

Chapter - III

Transaction Audit Observations

Important audit findings emerging from test check of transactions made by the State Government Companies and Statutory Corporations are included in this Chapter.

Government Companies

Gujarat Mineral Development Corporation Limited

3.1 Loss of rental income

Failure of the Company to let out surplus space resulted in loss of revenue of Rs.77.72 lakh in the form of lease rent.

The Company constructed (July 2001) its own office building with a carpet area of 1.02 lakh square feet (sq ft) at a cost of Rs.13.32 crore in Ahmedabad. As per the Company's assessment (October 2001), an area of 17,865.90 sq ft of the building was surplus of its requirement. Hence, its BOD decided (September 2002) to give the surplus area on lease to Government offices/PSUs.

After one year of the BOD's decision, consultants were appointed for assessment of prevailing lease rental value of the surplus area. The consultants assessed (September 2003) the lease rent at Rs.12 per sq ft but the Company did not take adequate actions for giving the surplus area on lease. The Company, however, received (2002-06) six unsolicited offers from Government offices/PSUs for space ranging from 4,000 to 12,354 sq ft on lease in the building. The Company had leased (September 2005) 5,166.95 sq ft to one PSU[®] for a lease rent of Rs.19 *per* sq ft, the remaining area of 12,698.95 sq ft was vacant (March 2007). Even after allowing a reasonable period of three months from the date of BOD's decision (September 2002), the Company should have let out this surplus area on lease from January 2003. The proportionate construction cost of 12,698.95 sq ft was Rs.1.67 crore and the cost of house keeping, security, tax, *etc.*, incurred for that area was Rs.17.53 lakh up to March 2007.

Thus, the Company's inadequate actions and consequential failure to let out the surplus space resulted in loss of rental income of Rs.77.72 lakh[∇] during January 2003 to March 2007.

The Management stated (June/November 2007) that the surplus space of the building would be required for meeting its future needs. As such, it was searching for the kind of tenants who would have limited public dealings, pay attractive rent and vacate the leased out space as and when the Company

[®] Gujarat State Financial Services Limited.

[∇] 12,698.95 sq ft X Rs.12 per sq ft X 51 months =Rs.77,71,757.

would need it. Further, the working of maintenance cost Rs.17.53 lakh made in audit was illogical since the total maintenance cost was apportioned in proportion to the surplus space of the building. The reply is not tenable. The Company's record did not indicate the efforts made by it in searching the desired kind of tenants as cited in the reply. Audit has logically taken the proportional maintenance cost since the lease rent is being fixed keeping in view the facilities provided to the tenants.

The matter was reported to the Government (June 2007); the reply had not been received (November 2007).

Gujarat Industrial Investment Corporation Limited

3.2 Undue benefit to a firm

The Company lost Rs.2.57 crore due to settlement of dues under One Time Settlement scheme to an ineligible unit.

The Company under Securitised Corporate Loan Scheme* had disbursed (March 2001) Rupees seven crore loan to Jyoti Limited, at 16.75 per cent, repayable in 50 monthly installments up to 15 October 2006. The unit did not pay the installments regularly since July 2002. The Company failed to take over possession of mortgaged assets of the unit worth Rs.96.07 crore under Section 29 of the State Financial Corporations Act (SFC), 1951, and also did not invoke the personal guarantee of the promoters worth Rs.7.59 crore for recovery of the dues. An amount of Rs.14.23 crore (principal: Rs.7 crore, interest: Rs.5.97 crore, penal interest: Rs.1.26 crore) remained outstanding with the unit (February 2006).

The unit approached (April 2006) the Company for repayment of its dues under One Time Settlement (OTS) scheme. As per Board's approved norms, OTS facility was available to a firm, which satisfied any of the four criteria *i.e.* (i) the unit had been closed for more than one year, had been in loss during the last three years, and chances of recovery including through liquidation of assets were bleak; (ii) the unit had been referred to BIFR and was not revivable; (iii) the outstanding loan was less than Rupees one crore and (iv) the unit had been wound up and its project abandoned. The unit did not satisfy any of the cited criteria and therefore, was not eligible for OTS. On the contrary, the unit had earned a profit of Rs.4.42 crore and had a net worth of Rs.19.61 crore as on 31 March 2006. The Company also had adequate security (Rs.96.07 crore) on the mortgaged assets which it could have leveraged to recover the unit's dues. Yet, the Company inexplicably allowed (June 2006) the unit to avail itself of OTS facility for the settlement of dues for Rs.12.20 crore against the total dues of Rs.14.77 crore[∇]. (It is pertinent to mention here that the Company had rightly disallowed the request of the unit for OTS

* Under the scheme, loan is given to the profit making manufacturing firms to meet their fund requirement for working capital/ capital expenditure/VRS/ brand acquisition/ merger and acquisition/ buyback of equity. It is given against the security of mortgage of all the assets of the firm and also against personal guarantee of its promoters/directors.

[∇] Dues as on 15 May 2006 (*i.e.* cut off date for OTS).

settlement earlier in August 2004 on the grounds of ineligibility). The Company, thus, incurred loss of Rs.2.57 crore by incorrectly allowing the firm undue benefit.

The Government/Management stated (July 2007) that the Company did not take over the possession of the unit's assets considering the historical growth of the unit and its huge work force; the norms of OTS were applicable only for the recovery of dues under Term Loan and not for Securitised Corporate Loan; reduction in rate of interest allowed by the banks to the unit under Corporate Debt Restructuring package and the unit's option to approach High Court for claiming rehabilitation under the provisions of the Companies Act, 1956. The reply is not tenable. The Company created charge over the unit's assets to realise its dues in the event of default in repayment of dues by the unit. Thus, the Company failed to safeguard its interest either by invoking Section 29 of SFC Act, 1951 or invoking the personal guarantee of the promoters. Besides, OTS was the scheme implemented by the Company for settlements of dues recoverable under various categories of loans. The Company considered this settlement also under the same scheme and approved it in the name of OTS.

Gujarat Water Resources Development Corporation Limited

3.3 Imprudent Expenditure on check dams

The Company incurred imprudent expenditure of Rs.17.02 crore on failed 'economic design' of check dams of Sujalam Sufalam Yojana. The State Government circumvented the prescribed procedure for approval of public works by awarding work to the Company on outright grant basis.

The State Government formulated (March 2004) Sujalam Sufalam Yojana (SSY) to augment water resources in deficient areas of North Gujarat. The SSY envisaged, *inter alia*, construction of check dams on the rivers. State Government directed (March 2004) the Company being its nodal agency, to implement the SSY including the work of construction of check dams. The check dams were to be constructed on 21 rivers flowing within the area of Kadana to Banas river basin. Government, however, did not indicate the number of check dams and any time limit for completion. The Company had little experience in construction of check dams and had been engaged essentially in drilling of wells. The BOD accorded administrative approval (May 2004 to March 2005) to the construction of 330 dams at estimated costs of Rs.113.04 crore, without ascertaining the availability of funds. The BOD also approved (May-December 2004) the 'economic design'[#], based on the recommendation of the State Government Central Design Organisation. The State Government released (2004-07) grants totaling Rs.42.39 crore to the Company for construction of check dams. The Company issued (April 2004-June 2006) work orders for construction of 136 dams at a total cost of Rs.37.06 crore.

[#] The designs provide for construction of dam with hollow block of 3.5 meter height of which 1.5 meter would be laid below the riverbed. The boxes would be filled with sand gravel. These designs were formulated considering flood lift of 1.5 meters above the dam height of two meters.

During July-August 2005, some SSY areas in Ahmedabad, Nadiad and Deesa were flooded due to heavy rainfall; the flood lift was higher than the designed capacity of 1.5 meter in some of the rivers. Resultantly, 79 check dams were damaged. As per the Management assessment, the cost of damage was Rs.5.77 crore against the actual cost of 136 dams (59 completed and 77 incomplete) of Rs.15.27 crore incurred till August 2005. Despite that adverse experience, the Company not only resumed the construction of 77 incomplete check dams but also issued fresh work orders (September 2005-June 2006) for 15 new ones based on 'economic design' at a costs of Rs.2.99 crore. Again, there were floods (June-August 2006) with the flood lift much higher than the designed capacity, damaging 131 check dams. As per Management's assessment, the amount of damage was Rs.18.80 crore against the incurred costs of Rs.32.28 crore. The Company stopped (July 2006) further award of the work of check dams. The continued spending by the Company on 'economic design' of check dams after their proven (August 2005) unsuitability, led to imprudent expenditure of Rs.17.02 crore in construction of 92 dams (Rs.14.03 crore on 77 incomplete and Rs.2.99 crore on 15 new dams) after August 2005.

Besides, imprudence and wastefulness of public expenditure, the Government needed to consider the propriety of executing the work through the Company by giving it outright grants. That has had the effect of bypassing the prescribed rigor of approval of public expenditure departmentally which would have necessitated expenditure approvals at the higher levels and collateral expenditure control of the Finance and Planning departments of The State Government, after due diligence. The Company at the germane period was headed by the Secretary of the Narmada, Water Resources, Water Supply and Kalpsar (NWR&WS) department, which further took away the opportunity of dispassionate Government control over expenditure on public works by the Company, by the administrative department.

