



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2019-2021)**

**HUNDRED AND SIXTH REPORT
(Presented on 24th August 2020)**

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2020

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HUNDRED AND SIXTH REPORT

On

**The Action Taken by Government on the Recommendations
contained in the Forty Fourth Report of the Committee on
Public Undertakings (2014-2016) relating to Kerala State
Electricity Board Limited, based on the Report
of the Comptroller and Auditor General
of India for the years ended 31st March
2005 & 2009 (Commercial)**

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2019-2021) having been authorised by the Committee to present the Report on their behalf, present this HUNDRED AND SIXTH Report on the Action Taken by Government on the Recommendations contained in the Forty Fourth Report of the Committee on Public Undertakings (2014-2016) relating to Kerala State Electricity Board Limited, based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 2005 & 2009 (Commercial).

The Statement of Action Taken by the Government included in this Report was considered by the Committee at its meetings held on 30-11-2016, 31-5-2017 and 25-9-2019.

This Report was considered and approved by the Committee at its meeting held on 5-3-2020.

The Committee place on record its appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala, and express gratitude to officials of Power Department and KSEB Limited during the examination of the Action Taken Statements included in this Report.

C. DIVAKARAN,

*Chairman,
Committee on Public Undertakings.*

Thiruvananthapuram,
5th March, 2020.

REPORT

This Report deals with the Action Taken by Government on the recommendations contained in the Forty Fourth Report of the Committee on Public Undertakings (2014-2016) relating to Kerala State Electricity Board Limited, based on the report of the Comptroller and Auditor General of India for the years ended 31st March, 2005 & 2009 (Commercial).

The Forty Fourth Report of the Committee on Public Undertakings (2014-2016) was presented to the House on 30th June 2014. The Report contained 10 recommendations and the Government furnished replies to all the recommendations. The Committee considered the replies received from the Government at its meetings held on 30-11-2016, 31-5-2017 and 25-9-2019. The Committee accepted the replies to the recommendations without remarks.

REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations	Action taken by the Government
1	2	3	4	5
1	10	Power	The Committee observes that the Board's failure to incorporate price variation clause in the original contract with the Subham Comtech Exports Pvt. Ltd. Without foreseeing the price hike of steel resulted in undue benefit of ₹ 37.97 lakh to the supplier. The Government have admitted the lapses. The Committee understands that the Board had accepted SCE's demand for the enhanced rates rather than cancellation of the contract as retendering would lead to inordinate delay in the completion of the various ongoing projects of the Board. The Committee opines that the Board had not be able to avail the benefit of fixed rate	<p>To ensure that losses are not sustained by K.S.E.Board Ltd; while purchasing items, the following steps are taken.</p> <ol style="list-style-type: none"> 1. Price volatile items are purchased by inviting tenders on variable price basis. Eg. Power transformer, distribution transformer, ACSR conductors, tower parts and galvanised steel earth wire. 2. Price variation will be given only for the supplies made within the scheduled delivery periods. 3. In case of delayed delivery within the overall period fixed for delivery of entire quantity, the price applicable will be

			<p>stipulated in the original contract, as the Board had revised the rate and extended the time of delivery of goods as requested by the supplier.</p>	<p>the lowest of the following three prices:-</p> <ol style="list-style-type: none"> a. Updated price as per IEEMA Price Variation on the date of Purchase Order. b. Updated price as per IEEMA Price Variation as on the Schedule date of delivery. c. Updated Price as per IEEMA Price Variation as on the actual date of delivery.
2	11	Power	<p>The Committee recommends that while placing orders for purchasing price volatility items, price variation clause should be incorporated in the contract and should make sure that delivery is completed within the stipulated time. The Committee expresses its dissatisfaction over the overall performance of the Board. The Committee recommends that necessary directions should be given to implement RGGVY scheme to provide connection to nearest dwelling places in rural areas and that free electrification should be</p>	<p>Strict monitoring is done to ensure that the materials are delivered within the scheduled delivery period. If the delivery schedule as per the purchase order is not maintained, penalty at the rate of 1% for every month of delay subject to a maximum of 10% will be levied on the materials supplied belatedly. Apart from this penalty, the price is also re-fixed if there is a fall in price in the next tender (Price bid) opened during the belated supply period. This is an additional penalty imposed apart from the 10% maximum penalty. RGGVY Xth Plan scheme was first</p>

