₹1,822.35 crore in 2020-21. The long-term debt of KSEBL increased substantially by 318.72 *per cent* from ₹3,753.51 crore in 2015-16 to ₹15,716.79 crore in 2020-21, mainly on account of employees' pension liability. As the MoU did not provide for the financial turnaround part, there was no takeover of debt of KSEBL by GoK under the Scheme.

The expenditure incurred by KSEBL on employee benefits and power purchase increased considerably during 2015-21, which could not be fully recovered through tariff as KSERC deducted the claim of KSEBL towards pay and allowances of 6,367 employees while issuing orders on truing up of accounts for 2017-18. The execution of MoU under UDAY for improving operational efficiency alone did not bring about the intended benefit of the Scheme to KSEBL as takeover of DISCOM debt was not envisaged in the MoU.

The total arrears of electricity charges recoverable from HT and LT consumers also increased during post-UDAY period by 10.40 *per cent* from ₹2,121.70 crore (March 2017) to ₹2,342.36 crore (March 2021).

## Implementation

As per the Scheme, the gap between Average Cost of Supply (ACS) and Average Revenue Realised (ARR) should be eliminated by 2018-19. Instead of targeted reduction of gap between ACS and ARR, there was an increase in the gap from ₹0.31 per unit in 2015-16 to ₹0.72 per unit in 2020-21.

The MoU required KSEBL to file tariff petitions in time so that the envisaged tariff revision could be achieved. However, there was delay in filing of annual tariff petitions during 2015-18 for recovery of cost of power supply. There was also delay in filing of truing up petitions which led to an accumulated unbridged revenue gap of ₹6,778.74 crore.

As per UDAY MoU, KSEBL was required to reduce AT & C loss to 11 *per cent* and transmission loss to 4.40 *per cent* by 2018-19. KSEBL reported reduction in overall AT & C loss from 12.48 *per cent* in 2016-17 to less than 11 *per cent* during 2018-19 and 2019-20, and an increase in AT & C loss to 11.18 *per cent* during 2020-21. Transmission loss fell from 4.27 *per cent* in 2016-17 to 3.63 *per cent* in 2020-21. The targeted AT & C loss was not measurable and reportable at Electrical Divisions as ring fencing of Divisions was not complete. Further, some of the R-APDRP towns were unable to achieve the targeted reduction in AT & C loss due to data collection/ network communication issues.

UDAY MoU envisaged implementation of smart metering solution for consumers having monthly usage of more than 200 units. It also mandated implementation of Enterprise Resource Planning (ERP) system for improving efficiencies. KSEBL did not implement smart metering for consumers despite availability of GoI grant of ₹38.94 crore under the Integrated Power Development Scheme (IPDS) and selection of KPMG as Project Management Agency due to delay in deciding on the bidding process and the area/ locations to be served by the project. Implementation of ERP system with GoI grant of ₹22.76 crore under IPDS was also delayed as bidders were not willing to supply free-and-open-source based ERP software. KSEBL subsequently decided to develop the system in-house.

Demand side management (DSM) was one of the areas mentioned in UDAY MoU for augmenting energy efficiency. KSEBL distributed 1.41 crore LED bulbs in three lots to domestic consumers under the Domestic Efficient Lighting Programme of GoI. However, it collected an excess amount of ₹38.71 lakh from consumers due to incorrect fixation of selling price for the first lot of bulbs supplied during January – December 2016. KSEBL also charged DSM fund contribution of ₹7.77 crore and extra margin of ₹1.42 crore from consumers, which was improper as the scheme was not intended for generating profit. KSEBL did not implement DSM scheme for replacing at least 10 *per cent* of the estimated five lakh inefficient agricultural pump sets as envisaged in UDAY MoU.

KSEBL was required to meet the targets fixed for Renewable Purchase Obligations (RPOs) by Kerala State Electricity Regulatory Commission. Though it took efforts for development of renewable energy, it did not meet the target RPOs. The value of Renewable Energy Certificates to be purchased by KSEBL to meet the shortfall in achieving RPOs up to March 2021 was assessed at ₹495.95 crore.

## Monitoring and Evaluation

The monitoring of the implementation of the scheme was found to be inadequate. As per MoU, review of performance of KSEBL was to be done by State Level Monitoring Committee (SLMC) with a representative from State Finance Department. However, there was no record of meetings of SLMC. The constitution of SLMC was without a nominee from the Finance Department.

KSEBL also did not devise Key Performance Indicators (KPIs) on areas of AT & C loss and metering/ billing/ collection efficiencies as envisaged in UDAY MoU. For other areas where KPIs were devised, there were no benchmarks for assessing the efficiency.

## Conclusion

KSEBL could not achieve improvement in financial performance during UDAY and post UDAY periods as it was unable to curtail employee and power purchase costs. It did not consider the liabilities towards pension payments and pay revision of employees and power purchase committed under long-term contracts while projecting the financial targets in UDAY MoU. Moreover, KSEBL could not reap the full benefit of the Scheme by deciding to opt out of financial turnaround package and signing up for improvement of operational parameters only. As a result, the operations of KSEBL resulted in continuous losses in all financial years during 2015-21.

As regards operational parameters, KSEBL could not eliminate the ACS-ARR gap, implement smart metering and ERP projects and meet the target fixed for RPOs. Benchmarks were absent for KPIs formulated, and no KPIs were devised on areas of AT & C loss reduction and metering/billing/collection efficiency. Reduction in AT & C loss to less than 11 *per cent* was not sustained during 2020-21, which had a bearing on financial performance.

## Recommendations

To ensure that the intended benefit of GoI schemes accrue in full to State Government and its undertakings/companies, Audit recommends that GoK may, in future, ensure that it fully analyses and takes advantages in all respects of schemes having financial and operational/other implications. It is also recommended that GoK may periodically monitor the progress of major projects/ works undertaken by KSEBL under various schemes/ programmes.

Audit recommends that KSEBL may take suitable steps to prune administrative and power procurement costs. Works related to ring fencing of Electrical Divisions and development of IT modules for data acquisition and energy auditing may be expedited and steps may be taken to monitor and contain AT & C losses of all R-APDRP towns. Further, KSEBL should strive to improve the HT:LT ratio, implement HVDS in more places, ensure GIS mapping and indexing of all consumers, and devise KPIs with benchmarks for improving efficiencies. It may also consider implementation of smart metering solutions for improving efficiency and collaborate with Bureau of Energy Efficiency and Energy Efficiency Services Limited for implementing energy efficiency programmes for deriving the best results in energy conservation. It is also recommended that KSEBL may analyse the reasons for increasing losses and plug them before they go awry, and also rationalise the manpower and bring down the employee costs to an efficient and sustainable level.