The Management stated (August/November 2007) that during 2003-04 also the Company had constructed check dams in Kachchh and Saurashtra regions under SPPWC[^] scheme. Since, the Chairman of the Company was also the Secretary of NWR&WS department, the availability of funds for the work was assured. Hence, the BOD accorded administrative approval based on the estimated cost of work. As far as the check dams in which the works were in progress during 2005 flood, it was stated that the construction of these dams were continued as in most of the dams 50 *per cent* of the works were completed by August 2005. Further, the construction work for 15 dams were awarded (September 2005-June 2006) as it was to be constructed in rocky strata regions of Danta and Amirgadh taluka where adoption of 'economic design' was considered feasible. During 2005 and 2006 floods, in all, only 18 dams were severely damaged and relatively lesser damages were occurred in 23 dams and other cases the damages were caused due to erosion of river banks and not due to the structures constructed by the Company. Besides, it was stated that as The State Government nominated only senior officers from its various departments in the Company's BOD, granting of approval for the

[^] Sardar Patel Participatory Water Conservation Scheme.

work and exercising the control over the expenditure were made by these high rank officers only.

The reply is not tenable. The Company had little experience in construction of the check dams since the work under SPPWC scheme was also undertaken along with the check dam work of SSY during 2004-05 only. The Company should not have continued the work on incomplete dams after knowing their proven (August 2005) unsuitability. During 2006 flood, damages for Rs.1.04 crore were also occurred to the 15 dams (for which work orders were issued September 2005-June 2006) confirming the imprudent expenditure incurred on the failed economic design.

The matter was reported to the Government (July 2007); the reply had not been received (November 2007).

Gujarat State Forest Development Corporation Limited

3.4 Loss of revenue in sale of Charcoal

Imprudent decision to award annual contracts for sale of seasonal commodity resulted in loss of revenue of Rs.1.51 crore.

The State Government instructed (January 2003) the Company to undertake production of charcoal from Gando Baval as a scarcity relief measure in Kachhh district. Besides, the objectives of the instructions were to create employment for local public and also to prevent illegal production of charcoal by unauthorised persons. The Company entered into this activity with effect from April 2004. After estimating the charcoal to be produced upset[∇] price is fixed before inviting tender for sale of charcoal. The Company selects the buyer based on the bids received and enters into agreements with them for selling the charcoal. The Company also appoints Gram Panchayats as commission agents, for arranging production of charcoal at fixed prices. The Gram Panchayats, in turn award works to local producers who employ local persons for cutting Gando Baval and produce the charcoal.

Prior to April 2005, the Company had been inviting tenders for sale of charcoal in piecemeal, based on the market situation. The Company decided (March 2005) to award annual contracts for sale of charcoal, hoping it would save the Company from frequent tendering. The Company awarded (April 2005 and March 2006) annual contracts for sale of 4.48 lakh qtls of charcoal at prices ranging from Rs.357.50 to Rs.371.50 per qtl (Average rate Rs.370 per qtl).

The Gram Panchayats were unable to procure the requisite quantity of charcoal throughout the year (2005-06) at the purchase price of Rs.275 per qtl fixed by the Company due to demand for charcoal being seasonal.

[∇] Upset price is the minimum sale price per quintal of charcoal expected from the buyers (traders). It includes all the cost for production of charcoal and profit margin of 10 per cent on the total cost per quintal.

Consequently, the Company could arrange to sell 1.31 lakh qtls of charcoal against its commitment of 4.48 lakh qtls. The Company was unable to maximise its revenue as the average sale price of Rs.370 per qtl fixed under the annual contracts was lower than the prevailing market price through out the year 2005-06 excepting two months during off season. Thus, the Company had lost revenue of Rs.1.51* crore on the sale of 1.31 lakh qtls of charcoal sold under annual contracts.

The Government/Management stated (July/August 2007) that keeping in view meager balance of funds with the Company and also to avoid conducting of frequent market surveys, sales and signing of agreements with traders, the Company entered (2005-06) into annual contracts with traders. The reply is not tenable. The Company entered into annual contract for sales without ascertaining its suitability for dealings related to charcoal which is a seasonal commodity with volatile price. The revenue loss of Rs.1.51 crore was worked out based on the actual market rate prevailed. Thus, the Company failed to maximise its revenue due to adoption of imprudent method of awarding annual contract instead of undertaking procurement/sale activity of charcoal in different spells, based on the market situations.

Gujarat State Petroleum Corporation Limited

3.5 Undue favour to a foreign firm

The Company included a foreign firm into joint venture without any financial or technical contribution, giving it the benefit of future gains of Rs.11.43 crore without having to share any venture risk.

The Company signed (August 2002) an agreement with Jubilant Enpro Limited, New Delhi (JEL) and Geo Global Resources (India), Canada (GGR(I)) to jointly bid for offshore block[⊕] KG-OSN-2001/3 of Krishna-Godavari basin for exploration, development, and production of hydrocarbon, with 80 per cent, 10 per cent and 10 per cent participating interest respectively. The Company and its joint venture (JV) partners succeeded (February 2003) in the bidding. GOI granted (March 2003) exploration license to the Company's joint venture (JV) for a period of seven years. According to the Company's estimate (June 2002), the reserve of hydrocarbon in the block was 44 trillion cubic feet.

The Joint Operating Agreement (JOA) signed (August 2003) by the Company with its JV partners, viz. JEL and GGR(I) envisaged:

- the Company to be the operator for production of petroleum from the block;
- the Company and JEL to remit their respective costs share into the venture fund of the project maintained by the Company;

* Average monthly market price (Rs.310 to Rs.610 per qtl) less contract rate (Rs.370 per qtl) X sold quantity (1.31 lakh qtls).

⊕ One of the 27 blocks offered by GOI under the New Exploration and Licensing Policy-III.

- the Company should pitch in with 10 *per cent* advance cost share of GGR(I);
- GGR(I) would repay to the Company its (10 *per cent*) advance cost and expenses share during forecast production life or ten years whichever is less; and
- if production failed fully or partially before the recovery of advance from GGR(I), the Company would forego its claim on the unrecovered advance.

The Company incurred (March 2007) a total expenditure of Rs.1,406 crore on the JV, including the advance cost share Rs.149.53 crore paid by it into the venture fund on GGR(I)'s behalf. The Company had borrowed funds at the rate of 7.5 *per cent* per annum for that purpose.

Audit examination revealed that the Company admitted GGR(I) in the venture and agreed for payment of 10 *per cent* advance cost share and expenses on its behalf on the plea that GGR(I) had technical expertise in the exploration activities. However, no clause to that effect was inserted in the JOA. GGR(I) did not provide any technical expertise except for offshore block bidding. For subsequent technical advice, the Company entered (September 2003) into a separate service agreement with Geo Global Resources (Barbados) Inc. (GGR(B)), a sister concern of GGR(I). The Company has not yet made any payment to GGR(B), although the latter had claimed Rs.3.42 crore till March 2007 for rendering technical services, which is reportedly being negotiated by the Company.

Inclusion of GGR (I) in JV without its having to bring in any financial or technical contribution is not in order. Further, absolving GGR(I) from its share of risk or responsibility related to this venture lacked justification. The Company suffered (August 2003 to March 2007) interest loss of Rs.11.43[∇] crore on the borrowed funds of Rs.149.53 crore being utilised towards GGR(I) share in the venture.

The Management stated (November 2007) that the Company did not have in-house technical competence to evaluate the blocks on offer for selecting the best one, and, therefore decided to engage the technical services of Chief Executive Officer (CEO) and President of GGR(I). For that, GGR(I) in turn demanded to take them as a partner with a minimum of 10 *per cent* stake in the venture. Accordingly, an understanding was reached with CEO for giving 10 *per cent* stake in the venture. The CEO did the evaluation and prepared the technical recommendation for selection of blocks. However, at the instance (September 2007) of the Company, GGR(I) intimated (September 2007) that they were willing to reimburse the cost of exploration and production along with interest.

[∇] Calculated at the rate of 7.5 *per cent* per annum being the rate of interest at which the Company borrowed funds.

The reply is not tenable. Though the technical services could be measured and determined in monetary terms, no justification was on record for giving 10 per cent stake in the venture. No mention was made in the agreement that 10 per cent stake was given in lieu of availing the technical services of GGR(I). The document produced to audit (November 2007) is only a draft MOU which indicated that no final settlement was arrived with GGR(I) for recovery of interest cost. The reply does not contain management's stand on the claim of Rs.3.42 crore made by GGR(B).

The matter was reported to Government in July 2007; the reply had not been received (November 2007).

Sardar Sarovar Narmada Nigam Limited

3.6 Premature investment

Premature investment of Rs.16.78 crore on construction of concrete lining of branch canal led to loss of interest of Rs.1.92 crore.

The Vallabhipur Branch Canal (VB canal) having length of 118.751 Kms is a part of Sardar Sarovar Project and is meant to serve cultivable command area[£] of 1.40 lakh hectare covering three[€] districts. The Company completed (March 2002) earth work of VB canal at a cost of Rs.297 crore. It decided (April 2002) to provide concrete lining on VB canal to enhance the efficiency of conveyance of water to the command area. There was, however, no master plan covering all activities to develop the command area. Construction of minors/sub minors was essential for end use of enhanced water provided by the lined canal.