1	2	3	4	5
			<p>given not only to those who are included in the Government approved BPL list but also to those recommended to be included in the list by Village or Panchayath Authorities. The Committee recommends that for providing free electric connections to the poor the existing system in the Board should be followed irrespective of the type of schemes implemented.</p>	<p>implemented in Idukki district during the periods 2007-2010. Free service connections were effected to 17238 BPL houses under this scheme. RGGVY XIth Plan scheme was implemented in the remaining 13 districts during the periods 2010-2015. Free service connections were effected to 94532 BPL houses in these 13 districts in XIth plan scheme. A total of 111770 Nos. of free connections were effected to BPL households against the target of 73453 BPL households. BPL families approved by Village/ Panchayath authorities were also considered for effecting free service connection under RGGVY.</p>
3	18	Power	<p>The Committee observes that out of the 8 Office-cum-Commercial Complexes built by KSEB the Board occupied only the whole area in some locations. But major/commercial area in other places remained vacant due to stringent terms and conditions of tender/auction.</p>	<p>The objective of the Board was to bring all the wide spread offices into one roof having better working atmosphere to the employees and to give better facilities to the consumers. Due to the financial constraints of Board and for availing financial assistance from institution, the Board had to construct the building with commercial facility.</p>

Though the Board could save some amount by way of rent, the Committee points out that the Board has virtually made a flaw by not earmarking areas for commercial purpose. The Committee suggests that a report regarding the repayment of loans availed by the Board from KPFL, the total savings earned by way of rent and the vacant commercial area that could not be leased out should be furnished to the Committee.

As part of development of infrastructure, the KSE Board approved in April 1999, the proposal for the construction of Office cum Commercial Complexes in 16 locations in the State on a self sustaining basis so as to avoid the drain on the Board's resources. Six of these complexes were constructed during the period 2001 to 2004. The finance required for the scheme was tied up with Kerala Power Finance Corporation Ltd. at an interest rate of 1.5% above SBT prime lending rate from time to time. The details of loan availed and repayment status is attached as Annexure -I.

The tender cum auctions were conducted for renting out the Commercial area of the eight commercial complexes at Kottiyam, Alappuzha, Cherthala, Vaikom, Thiruvalla, Thodupuzha, Chennamangalam & Manjeri during 2005 and an area of 289.94m² out of 3391.52m² commercial area was rented out during that period.

1	2	3	4	5
				<p>The details of the total savings in rent by accommodating offices of KSEBL in Commercial Complexes and the rent levied on leasing out the commercial area and deposit collected from the tenants with respect to the eight commercial complexes at Kottiyam, Alappuzha, Cherthala, Vaikom, Thiruvalla, Thodupuzha, Chennamangalam & Manjeri are furnished in Annexure II.</p> <p>In this regard it may be noted that by constructing the above Office cum Commercial Complexes, the KSE Board had saved a substantial amount in rent for Section Office/Sub Division Office which were functioning in rental buildings. Moreover KSEBL is getting regular income with periodical increase from the commercial area rented out to others.</p>
4	19	Power	The Committee finds that lack of proper study about the financial viability and absence of estimation of requirement are	The recommendation of the Committee has been duly noted for future guidance. Please note that a separate wing named 'SPIN'

			<p>evident in the planning, estimation and implementation of the projects. The Committee therefore recommends that before venturing into such projects, feasibility and financial viability of the project should be ensured.</p>	<p>(Sports Pre-engineered infrastructure & New technology construction) has been set up in Kerala State Electricity Board Limited (KSEBL) for construction of pre-engineered building for KSEB Limited, vide B.O. (CMD) No. 2556/2015 (CE/Civil Design/Prefab) dated 12-10-2015. The major advantage of pre-engineered buildings is that construction time can be reduced.</p> <p>The construction of office cum commercial buildings in the land owned by KSEB Limited in commercially important locations are proposed to be taken up using such newer technologies to avoid/minimize cost & time overruns.</p>
5	24	Power	<p>The Committee observes that had the Board made an attempt to renegotiate the price of Zinc with the supplier by taking into account the declining trend of Zinc price in the market the Board could have avoided the extra expenditure of ₹ 95.53 lakh. The Committee opines that</p>	<p>The contract for the work of hot dip galvanizing of line materials fabricated under Civil Circle, Pallom was a fixed rate contract and not a variable rate contract. The estimate was sanctioned based on the IEEMA Price level of zinc during 2007. Moreover the</p>

