



**CHAPTER I**

**INTRODUCTION**



# CHAPTER I

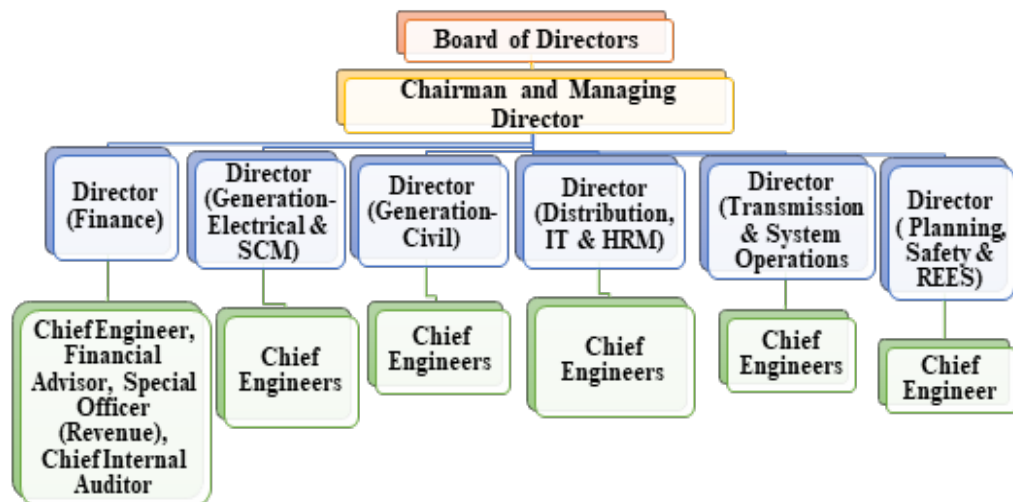
## INTRODUCTION

**1.1** Kerala State Electricity Board Limited (KSEBL) is the successor entity of Kerala State Electricity Board which was constituted by the Government of Kerala (GoK) in March 1957 under the Electricity (Supply) Act, 1948 for carrying out the business of generation, transmission and distribution of electricity in the State of Kerala. Through a notification issued by GoK on 31 October 2013 under Section 131 of the Electricity Act, 2003, all the assets, liabilities, rights and obligations of erstwhile Kerala State Electricity Board were vested into the new company. KSEBL was incorporated under the earlier Companies Act, 1956 on 14 January 2011 and started operations as an independent company with effect from 1 November 2013. It is the only State-owned power utility in Kerala and carries out the activities of generation, transmission and distribution of electricity through three Strategic Business Units (SBUs), viz., SBU-Generation, SBU-Transmission and SBU-Distribution.

### Organisational set up

**1.2** The management of KSEBL is vested in the Board of Directors (BoD) headed by a Chairman and Managing Director (CMD). The BoD comprised six full-time Directors, who are assisted by Chief Engineers and other officers for managing the day-to-day affairs of the company. The organisational chart of KSEBL is given in **Chart 1**.

**Chart 1: Organisational structure of KSEBL**



(Source: KSEBL)

## UDAY scheme and its salient features

**1.3** With the objective of improving the health of State-owned electricity distribution companies or DISCOMs<sup>1</sup>, 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 with the following main objectives:

- Financial turnaround of the DISCOMs, and
- Improving operational efficiency of the DISCOMs.

As prescribed in the Scheme, a tripartite Memorandum of Understanding (MoU) was signed by and amongst GoI, GoK and KSEBL on 02 March 2017 specifying the responsibilities of the respective parties for achieving the operational milestones. The salient features of the MoU, *inter alia*, included:

- Elimination of gap between Average Cost of Supply (ACS) and Average Revenue Realised (ARR) by 2018-19.
- Reduction of Aggregate Technical and Commercial (AT & C) losses to 11 *per cent* (2018-19) as against the All India target of 15 *per cent* by the financial year 2019.
- Undertake the targeted activities *viz.*, metering of feeders and Distribution Transformers, feeder segregation and improvement, installation of smart meters etc., for improving the operational efficiency.

GoK and KSEBL joined UDAY for the operational efficiency part only and did not opt for financial turnaround part of the Scheme, stating that KSEBL's debt was low (₹5,800 crore as of September 2015), losses were minimum (₹313 crore for 2015-16) and AT & C loss (16 *per cent*) was one amongst the best in the country.

## Audit objectives

**1.4** The objectives of the Performance Audit were to assess the performance of KSEBL for achieving the intended goals under the following two aspects:

1. If targeted outcomes were achieved in implementing the operational efficiencies as envisaged in the tripartite MoU and the Scheme?
2. Whether the improvement in operational efficiencies of KSEBL resulted in better financial performance despite the decision to voluntarily opt out of financial turnaround package of the Scheme?

## Audit scope and methodology

**1.5** The UDAY Scheme/MoU envisaged financial turnaround and operational improvements, *viz.*, reduction of gap between ACS and ARR to zero by 2018-19

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<sup>1</sup> DISCOMs for the purpose of UDAY included combined Generation, Transmission and Distribution Undertakings.

and reduction in AT & C loss to 11 *per cent* by 2018-19. In line with the overall objectives of the Scheme, year-wise action plan/target on various operational parameters were specified in the MoU for the year up to 2018-19. Financial Year (FY) 2015-16 being the base year and FY 2016-17 being the year of execution of MoU were considered as Pre-UDAY period. FY 2017-18 and FY 2018-19, when major activities were carried out, have been considered as UDAY period, and FY 2019-20 and FY 2020-21 have been considered as Post-UDAY period. Accordingly, the Performance Audit was conducted between January 2021 and September 2021 to analyse the effectiveness and efficiency in implementation of the Scheme *vis-à-vis* performance of DISCOM, pre and post implementation of UDAY covering the period from 2015-16 to 2020-21. In order to assess the efforts of DISCOM and the State Government to fulfil the obligations envisaged in the MoU, the records of the Department of Power, GoK and the Head Office of KSEBL were examined. Further, to check the operational achievements at field level, 12 out of 43 Restructured Accelerated Power Development and Reforms Programme (R-APDRP) towns were selected based on the targets set for reduction of AT & C loss, and the records of these R-APDRP towns were also examined in audit.

Before commencement of audit, the audit objectives, scope and methodology for the Performance Audit were discussed in an Entry Conference with the Secretary, Department of Power, GoK and the Chairman and Managing Director of KSEBL on 19 February 2021. The audit findings noticed by Audit were reported to GoK in December 2021. Further, audit findings were discussed in the Exit Conference held on 21 January 2022 with the Principal Secretary, Department of Power, GoK and the top/senior management of KSEBL. The views expressed in the Exit Conference and reply received (February 2022) from GoK were considered and incorporated, wherever found appropriate, while finalising the Report.

### **Audit criteria**

**1.6** The following criteria were adopted to measure the performance of KSEBL in the implementation of UDAY:

- Guidelines of the UDAY Scheme issued by MoP, GoI;
- Tripartite Memorandum of Understanding (MoU) executed between MoP, GoK and KSEBL for UDAY;
- Tariff Regulations and orders issued by the Kerala State Electricity Regulatory Commission (KSERC); and
- Directions issued by MoP, GoI and GoK from time to time.

### **Acknowledgement**

**1.7** Audit acknowledges the cooperation and assistance extended by the Department of Power, GoK and the management of KSEBL at various stages of conducting the Performance Audit.

## **Audit findings**

**1.8** The audit findings have been organised in the succeeding part of the Report as three chapters, viz.,

Chapter II - Audit Findings

Chapter III - Monitoring and Evaluation

Chapter IV - Conclusion and Recommendations