The Company awarded (July 2004) the lining work of VB canal for its full length of 118.751 Kms in five slices to various contractors at an aggregate cost of Rs.41.48 crore for completion by November 2005. The contractors could not maintain the progress of work as per the schedule, reportedly because more quantity of proud* than estimated had to be removed in the canal. The concrete lining of 55.69 Kms (47 per cent) of canal length was completed (November 2005) at five different stretches at a cost of Rs.16.78 crore. The Company stopped the lining work (November 2005) considering that the full development of command area would take more time (up to March 2010).

The Company had initiated (November 2003) field survey for command area development (CAD), and had stipulated that the command area would be fully developed by January 2009. It had, however, undertaken little work on CAD besides field surveys. There was little justification, therefore, to take up lining work of VB canal in July 2004 with stipulated gestation of 17 months. Though stopping (November 2005) of lining work did stop further blocking of funds, the fact remains that there was already a premature investment of Rs.16.78

[£] Area identified for irrigation.

[€] Surendranagar, Ahmedabad and Bhavnagar.

* Thin layer of earth or skin cutting of excavation to be done before starting the lining work of canal.

crore in lining of canal without synchronising it with corresponding CAD. This resulted in loss of interest of Rs.1.92 crore[¥] on premature investment.

The Management reply forwarded (October 2007) by the Government stated that the Sardar Sarovar Project envisaged lining of all branch canals. The lining work would cost about 30 *per cent* of total cost of branch canal. As the work of CAD under VB canal was planned for completion by 2010, it was expected that the demand for irrigation supply would pick up only after 2010. Hence, it was decided (November 2005) to stop the lining work and run the canal without lining in initial years. The reply is not tenable as it does not explain the basic audit observation as to why premature investment of public funds was made in concrete lining of branch canal much in advance of the requirement.

3.7 Non-recovery of security deposit

The Company accorded undue benefit to contractor by not recovering prescribed security deposit of Rs.3.22 crore and exposed itself against underperformance/ defective work.

The Company awarded (April 1987) the work of construction of concrete dam across the river Narmada for Sardar Sarovar Project (SSP) to Jaiprakash Associates (firm) at a cost of Rs.320 crore, for completion by March 2010. During execution of the dam work, the State Government decided (October 2000) to divert the reservoir water of SSP for drinking and irrigation purposes through construction of Irrigation Bye Pass Tunnel (IBPT). The Company issued work order (December 2000) to the firm for construction of IBPT at a cost of Rs.91.93 crore, however, no time limit was fixed for its completion.

Contractual provisions for the dam, equally applicable to the supplementary contract for IBPT works, required the Company to deduct security deposit (SD), at three and half *per cent* of the total value of contract from Running Account (RA). SD was to be retained during the defect liability period of 18 months from the date of completion of the work. The firm started (December 2000) the work and reportedly completed (March 2007^{*}) major part of the work on IBPT for which the company has made payments aggregating Rs.103.74 crore to the firm.

The Company did not recover SD of Rs.3.22 crore (*i.e.* three and half *per cent* on the value of supplementary work awarded) for IBPT work; and, thus accorded undue benefit to the firm. Besides, the Company has exposed itself to risk of non/under performance of works during execution/defect liability period, *i.e.* up to April 2009. If the Company adhered to the provisions of contract, SD of Rs.3.22 crore could have been recovered (November 2000 to

[¥] Calculated at the Company's average borrowing rate 8.58 *per cent* (2004-07) on Rs.16.78 crore for 16 months, from December 2005 to March 2007.

^{*} Only Rs.2.62 crore worth of work is reportedly remaining, which the company expects to get completed by December 2007.

December 2002). This in turn, would have enabled the Company to reducing its borrowing and save interest charges of Rs.3.67 crore[∇].

The Government/Management stated (September 2007) that IBPT was given as an additional work to the firm. Further, the Company had a bank guarantee (BG) for Rs.21.20 crore as furnished (April 1987) by the firm at time of initial award of work. Besides, the immovable assets *viz.*, cable crane, batching/mixing plants installed by the firm for the work at the dam site, could also be considered as additional security available with the Company. The reply is not tenable. The availability of BG has nothing to do with the SD that is recoverable from the payments made to the firm through RA bills. Besides, the Company did not produce any documents showing charge, if any created in its favour on the firm's immovable assets at the dam site. Thus, the fact remains that the Company accorded undue benefit to the firm by not recovering the SD as stipulated in the contract.

3.8 Loss due to delay in finalisation of tender

Company's failure to finalise tender within the validity period led to cost escalation of Rs.3.42 crore.

The Company through E-tendering process[^] invited (April 2004) tenders for award of work of construction of Limbdi sub-branch canal 0 to 29.91 Kms at an estimated cost of Rs.56.91 crore. The entire work (0 to 29.91 Kms) related to the canal was considered as a package and it was divided into four slices*. The bidders were allowed to submit the bids either for one or more of the slices or for the package. As per tender condition, the bidders intending for the work in package were to submit both technical and price bids for it and for those intending the work in slices were to submit only price bid as the estimated cost of each slice did not exceed Rs.15 crore. The validity of the tender was to remain for 120 days from the stipulated date of opening of the technical bids.

The Company opened the technical (April 2004) and price bids (July 2004). M/s.Uma Sharma & Co (Delhi) quoted the rate of Rs.17.94 crore for slice II (Rs.8.63 crore) and slice III (Rs.9.31 crore) was the lowest bid for these slices. As the validity of the tender was to expire on 08 August 2004 (*i.e.* 120 days from 9 April 2004), the Company, in August 2004, requested M/s.Uma Sharma to extend the validity period of the tender up to 08 November 2004. The contractor, refused (16 August 2004) to extend the validity period of the tender. Hence, the Company re-invited (February 2005) tenders for slice II and III and awarded (May 2005) the work to Visnagar Taluka Majoor Sahkari Mandli at a higher total cost of Rs.21.36 crore (slice II:Rs.10.56 crore and slice III: Rs.10.80 crore). Delay in finalisation of tender and consequent refusal to accept the work by the lowest contractor led to loss of Rs.3.42 crore.

[∇] Calculated at the Company's average borrowing rate of 8.58 *per cent* (2004-07) on Rs.3.22 crore during November 2000 to March 2007.

[^] Invitation of tenders, receipt and opening of bids are done in electronic format and online on the Company's web site at the appointed time.

* Slices: I: 0 to 6 Kms, II: 6 to 14.91 Kms, III: 14.91 to 23.43 Kms and IV: 23.43 to 29.90 Kms.

There was no justification on the Company's record for non-finalisation of the tender (April 2004) within the stipulated time.

The matter was reported to the Government/Management (June 2007); their reply had not been received (November 2007).

Gujarat State Electricity Corporation Limited

3.9 Generation loss due to inefficient management of critical equipments

Inefficient management of critical equipments resulted in generation loss of 1,085.40 Million Units worth Rs.295.23 crore.

Unit-I of Sikka Thermal Power Station (TPS) stopped functioning (June 2000) due to problem in the turbine rotor*. To rectify this problem, the Board placed orders on BHEL (August 2001 and August 2002) for repairs to be done on Low Pressure (LP) turbine rotor and Intermediate Pressure (IP) turbine rotor at a cost of Rs.2.49 crore to be completed by March 2002/October 2002 respectively. Meanwhile, the Board discovered (May 2002) that the generator rotor of the unit too had some inherent defect and could not be used along with the repaired turbine rotors. It decided (May 2002) to use the spare generator rotor at Gandhinagar TPS. The spare generator rotor was also not in a readily usable condition as it had not been hot balanced after its repair (1998). The Board belatedly ordered (August 2002) its hot balancing# at a cost of Rs.18 lakh, to be completed within 15 days. During the hot balancing, the rotor itself got damaged and the repairer intimated (October 2002) his inability to complete the work.

Sikka TPS received (October 2002) the repaired turbine rotors from BHEL and in the absence of a fully functional generator rotor, used it with its existing defective generator rotor to commission (29 January 2003) the unit at a partial load of 70 MW. The Board also ordered (March 2003) a new generator rotor to be delivered by June 2004 at a cost of Rs.6.30 crore. Sikka TPS received (May 2005) the new generator rotor after a delay of 11 months and installed it (October 2005). After installation of new generator rotor, the unit was able to take full load of 120 MW and achieved a PLF of 75 per cent. Had the Board kept the spare generator rotor ready for use, the potential generation loss of 1085.40 million units worth Rs.295.23 crore[∇] during November 2002-October 2005 could have been avoided.

The Management/Government while reiterating the facts of the case stated (September 2007) that BHEL due to some technical problems on their part did not deliver the new rotor in time. The reply is not tenable. It does not give any

* A turbine rotor in a thermal power plant which converts heat energy of steam coming from boilers into mechanical energy. The generator rotor converts the mechanical energy into electrical energy.

Hot balancing is running the generator rotor at its full rated capacity under test condition.