1	2	3	4	5
			<p>while quoting fixed/variable rates in the contract, time constraint alone, should not be taken as the deciding factor, but favourable decision for the benefit of the Board in its entirety should also be taken into account depending on the merit of the circumstances. The Committee observes that the Board had failed to take steps to negotiate for price reduction when the price of zinc showed a declining tendency but acceded to the suppliers request to increase the same when the price of zinc increased.</p>	<p>galvanizing charges include not only the cost of zinc, but also various other components viz. furnace oil, acid and other chemicals, labour charges, loading and unloading charges and taxes and duties etc.</p> <p>Even though the cost of zinc was fluctuating, the cost of all other components like labour, furnace oil, acids and other chemicals etc. were in the increasing trend during the contract period when compared to 2007 price level. As per estimate, the cost of zinc contributes below 40% of the galvanizing works and the other components mentioned above contribute about 60% of galvanizing works. The loss in a fixed price contract was worked out considering the reduction in price of one of the several components required for the work which constitute only below 40% of the work whereas the cost of the balance 60% components of the work were increasing. If the audit had considered the increase in cost of the major components</p>

6/20

				<p>which contributes 60% of the work also, there would be no such extra expenditure as alleged.</p> <p>As per the terms and conditions of the agreement for the subject work, the agreed rates shall be firm during the contract period and no rate revision will be allowed on any account during the contract period or during the extended period of contract. In the agreement there is no scope of negotiation with contractor, while granting extension of time of completion of work, and the work could be executed only as per the terms and conditions of contract agreement executed for the work. In any contract executed in Board for galvanizing works, increase in rate was not allowed to the contractor when the price of zinc increased during the contract period or extended period, as this is against the terms and conditions of contract agreement, and hence the remarks of the Committee that Board has acceded to the</p>
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1	2	3	4	5
				<p>supplier's request to increase the rate when the price of Zinc increased, is not true to facts.</p> <p>KSEBL had set ambitious targets for 11 KV and LT line extension works and the galvanized line materials had to be supplied on time to complete the line extension works. Due to the diligence taken in arranging the galvanizing works the Board could construct record length of 11 KV lines and install record no. of transformers. Any re-negotiation if done, in the course of work would have made it impossible to achieve the targets and thereby cost in terms of T & D loss and consumer dissatisfaction would have been very high.</p>
6	25	Power	<p>The Committee recommends that since the work of pole casting, galvanizing etc. are regular requirements of the Board costing annually ₹ 18 crore or more, the Board should conduct a proper</p>	<p>The galvanizing charges include not only the cost of Zinc but also various compounds viz. Furnace oil, acid and other chemicals, labour charges, loading and unloading charges, and taxes/duties etc. While inviting tenders for</p>

			<p>market analysis on the issue before inviting tenders.</p>	<p>the work, the estimates are prepared after making proper market analysis and the cost of zinc is taken as per IEEMA price and cost of all other components is taken based on the market rate.</p> <p>The requirement of poles are assessed approximately before inviting tenders, taking into consideration many factors like previous years demand, new connections anticipated, natural calamities etc.</p> <p>The cost of poles can only be compared with the previous tendered rates. The setting up of a pole casting yard needs huge investment as the poles are manufactured only for the Board. The cost of PSC poles is not readily available in the market and hence conducting proper market analysis on the pole casting works will not yield desired results.</p> <p>Considering the above facts it may be seen that no excess amount has been paid to the firm.</p>
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1	2	3	4	5
7	29	Power	<p>The Committee observes that when Thrissur Municipal Corporation attained Corporation status, the KSEB by overruling KSERC norms had sanctioned temporary additional power load (11 MVA in HT IV) at a lower tariff than TMC's former one (66 KV grid), in order to accommodate the increased demand for power. The Committee points out that granting undue relaxation in the existing rules and stipulations of KSERC to TMC led KSEB to incur a loss of ₹ 75.05 lakh. This has enabled TMC to make huge profit at Board's expense as most of its consumers fall either in commercial or industrial tariff.</p>	<p>At the outset it is submitted that the 11 KV tariff charged on Thrissur Municipal Corporation (TMC) for the temporary additional power was higher than the 66 KV grid tariff prevailed during the period and thus no loss has occurred to KSEB due to the said supply.</p> <p>As per provisions of Electricity Act, 2003, even though KSEB can provide supply to any consumer within the State, KSEB cannot prevent a consumer from availing supply from TMC, within the territorial area of TMC. However, if the consumer prefers to avail supply from KSEB, KSEB can provide the same by drawing a separate distribution network up to the premises of such consumer.</p>
8	30	Power	<p>The Committee recommends that the distribution and tariff collection in respect of industrial and commercial</p>	