∇ (A) 120 X 1,000 X 3 months i.e. November 2002 to January 2003 X 30 days X 24 Hrs. X 75 per cent PLF=194.40 MUs. (B) (120 less 70) MW x 1,000 x 33 months 30 days x 24 Hrs. x 75 per cent PLF = 891.00 MUs. Total of A plus B= 1,085.40 MUs at average realisation rate during 2002-03 of Rs.2.72 per unit i.e. Rs.295.23 crore.

reason for not keeping the spare generator rotor ready, as a result of which the TPS suffered generation loss worth Rs.295.23 crore. No liquidated damages were levied on BHEL.

3.10 Extra expenditure due to inefficient fuel and contract management

The Board incurred extra expenditure of Rs.2.89 crore due to inefficient fuel and contract management.

Thermal Power Stations (TPS) use high pressure (HP) feed water heaters to recover heat from the steam which is extracted from the turbine. The heat from the steam is used to increase the temperature of the feed water in the boilers. This results in saving of heat energy used in heating feed water in boilers, reportedly of 18 million KCAL[⊕] per hour per unit.

Dhuvaran TPS had sent (December 2000) an indent for the purchase of eight HP feed water heaters for Unit I to IV, as the existing heaters purchased in 1987 had past their useful life of 10 to 12 years and were not in use on the date of indent. The Board invited (January 2001) tenders for their procurement and opened (February 2001) the technical bids. Thereafter, the Board took 441 days in placing (May 2002) the purchase order, against the prescribed 120 days from the opening of the technical bids (June 2001), on the plea of scrutinising the technical bids, seeking clarifications from the bidders and holding price negotiation with the successful bidder, L&T[^]. The Board placed the order on L&T for procurement and erection of the HP heaters at a cost of Rs.4.99 crore only in May 2002. The scheduled period of delivery was 12 months and that of erection was four months thereafter. L&T completed the erection in February 2004 as against September 2003 for which the Board recovered (August 2004) penalty of Rs.0.91 lakh.

The Board ought to have had a system in place to identify and replace worn out equipments, especially as relate to fuel efficiency, across all its TPS. Instead the Board even delayed the placement of order by 321 days (*i.e.*, 441 days *less* 120 days allowed since opening of technical bids). The financial implication of non-functioning of HP heaters from December 2000 to February 2004 was Rs.2.89 crore*.

The Management/Government stated (August 2007/September 2007) that the indented HP heater was being an import substitute item; extra precautions were taken in the placement of order which led to the delay. Further, in TPS several auxiliary equipments *viz.*, heater, condenser tubes, economiser coils *etc.*, were provided to recover heat/improve efficiency as far as possible, but keeping them fully in service was not possible. The reply is not tenable. The previous HP heaters were also purchased (1987) from L&T as such the delay in the placement of order was avoidable. Absence of system for identification

[⊕] Kilo calories.

[^] Larson & Tourbro Limited, Mumbai.

* Heat loss (December 2000-February 2004): 2,210.794 MUs generated X 18 MKCal. = 39,794.29 MKCal.; 39,794.29 ÷ 10.40 (heat value per MT of Low Sulphur Heavy Stock (LSHS)) = 3,826.374 MT; 3,826.374 MT X Rs.7,560 (price per MT of LSHS) = Rs.2.89 crore.

and replacement of the worn out equipments lacks justification considering the huge financial risk involved in the event of any failure of the auxiliary equipments in the TPS.

3.11 Non-availing of rebate and avoidable payment of interest

Failure of the Company to file an appeal in time resulted in loss of rebate of Rupees one crore as also avoidable payment of interest of Rs1.25 crore.

Sikka Thermal Power Station (TPS) of the erstwhile Gujarat Electricity Board draws water from Arabian sea and after using it through condenser for cooling the turbine and other equipments discharges the same into the sea. As per Section 3 of The Water (Prevention and Control of Pollution) Cess Act, 1977, Gujarat Pollution Control Board (GPCB) is levying water cess on the water drawn by the TPS. Section 3 of the Act, *ibid*, stipulates two types of tariff *i.e.* water cess of Rs.1.50 per Kilo Litre (KL) for those who are compliant to the provisions of the Act and Rs.2.25 per KL for those non-compliant. Further, a rebate of 25 *per cent* is admissible under Section 7 of the Act, *ibid*, for the compliant category.

GPCB raised demand (July 1992 to February 2001) on the Company for payment of water cess amounting to Rs.2.10 crore related to the period, 1988-2000 for the water drawn from the sea. The Board, since beginning, did not accept its liability for payment of water cess on the plea that the sea water drawn for cooling purpose was being discharged back to the sea without any chemical alteration. GPCB did not accept (April 1998) the contention of the Board and cited a judicial judgment made (March 1994) in this regard upholding the action of GPCB in levying the cess for the water drawn and discharged in a similar manner by some other TPS. Despite this, the Board entered into protracted correspondence with GPCB. In the meantime, for the non-payment of water cess, GPCB had also raised (February 2001) demand for payment of interest of Rs.1.25 crore on the unpaid amount of Rs.2.10 crore up to January 2001. The Board preferred (April 2002) an appeal before the Appellate Committee of GPCB for waiver of interest of Rs.1.25 crore.

The Board after clearing (July 2002) the arrears of water cess of Rs.2.10 crore had preferred another appeal for downward revision of cess at the rate of Rs.1.50 per KL instead of Rs.2.25 per KL and also for grant of applicable rebate. The Appellate Committee dismissed (March 2006) the appeal for waiver of interest as there was no provision in the Act for appealing against the interest charged for late payment of cess. Hence, the interest of Rs.1.25 crore was paid (March 2006) to GPCB. The appeal for downward revision of rate and grant of rebate was also dismissed (March 2006) as the appeal was not made within the time limit of 30 days from the original demand by GPCB. Thus, the Board's failure to make the payment and go in for appeal had not only resulted in payment of higher cess by Rupees one crore (Rs.2.10 crore *less* cess with lower rate and rebate of Rs.1.10 crore) but also resulted in avoidable payment of interest of Rs.1.25 crore.

While accepting the facts of the case the Government/Management stated (June 2007) that as the liability for payment of water cess itself was not

acceptable to the Board and was already in dispute, it did not make payments and gone for appeal within time limit. Thus, the facts remain that the Board's failure to make the payment and go for the timely appeal of the case had resulted in loss of Rs.2.10 crore.

3.12 Cost escalation due to deficient tendering

Deficient tendering by the Company led to cost escalation of Rs.1.05 crore in awarding work of augmenting the capacity of inter connecting transformers.

The Company invited tenders (June 2003) for augmenting the capacity* of inter connecting transformers (ICT) at Wanakbori thermal power station at an estimated cost of Rs.13.36 crore. The work included procurement and commissioning of four transformers of 400 KV class with rating of 167 MVA each. The transformers with different ratings viz., 90,167 and 315 MVA were available under 400 KV class. In the notice inviting tender, the Company, however, stipulated that the bidder would be considered qualified if he was a manufacturer of 400 KV class of transformers which were successful in operation anywhere for not less than three years on the date of opening of bids. The qualification criteria did not specify any experience of bidder in manufacture and operation of 400 KV class transformers with rating of 167 MVA.

Of the three bids received and opened (October 2003), the Company declared (December 2003) two bidders, viz., BHEL and Alstom Limited, Vadodara (ALV) as technically qualified as per criteria given in the tender. ALV had quoted Rs.16.81 crore and stood L1 compared to the price of Rs.17.23 crore quoted by BHEL. After opening the tenders, the Company, however, found that ALV did not have any experience of manufacturing transformers of 167 MVA in 400 KV class, while BHEL had the requisite experience. Because of the deficiencies in tender specification, the Company could not place the order. It reinvited the tender (March 2004) with necessary modification in the eligibility criteria. This time (June 2004) BHEL was the only qualified bidder of the two respondents, but with higher costs. The Company issued work order (October 2005) to BHEL for the work at new costs of Rs.18.28 crore, which was higher by Rs.1.05 crore than the costs it had tendered earlier (June 2003) for the same work. Thus, deficiencies in tendering specifications resulted in avoidable expenditure.

The Management stated (July 2007) that the transformer being critical nature of equipment and ALV did not supply single unit of transformer of 400 KV class with rating of 167 MVA to the Company in past, it had decided to reinvite tenders after incorporating proper qualifying criteria. The reply was silent on deficiencies in tender specification in the earlier (June 2003) tender. The fact remains that the Company had to reinvite (March 2004) the tender

* 315 MVA, three windings three phase, 50 Hz, 400/ 220/ 33 KV class transformers to 500 MVA comprising of 4 X 167 MVA, single phase 50 Hz, 400/ 220/ 33 KV class transformers.

due to its failure to incorporate proper qualifying criteria in the tender previously invited.

The matter was reported the Government (April 2007); the reply had not been received (November 2007).

Gujarat State Petronet Limited

3.13 Short recovery of interconnectivity charges

The Company short recovered interconnectivity charges of Rs.20.10 crore.

The Gujarat State Petronet Limited (GSPL)*, a subsidiary of the Gujarat State Petroleum Corporation Limited (GSPCL) transmits regassified liquified natural gas (RLNG) received from its principal to the end-customers. GSPCL in turn purchases RLNG from GAIL[^], IOCL[∇] and BPCL[#] through GAIL's pipeline to its installations. The holding company, viz. GSPCL sells the gas to its various customers under gas supply agreements (March 2004) with them. The subsidiary company, GSPL, transmits the gas from the place of GSPCL installations to the places of GSPCL customers through its pipeline under separate gas transmission agreements (GTA) with those customers. GSPCL pays interconnectivity (IC) charges to GAIL for using GAIL's pipeline. GSPL has an arrangement (February 2004) with GSPCL according to which it recovers IC charges, within its transmission charges, from the end-customers and remits IC charges back to GSPCL.

GAIL increased (April 2005) IC charges from Rs.2.86 per mmbtu[•] to Rs.7.16 per mmbtu for the gas supplied through its pipeline by IOCL and BPCL. GSPCL recovered the increased IC charges from GSPL. But GSPL did not correspondingly increase its transmission charges from the customers by Rs.4.30 per mmbtu (Rs.7.16 less Rs.2.86) on the plea that doing so would render their charges uncompetitive. The Chairman, GSPL took that decision (October 2005) and intimated the Board of GSPL (April 2006). The information agenda put up before the Board was rather summary and did not substantiate as to how the charges would become uncompetitive. During April 2005 to May 2006, GSPL short levied Rs.20.10 crore[∇] in IC charges from the end-customers.

The Management/Government stated (August/September/November 2007) that as the GSPL net work of pipeline was expanding rapidly, it had to increase the gas volumes by competing effectively in the market. Main reason

* After January 2006 GSPCL holds only 39.13 per cent of GSPL's equity, the remaining being held by State and Central PSUs and others, making it deemed Government Company.

[^] GAIL India Limited.

[∇] Indian Oil Corporation Limited.

[#] Bharat Petroleum Corporation Limited.

[•] Million metric british thermal units.

[∇] 4,67,54,310 mmbtu of gas delivered during the period X Rs.4.30 per mmbtu.

for non-recovery of the IC charges was that one of its major customers, Essar Steel Limited had entered a GTA for transmission of gas through GSPL pipeline in March 2004. GSPL allowed Essar Steel to have an *ad hoc* arrangement with GAIL for transmission of gas through GAIL's pipeline till completion of its Mora-Sajod pipeline. Essar Steel agreed to shift to GSPL's pipeline on completion (December 2004) of Mora-Sajod pipeline on the condition that such shifting should not lead to an increase in tariff for Essar Steel. In view of this, GSPL did not increase the IC charges. If it had increased the IC charges, Essar Steel would have stopped using GSPL's pipeline and it would not have earned the transmission revenue of Rs.63 crore during April 2005 to May 2006. Besides, calculation of Rs.20.10 crore made in audit did not take into account IC charges of Rs.3.26 crore recovered from firm E.

The reply is not tenable. GSPL's contention that Essar Steel would stop using GSPL's pipeline in the event of increase in IC charge is an invalid apprehension in the light of subsistence of GTA already in place (March 2004) with Essar Steel. In June 2006, GAIL again revised the IC charges to Rs.8.59 per mmbtu, this time the burden of hike was allowed to pass to the customers. This is a contradictory decision of GSPL to its earlier contention that it would lose business from Essar Steel if it increases IC charges. Calculation of Rs.20.10 crore made in audit was arrived at after considering the amount of IC charges recovered.

3.14 Non-recovery of penalty and interest

The Company did not recover Rs.14.73 crore in penalty and interest for breach of agreement from a private firm.

The Company executed (March 2004) a Gas Transmission Agreement (GTA) with Essar Steel Industries for transportation of maximum daily quantity of 2.34 MMSCMD[£] of gas from Dahej to its plant premises at Hazira. GTA envisaged that Essar Steel would maintain the stipulated level of pressure and quantity of gas while sending the gas from entry point and while drawing it at the exit point of the Company's pipeline. GTA empowered the Company to levy and recover penal charges as 'cash out of imbalances'* for imbalance caused, if any, every month as a measure of maintaining grid discipline by Essar Steel.

Essar Steel caused imbalance (June - September 2006) by excessively drawing 1,89,638 mmbtu of gas at the exit point over the allocated quantity at the entry point of pipeline. The Company issued (July - October 2006) various notices to Essar Steel for the payment of penal charges of Rs.13.47 crore for the imbalance (June - September 2006) but it did not make any recovery (March 2007). The Company did not also levy interest of Rs.1.26 crore (at the rate of

[£] Million metric standard cubic metres per day.

* Imbalance is the difference in the volumes of gas between the entry and exit point. Cash out of imbalance refers to settlement of shipper's imbalance account (positive or negative) in cash by either buying or selling gas.

14.5[#] per cent) on the penal charges outstanding from July 2006 to March 2007, leviable as per terms of GTA.

The Government/Management stated (June/November 2007) that the entity owning the pipeline should be engaged in trading of gas also so that excess/under drawals of gas by its customers are adjusted through buying/selling of the gas. The provision in GTA was inserted just to deter the customers not observing the grid discipline. On being allowed by the Company, GSPCL had recovered 'cash out of imbalances' of Rs.7.21 crore from Essar Steel.

The reply is not acceptable. Making a provision in the GTA does not serve as a deterrent unless it is invoked. Further, Rs.7.21 crore, out of Rs.14.73 crore pointed out by audit, was stated to have been received by GSPCL, which was not transferred to the Company. Thus, despite provision in GTA the Company failed to recover Rs.7.52 crore towards 'cash out of imbalances' and Rs.7.21 crore stated to be recovered by GSPCL on behalf of the Company had not been received.

Dakshin Gujarat Vij Company Limited (DGVCL) and Paschim Gujarat Vij Company Limited (PGVCL)

3.15 High loss feeders

Introduction

3.15.1 Voltage of energy generated at 11/22 KV is stepped up through sub-stations to 440/230 KV and transmitted over long distances. As this voltage is too high for supply to consumers, this power is subsequently stepped down to 66, 22 and 11 KV through sub-stations. Based on the consumer's demand, power is supplied directly from 22/11 KV feeders to High Tension (HT) industries or further reduced through distribution transformers to 440/230/120 Volts for supply to Low Tension (LT) industries and residential consumers. The total energy that is lost from the point of generation to the point of 66, 22 and 11 KV step down sub-stations is called transmission loss and energy that is lost between the 11/22 KV feeders and the ultimate consumer are called the distribution loss.

The Gujarat Electricity Board (Board) was unbundled into seven Companies with effect from 1 April 2005. The Board transferred the generation, transmission and distribution activities to one generation Company*, one transmission Company[∇] and four distribution Companies[§], (DISCOMs) under the strategic control of one holding Government Company[#]. The Companies

[#] As per GTA, State Bank of India prime lending rate (11.50 per cent) plus three per cent penalty.

^{*} Gujarat State Electricity Corporation Limited (GSECL).

[∇] Gujarat Energy Transmission Corporation Limited (GETCO).

[§] Dakshin Gujarat Vij Company Limited (DGVCL), Madhya Gujarat Vij Company Limited (MGVCL), Paschim Gujarat Vij Company Limited (PGVCL), Uttar Gujarat Vij Company Limited (UGVCL).

[#] Gujarat Urja Vikas Nigam Limited (GUVNL).

are headed by Managing Directors who are assisted by General Managers, Chief Finance Managers and Engineers.

Transmission and distribution losses

3.15.2 Energy lost in the process of transmission, transformation and distribution are broadly classified as technical and commercial losses. Technical losses occur due to resistance in conductors, design of the transformers and also loading of power in excess of capacity on feeders, lines and transformers. Commercial losses are losses due to theft, defective meters, un-metered supply *etc.* Transmission losses are technical losses whereas distribution losses include both technical and commercial losses. The table below gives details of transmission and distribution losses for five years ended 31 March 2007:

(Units in Million)

Sl No.	Particulars	2002-03 Units	2003-04 Units	2004-05 Units	Name of DISCOM	2005-06 Units	2006-07 Units
		Gujarat Electricity Board			DISCOMs		
1.	Energy available for transmission	44,893	43,639	46,654	DGVCL	9,331	9,706
					PGVCL	15,694	15,411
					MGVCL	5,457	5,745
					UGVCL	12,363	11,089
Total		44,893	43,639	46,654		42,845	41,951
2	Energy sold	27,548	28,977	31,005	DGVCL	7,065	7,611
					PGVCL	9,111	9,549
					MGVCL	4,124	4,365
					UGVCL	8,827	8,306
Total		27,548	28,977	31,005		29,127	29,831
3.	Percentage of energy lost in Transmission and Distribution	38.64	33.60	33.54	DGVCL	24.28	21.58
					PGVCL	41.95	38.03
					MGVCL	24.43	24.02
					UGVCL	28.60	25.09
Total		38.64	33.60	33.54		32.02	28.89
4.	Loss in Excess of CEA's prescribed norms of 15.5 per cent (Transmission loss-four per cent and Distribution loss-11.5 per cent)	23.14	18.10	18.04	DGVCL	8.78	6.08
					PGVCL	26.45	22.53
					MGVCL	8.93	8.52
					UGVCL	13.10	9.59
Total		23.14	18.10	18.04		16.52	13.39
5.	Percentage of Transmission loss	4.41	4.40	4.26	All DSCOMS	4.39	4.11
6.	Distribution loss (3 less 5)	34.23	29.20	29.28	DGVCL	19.89	17.47
					PGVCL	37.56	33.92
					MGVCL	20.04	19.91
					UGVCL	24.21	20.98
Total		34.23	29.20	29.28		27.63	24.78

(Source : Information provided by the Board/Companies)

As seen from the table, transmission losses were 4.11 to 4.41 per cent as against the four per cent CEA norms, whereas distribution losses were much higher than the prescribed 11.50 per cent.