			<p>consumers must be directly undertaken by the Board itself and the collection electric charges of domestic consumers must be entrusted to Municipal Corporation. The Committee urges that steps should be taken by the Board to curb the Municipal Corporation from making undue profit at the Board's expense by procuring power at a lower rate from the Board and selling the same at higher rate to industrial and commercial consumers.</p>	<p>Since drawing separate distribution network up to the premises of such consumers will not be economical and will result in duplicating of distribution lines, the same is not practical.</p> <p>In this background, the issue of undue profit to TMC due to supply to mainly Commercial and Industrial consumers was brought to the notice of Kerala State Electricity Regulatory Commission (KSERC) to upwardly revise the tariff for the power provided by KSEBL to TMC. KSERC approved KSEBL's proposal and presently the issue is resolved by charging higher Bulk Supply Tariff (BST) for the supply to TMC.</p> <p>Thus, while determining the Bulk Supply Tariff (BST) applicable to TMC for purchase of power from KSEB, Commission has taken</p>
9	31	Power	<p>The Committee feels that it is unjust and unfair to allow a single Corporation in the State to make huge profit at Board's expense using the infrastructure facilities provided by the Board. The Committee therefore recommends that a detailed</p>	

1	2	3	4	5
			<p>study should be conducted on the profit made by TMC during April 2007 to March 2008 when temporary connection was sanctioned to it at higher HT IV tariff and also the details regarding the distribution of power by TMC during the period should be submitted to the Committee at the earliest.</p>	<p>into account the higher revenue generated from sale of power to its commercial and industrial consumers by TMC and ensured that TMC is left with only the requisite operational expenses as mandated in the Electricity Act, 2003. Thus, the tariff determined by KSERC for TMC ensures that any undue surplus held by TMC gets passed over to KSEB and to the whole consumers of Kerala through higher BST.</p>
10	32	Power	<p>The Committee is not satisfied with the overall performance of Kerala State Electricity Board.</p>	<p>In these circumstances detailed above, the Committee may please appraise of the above facts and drop further action in the matter.</p>

Thiruvananthapuram,
5th March, 2020.

C. DIVAKARAN
Chairman,
Committee on Public Undertakings.

ANNEXURE-I

Details of loans availed from KPFC Ltd (Now KSPIFC Ltd) for the construction of office-cum-commercial complex at various locations and their present status of re-payment.

Sl. No.	Loan sanction	Project name	Loan Amount (Rs. in lakhs)	Date of availing the loan	Date of final repayment
1	Sn. Tkt No. 2/2000 dtd: 15/05/2000	Commercial Complexes at:- Thodupuzha	298.00	06/02/2001	01/11/2010
		Chennamangalam	76.00	09/05/2001	01/02/2011
2	Sn. Tkt No. 3/2000 dtd: 20/08/2000	Commercial Complexes at:- Thiravalla	140.012	03/08/2001	03/05/2011
		Manjeri	323.854	04/02/2000	01/11/2011
		Vaikom	59.463	06/03/2002	01/12/2011
		Cherthala	72.518	02/06/2001	01/03/2011

ANNEXURE-II

Details of savings earned by way of rent by accommodating KSEBoard offices and vacant Commercial Area

Sl. No.	Name of office cum commercial complexes	Savings in rent by accommodating KSE Board offices (Rs.)	Vacant commercial area	Revenue obtained by way of rent and through other deposits (Rs.)	Remarks
1	Alapuzha	5,30,49,060.00	Nil	34,86,415.00	Up to 08/2015
2	Cherthala	89,98,308.00	Nil	3,08,003.00	Up to 08/2015
3	Thodupuzha	5,47,71,829.00	Nil	1,47,854.00	Up to 08/2015
4	Chennamangalam	32,71,066.00	Nil	Nil	Up to 08/2015
5	Kottiyam	20,85,000.00	46.75m ²	47,48,144.00	04/2006 to 09/2015
6	Thiruvalla	35,47,030.00	Nil	Nil	
7	Vaikom	94,50,324.00	Nil	4,85,945.00	02/2009 to 05/2015
8	Manjeri	13,58,400.00 (Per annum)	730m ²	27,66,750.00	Up to 02/2015
Total		13,65,31,017.00		1,19,43,091.00	

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