Based on numbers of feeders having above 20 *per cent* losses, consumer mix and geographical coverage, Audit reviewed (February 2007) the data of high loss feeders of 11/22 KV both in south (DGVCL) and west (PGVCL) zones of Gujarat for the period 2002-07 with objectives to ascertain the reasons for the increase in high loss feeders and the adequacy of measures taken by DISCOMs for reduction in distribution loss. As on 31 March 2006, of the 237 feeders in 16 divisions of DGVCL and 2,888 feeders in 29 divisions of PGVCL, 144 feeders and 1,978 feeders respectively, had losses above 20 *per cent*. For test check, Audit selected feeders having distribution loss above 20 *per cent* in nine divisions[†] of DGVCL and 14 divisions[‡] of PGVCL the details of which are given in **Annexures-11 and 12**.

During 2002-07 the selected divisions had lost 5,091.817 million units (MUs) worth Rs.1,511.48 crore as actual distribution loss exceeded the determined theoretical losses* for the feeders. During 2002-05, 705 feeders (133 of DGVCL and 572 of PGVCL) had losses above 20 *per cent* whereas during 2005-07, 1,870 feeders (536 of DGVCL and 1,334 of PGVCL) had losses above 20 *per cent* (**Annexure-11**). This indicates that the extent of losses in PGVCL was higher than DGVCL in all the years. Further, during 2005-07 there was an over all sharp increase of 165 *per cent* in the number of feeders having losses above 20 *per cent*.

DGVCL/PGVCL stated (September/November 2007) that increase in feeders having more than 20 *per cent* loss was also because the formula for calculation of agriculture consumption had been changed during last two years by GERC. Reply is not acceptable as the conclusions was arrived from the reported figures and metering of all agricultural consumers is the only way to arrive at the correct transmission and distribution loss.

Though CEA stipulated an over all norm of distribution loss of 11.50 *per cent*, it was observed that in some feeders theoretical losses fixed were above this norm based on the number of lines emanating from the feeders and numbers of transformers connected to the feeders. In any case, fixing of theoretical losses for such feeders in excess of 20 *per cent* is not desirable. The Board/DISCOMs, however, fixed (2002-07) theoretical losses ranging from 20 to 59 *per cent* in 105 feeders (28 of DGVCL and 77 of PGVCL) as given in **Annexure-12**. This resulted in loss of 40.05 MUs worth Rs.11.64 crore (*i.e.* differential units involved in feeders having theoretical losses above 20 *per cent*).

DGVCL/PGVCL stated (September/November 2007) that creation of new sub-stations and feeder bifurcation was being planned to reduce theoretical loss below 20 *per cent*.

[†] Ankleshwar (Rural), Bharuch, Navsari (Rural), Rajpipla, Surat (Rural), Surat (Urban), Valsad (Rural), Vapi (Rural) and Vyara.

[‡] Amreli I, Bhavnagar, Bhuj, Botad, Dhrangadhra, Dhoraji, Gondal, Jamnagar, Junagadh (Rural), Keshod, Rajkot City II, Rajkot (Rural), Savarkundla and Surendranagar.

* It refers to the line losses when current is passing through the line but there is no load on the line. It is calculated based on the number of lines emanating from the feeder and the number of transformers on the feeder.

Reasons for high distribution losses

Audit analysis of the reasons for the high distribution losses revealed the following:

Inadequacy of actions taken for reduction of distribution losses

3.15.3 The Board/DISCOMs had identified certain specific actions *viz.*, maintenance of HT/LT lines and transformers, checking of consumer installations, replacing defective meters, providing metal meter boxes, seals, *etc.* for reduction of distribution losses. It had laid down year/ division wise targets of the action plans. Details of targets and achievements of the selected divisions during 2002-07 are given in **Annexure-13**. Though, the overall percentage of achievement ranged from 16.65 to 91.97 and 82.27 to 101.05 in the selected divisions of DGVCL and PGVCL respectively, the persistence of high losses (**Annexure-11**) indicated the inadequacy of actions including non-fixation of higher targets to reduce the distribution losses. Further, in three divisions[#] of DGVCL and five divisions[∇] of PGVCL, the achievements were below average and consequently showed higher distribution losses. The divisions cited (March 2007) shortage of material/manpower as the reasons for the non-achievement of targets, though such constraints could be removed by timely initiation of proper measures.

DGVCL stated (September 2007) that higher targets had been fixed for above activities during 2007-08 for reducing distribution losses. PGVCL stated (November 2007) that maintenance of HT and LT line has been taken up in 2006-07 in a big way by covering most of the circles and would continue during 2007-08 also, to reduce distribution loss. The fact, however, remains that inadequate actions on the areas identified by the Board/ DISCOMs and non fixation of adequate targets led to higher distribution losses.

Pending work of renovation/ replacement of conductors

3.15.4 As per Board's assessment (2002-03), renovation/replacement of conductors would minimise distribution losses by 51,221.92 units per year per km in the selected circles of DGVCL and 36,141.42 units per year per km in PGVCL. The table below summarises the quantitative and financial targets and achievements of renovations/replacement of conductors for the period up to March 2007.

(Cost: Rupees in lakh)

Name of the Company	Cumulative Kms and cost of renovations approved up to 31 March 2007		Achievement against the approval up to 31 March 2007		Pending work	
	Kms	Cost	Kms	Cost	Kms	Cost
DGVCL	2,648.03	1,414.42	2,483.77	931.38	164.26	483.04
PGVCL	15,620.30	5,357.31	14,498.70	4,834.76	1,121.60	522.55

(Source: Information provided by the Companies)

[#] Ankleshwar (Rural), Surat (Rural) and Surat (Urban).

[∇] Bhuj, Dhrangadhra, Junagadh (Rural), Savarkundla and Surendrangar.

Thus, non-renovation/replacement of conductors in the pending works contributed to a distribution loss of 48.95 MUs worth Rs.14.02 crore*.

Delay in feeder bifurcation leading to distribution loss

3.15.5 As per assessment of the Board (2002-03) feeders having load above 150 ampere or more than eight *per cent* voltage regulation, if bifurcated, could minimise distribution loss by 3.5 lakh units per feeder per year. In bifurcation process, some of the lines emanating from a feeder are transferred to another feeder so that load of one feeder does not exceed 150 ampere. The table below gives the quantitative and financial targets and achievements of feeder bifurcations for the period up to March 2007.

(Cost: Rupees in lakh)

Name of the Company	Feeder bifurcations approved up to 31 March 2007		Feeder bifurcations done up to 31 March 2007		Feeder bifurcations pending as on 31 March 2007	
	Number	Cost	Number	Cost	Number	Cost
DGVCL	58	1,097.25	37	594.98	21	502.27
PGVCL	342	5,273.12	215	2,858.50	127	2,414.62

(Source : Information provided by the Companies)

The above pending works resulted in distribution loss of 51.80 MUs worth Rs.14.65 crore* during 2006-07.

DGVCL/PGVCL stated (September/November 2007) that the pending feeder bifurcations was planned to be completed by March 2008. The fact, however, remains that the pending feeder bifurcations contributed to distribution loss.

Non-installation of meters on Distribution transformer centres

3.15.6 Installation of meters on distribution transformer centre (DTC) helps in proper accounting of energy sent out from the feeders to the various consumers and also in identifying high energy loss pockets. The selected divisions of DGVCL, however, had metered only 18,926 (54.66 *per cent*) out of 34,627 DTCs and PGVCL had metered only 10,798 (10.15 *per cent*) out of 1,06,372 DTCs up to November 2006. The Board/DISCOMs had, thus, failed in fulfilling even the primary requirement for identifying and controlling theft of power.

DGVCL stated (September 2007) that metering of all DTC would be completed by March 2008. PGVCL stated (November 2007) that the work of providing meters on DTCs had been taken up during 2006-07 and is under progress. Thus, non-installation of meters on DTC did not help locate the feeders with high energy loss.

* DGVCL= 51,221.92 units X 164.26 Kms = 8.41 MUs X Rs.3.85 per unit = Rs.3.24 crore.
 PGVCL= 36,141.42 units X 1,121.61 Kms = 40.54 MUs X Rs.2.66 per unit = Rs.10.78 crore.
Total 48.95 MUs Rs.14.02 crore

* DGVCL = 3,50,000 units X 21 numbers = 7.35 MUs X Rs.3.85 per unit = Rs.2.83 crore.
 PGVCL = 3,50,000 units X 127 numbers= 44.45 MUs X Rs.2.66 per unit = Rs.11.82 crore.
Total 51.80 MUs Rs.14.65 crore.

Inadequate replacement of conventional meters by quality meters

3.15.7 Under Accelerated Power Development Reforms Programme (APDRP) project, the Board assessed (2002-03) that installing quality meters in place of conventional meters for its commercial and residential consumers would increase energy billing by 19.06 units per month due to accurate recording of their energy consumption. This, in turn would reduce the distribution loss. Though DISCOMs started (2002-03) replacing the conventional meters by quality meters under APDRP project, it did not complete the work within the stipulated period (2004-05). As on 28 February 2007, 3,83,786 (37.36 per cent) and 5,10,159 (39.48 per cent) conventional meters of selected divisions of DGVCL and PGVCL remained to be replaced by quality meters. As a result the Board/DISCOMs suffered distribution loss of 409.65[∇] MUs worth Rs.129.67 crore (2005-07). Thus, inadequate replacement of conventional meters by quality meters contributed to distribution losses.

Non-provision of LT Static meters on all LT industrial connections

3.15.8 The Board/DISCOMs tariff stipulated (May 2006) for levy of penalty on LT industrial consumers having connected load of 50 HP and above, if the power factor (PF) was not maintained at 90 per cent. There is no penal provision for disciplining the LT industrial consumers with load of less than 50 HP. The Board observed (2002-03) that the PF of LT industrial consumer with load of less than 50 HP was as low as 50 to 60 per cent. The low maintenance of PF in such cases burdens the system with increased distribution losses. Installing the static meters in the place of existing conventional or quality meters of such LT connections would enable the DISCOMs in identifying the consumers not maintaining the desired PF and also plan for taking remedial measures in this regard. In February 2007, the selected divisions of DGVCL had 14,312 (67.10 per cent) out of 21,330 LT connections and PGVCL had 11,805 (42.45 per cent) out of 27,811 LT connections without static meters.

DGVCL stated (September 2007) that it was planned to install static meters to all the remaining connections by December 2007. PGVCL stated (November 2007) that all existing connections having load less than 50 HP would be provided static meters in a phased manner. The fact, however, remains that non installation of static meters leads to lower PF thereby burdens the system with increased distribution losses.

Inadequate checking of installations and monitoring of theft

3.15.9 As per the selected divisions' claim (March 2007), theft of power was attributed as one of the main reasons for their high distribution loss. Checking of consumer's installations at frequent intervals is one of the means to prevent the theft of energy. During 2002-07, DGVCL had checked only 7,80,412

[∇] DGVCL = 3,83,786 X 19.06 units X 24 months= 175.56 MUs X Rs.3.85 per unit= Rs.67.59 crore.
PGVCL = 5,10,159 X 19.06 units X 24 months = 233.37 MUs X Rs.2.66 per unit= Rs.62.08 crore.
Total **409.65 MUs** **Rs.129.67 crore.**

(65 per cent) out of 12,07,964 consumer's installations indicating DGVCL's failure to cover all the installations even once in five years. PGVCL had checked all its 15,11,356 installations atleast once during five years. As a result of checkings carried out in the selected divisions during 2002-07, 75,915 cases of theft of energy worth Rs.90.10 crore in DGVCL and 1,66,479 cases of theft of energy worth Rs.141.27 crore in PGVCL were noticed. Based on the proportion of revenue realised from theft detection in DGVCL, had the remaining 4,27,552 consumers been checked, the Company could have realised additional revenue of Rs.49.36 crore. As there was nine to ten per cent of the installation checks carried out was theft cases, DISCOMs are required to increase the frequency of checking of installations to reduce its distribution losses. Further, theft of power is committed by putting lungarias on the conductors. Providing PVC coated conductors prevents such power theft, however, low achievement was made in this regard as given in **Annexure-13**.

DGVCL stated (September 2007) that consumer analysis system had been installed in all sub-division offices to provide history sheets for installation checking. Further, installation checking had also been enhanced by creating new 15 squads in circles and corporate office each headed by a deputy engineer under the overall control of SE (Vigilance). PGVCL stated (November 2007) that 36 divisional checking squads have been created and mass checking drives are arranged under the supervision of EE (Vigilance). The fact, however, remains that inadequate checking of installations and monitoring of theft led to lower theft detections in DGVCL/PGVCL.

High losses in Jyoti Gram Yojana feeders

3.15.10 The State Government launched (2004-05) the Jyoti Gram Yojana (JGY) for giving three phase continuous power supply to rural area for upliftment of rural population. The power supply to rural area is given through installation of separate JGY feeders, besides, the agricultural feeders which provide power for 10 to 12 hours per day for agricultural consumption. Of the 742 feeders having losses above 20 per cent during 2006-07 in the selected divisions, 279 were of JGY feeders. The divisions, in reply (March 2007), attributed the loss to the damaged service lines, not having PVC coated conductors in theft prone areas, non-replacement of old/defective meters of existing rural consumers, theft of power for agricultural purpose, etc. Releasing of 24 hour supply without ensuring these minimum requirements had also led to high losses in JGY feeders.

DGVCL/PGVCL stated (September/November 2007) that it has been planned to complete all required works on high loss JGY feeders by February/March 2008 so as to reduce distribution losses. The fact, however, remains that there were high losses in JGY feeders.

Non-metering of agricultural consumers

3.15.11 GERC in its tariff orders (October 2000/June 2004/ May 2006) directed the Board/DISCOMs to ensure 100 per cent metering of all agricultural consumers as it would increase the realisation from sale of power made to them by Re.0.21 per unit. In February 2007, the selected divisions of

DGVCL had 35,190 (57.22 per cent) unmetered connections out of 61,502 agricultural consumers. Likewise, PGVCL had 1,50,290 (69.49 per cent) unmetered connections out of 2,16,278 agricultural consumers. This led to loss of potential revenue of Rs.37.04 crore[¥] to DISCOMs during 2006-07. Metering of agricultural connections not only increases the revenue but also helps DISCOMs in identifying theft prone areas on its power system and in assessing the actual distribution losses in the agricultural sector.

DGVCL/PGVCL stated (September/November 2007) that it had been educating farmers and persuading them for installation of meters. The fact remains that unmetered connections are contributing to the loss of the Company.

Inadequate staff strength in sub-divisions in relation to work load

3.15.12 Audit analysis revealed that staff shortage was the main reason for low installation checking and detection/prevention of theft. Details of manpower and work loads (March 2007) in the selected divisions of DISCOMs as given below indicated that the work load *per day* on each engineer was very high to ensure checking of all consumers even once in a year. This, in turn affected the efficiency of the divisions in detection/prevention of theft:

Particulars	DGVCL		PGVCL	
	Total	Per engineer per day	Total	Per engineer per day
No. of divisions	9		14	
No. of engineers	137		244	
No. of consumers	14,30,800	37	17,09,268	25
Length (KM) of HT/LT lines	47,533	1.22	1,00,694	1.45
No. of transformers	25,636	1	62,738	1

(Source: Information provided by the Board/Companies)

DGVCL/PGVCL stated (September/November 2007) that a consultant had been appointed by the holding company for the smooth implementation of the report given by Administrative Staff College of India, Hyderabad on the staffing pattern. Thus, the fact remains that efficiency of the divisions in detection/prevention of theft was affected due to inadequate staff.

The matter was reported to Government in August 2007; the reply had not been received (November 2007).

[¥] DGVCL= 35,190 connections X 3.84 HP X 8 hrs. X 0.75 X Re.0.21 per unit x 365 days= Rs.6.21 crore. PGVCL=1,50,290 connections X 4.46 HP X 8 hrs. X 0.75 X Re.0.21 per unit x 365 days =Rs.30.83 crore. **Total Rs.37.04 crore.**

Statutory Corporations

Gujarat State Road Transport Corporation

3.16 Irregularities in purchase of chassis and bus body building

Irregular splitting of purchase order and belated receipt of chassis resulted in revenue loss of Rs.3.28 crore. Funds of Rs.6.28 crore given by the State Government for purchase of chassis were diverted for other use.

During 2004-05 and 2005-06, the Corporation purchased 100 and 1,100 bus[∇] chassis for Rs.11.57 crore and Rs.81.41 crore, respectively. The work relating to body building on 800 chassis was carried out internally at Corporation's central workshop and for the remaining 400 chassis it was outsourced (November 2004 to July 2006) at a total cost of Rs.62.16 crore.

Irregular splitting of purchase orders of chassis

3.16.1 The Corporation invited (August 2004 and May 2005) tenders for purchase of 100 and 1,100 chassis respectively. Under both tenders, Ashok Leyland remained L1 and Tata stood as L2. The price of Ashok Leyland was ranged between Rs.11.46 lakh to Rs.11.56 lakh per CNG chassis and was cheaper to the price of Tata by Rs.28,600 to Rs.73,703 per chassis. Likewise, for diesel chassis, the Ashok Leyland's price was Rs.6.98 lakh per chassis which was cheaper by Rs.916 per chassis to the price of Tata. The Corporation took the decision to split the purchase orders on the basis of decision (February 2005) of a special committee constituted by the State Home Department (administrative department for GSRTC at that time), on the ground that 'awarding of 100 per cent business to one party would mean losing option of the future competition and allowing a single party an absolute advantage of enjoying monopoly'. The Corporation, however, did not drive home an even better cost advantage from L1 on the grounds of economy of scale. The cited plea was also against the generally accepted principles of contract management which enjoin upon the management to derive the best cost advantage from a technically sound bidder.

Under both tenders, the Corporation placed orders (November 2004[^], March/May 2005 and July 2005) for 665 chassis (CNG:165 and diesel:500) on Ashok Leyland and for 535 chassis (CNG:35 and diesel:500) on Tatas. Splitting of purchase order thus resulted in direct loss of Rs.21.36 lakh as detailed below:

(Amount in rupees)

Year of purchase	Type of chassis	Price of TATA	Price of Ashok Leyland	Difference	Number of chassis purchased at higher price	Extra cost
2004-05	CNG	12,20,103	11,46,400	73,703	15	11,05,545
2005-06	CNG	11,85,000	11,56,400	28,600	20	5,72,000
2005-06	Diesel	6,98,676	6,97,760	916	500	4,58,000
Total					535	21,35,545

(Source: Information compiled from corporation records)

[∇] TATA and Ashok Leyland.

[^] Trial orders for five chassis each were placed with TATA and Ashok Leyland.

The Management stated (July 2007) that CNG bus technology being new to the Corporation; it did not want to depend on one supplier which may cause hindrance to smooth operation during unforeseen circumstances. The diesel chassis were purchased from both firms to have composite fleet of buses in order to maintain the operational results. The reply is not tenable. As the Corporation did not find any difficulty with respect to capability and quality of supplies of L1, it should not have placed order on L2 at a higher rate. Further, the reason given for having composite fleet of diesel buses with an aim to maintain operational results is not clear.

Loss of revenue owing to delayed supplies

3.16.2 Both the firms were irregular in supplying the chassis, with delays ranging from one to two months. It was observed that the Corporation had not inserted any penal clause in the purchase orders for late supply. Late supply of chassis ranged from 1 to 87 days, causing loss of revenue of Rs.3.07 crore* during April-July 2006. This loss is also incidentally indicative of the weakness of argument forwarded by the special committee in splitting the purchase order for 'competitive advantage'.

The Management stated (July 2007) that the firms were given tentative delivery schedule considering the production capacity of Central Workshop and private bus body builders. As such, the bus body building work did not suffer for want of chassis. Further, the new buses were to replace over aged buses. Thus, the delay in its replacement did not result in loss of revenue. Besides keeping in view the audit observation, the Corporation incorporated penalty clause in the order placed for purchase of chassis during 2006-07. The reply is not tenable. The purchase orders did not indicate that the schedule for delivery given was tentative. As evident from the Corporation's records, the average number of breakdowns per 1,000 Kms was 12.66 which were mainly attributable to over aged buses. The reply, however, overlooked the implication of delay in replacement of over aged buses.

Diversion of Government funds

3.16.3 The State Government provided (2004-06) Rs.152.65 crore to the Corporation by way of equity and loan, specifically for purchase of chassis and body building for new buses. The Corporation spent only Rs.146.37 crore for the given purpose, and diverted the balance amount of Rs.6.28 crore for working capital requirements, even as 4,492 to 6,641 overaged buses awaited (March 2004 to March 2006) replacement.

The Management stated (July 2007) that the Corporation had spent Rs.142.32 crore against the fund of Rs.134.96 crore received. As such, there was an excess spending of Rs.7.36 crore instead of diversion of any fund as commented in audit. The reply is not tenable. The Corporation in its reply had considered the funds received and spent in one year (2005-06) only as against two years (2004-06) commented in audit.

* Worked out at minimum average revenue of Rs.5,580 per bus per day determined by GSRTC.

The matter was reported to the Government (June 2007); the reply had not been received (November 2007).

Gujarat Industrial Development Corporation

3.17 Irregular allotment and transfer of plots

Not charging of appropriate rates for irregular allotment and transfer of plots resulted in loss of Rs.19.99 crore.

The State Industries Department (SID) allowed (November 2000) the Corporation to allot/transfer the plots/sheds of Gandhinagar Electronic Industrial estate (GEI) only for the purpose of setting up of industries related to Information Technology, Electronics, Bio-Technology and knowledge based industries.

In contravention of Government orders, the Corporation allotted (December 2005) a 69,003 square meters plot at GEI to Neesa Leisure Private Limited, Gandhinagar (NLP) for a concessional consideration of Rs.3.53 crore* for setting up a golf course in extension of its core hotel business. The possession of the plot was handed over in January 2006. Apart from the irregular allotment, the Corporation allowed undue benefit of Rs.18.63 crore^ to the firm by charging concessional rather than commercial rate for the land.

The Corporation had earlier allotted (June 2005) another 5,040 sq mtr plot for a concessional consideration of Rs.15.88 lakh (at Rs.300 per sq mtr *plus* Rs.15 per sq mtr as front charges) to NLP on the condition the land would be used only for electronics industry. After taking the possession of the plot (June 2005), NLP sought (June 2005) permission to use it for expanding its hotel activity. The Corporation instead of canceling the allotment asked (December 2005) NLP to pay the commercial rate of Rs.3,000 per sq mtr for using the plot for hotel activity. The firm had not paid (March 2007) the additional cost of Rs.1.36 crore[⊕], but started construction. The Corporation did not take any further action to cancel the allotment or recover the additional commercial rate from the firm and instead again allotted land in contravention of Government orders.

The Government/Management stated (July 2007) that the State Tourism Department had declared (May 1997) tourism including hotel activities with the status of 'Industries'. Further, the State Urban Development Department had allowed (February 2004) for allotment of land for tourism activities at Gandhinagar. Hence, the plot allotted for golf course at Gandhinagar by charging industrial rate was in order. In case of plot allotted for expansion of hotel activity, reply stated that NLP had represented (February 2006/May 2007) to the Corporation for charging industrial rate for the plot. Thus,

* 69,003 sq mtr X basic rate of Rs.300 per sq mtr *plus* development charges at the rate of Rs.200 per sq mtr) *plus* the front charges of Rs.7.66 lakh.

^ 69,003 sq mtr X Rs.3,000 commercial rate *plus* development charges of Rs.200 *plus* front charges of Rs.7.66 lakh =Rs.22.16 crore *less* Rs.3.53 crore already paid.

⊕ 5,040 sq mtr X Rs.3,000 commercial rate = Rs.1.52 crore *less* Rs.0.16 lakh already paid.

pending disposal of the representation it was not proper to state that it had favoured the firm in any way.

The reply is not tenable. The SID clearly restricted (November 2000) the allotment of land at GEI, to any industries other than those specifically identified in its decision. Thus, the decision is estate specific, where as the permission given by the State Urban Development Department for allotment of land for tourism activities at Gandhinagar is of general nature and does not have any overriding effect on the SID decision (November 2000). Thus, the allotments of plots made to NLP were irregular. Besides, the Corporation did not recover commercial rates for these plots as decided (February and December 2005) by its BODs since the plots were being used for the purpose other than specified in the SID decision (November 2000). Thus, the Corporation's repeated violation of the State Government orders resulted in undue benefit to a private firm and resultant loss to Corporation amounting to Rs.19.99 crore.

General

3.18 Follow-up action on Audit Reports

Outstanding action taken notes

3.18.1 Audit Reports of the Comptroller and Auditor General of India represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained by various public sector undertakings (PSUs). It is, therefore, necessary that they elicit appropriate and timely response from the Executive. As per rule 7 of the Rules of Procedure (Internal Working) of Committee on Public Undertakings (COPU), Gujarat Legislative Assembly, all the administrative departments of PSUs should submit, within three months of their presentation to the Legislature, explanatory notes indicating the corrective/ remedial action taken or proposed to be taken on paragraphs and reviews included in the Audit Reports.

Though, the Audit Reports for the year 2003-04, 2004-05 and 2005-06 were presented to the State Legislature on 13 September 2005, 24 March 2006 and 30 March 2007 respectively, 15 departments, which were commented upon, did not submit explanatory notes on 33 out of 69 paragraphs/ reviews as on 30 September 2007 as indicated below.

Year of the Audit Report (Commercial)	Total Paragraphs/ Reviews in the Audit Report	Number of Paragraphs/Reviews for which explanatory notes were not received
2003-04	23	06
2004-05	22	05
2005-06	24	22
Total	69	33

Department-wise analysis is given in *Annexure-14*.

Response to Inspection Reports, Draft Paragraphs and Reviews

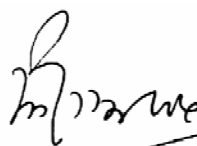
3.18.2 Audit observations noticed during audit and not settled on the spot are communicated to the heads of the respective PSUs and the concerned

departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Review of Inspection Reports issued up to March 2007 pertaining to 48 PSUs revealed that 1,089 paragraphs relating to 365 Inspection Reports remained outstanding as on 30 September 2007. Department-wise break-up of Inspection Reports and audit observations outstanding as on 30 September 2007 is given in **Annexure-15**.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the Administrative Department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Audit noticed that seven draft paragraphs and three draft reviews forwarded to the various departments during April to August 2007 as detailed in **Annexure-16** had not been replied to so far (November 2007).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/ reviews and ATNs to the recommendations of COPU as per the prescribed time schedule; (b) action to recover loss/ outstanding advances/ overpayment is taken within the prescribed time; and (c) the system of responding to audit observations is strengthened.

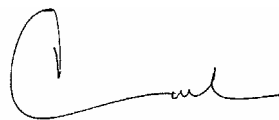
AHMEDABAD
The



(NIRANJAN PANT)
Principal Accountant General
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Countersigned

NEW DELHI
The



(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India