THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)

FORTY FOURTH REPORT

(Presented on 30th June, 2014)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2014

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COMMITTEE
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FORTY FOURTH REPORT

on

Kerala State Electricity Board based on the Report of the Comptroller and Auditor General of India for the years ended on 31st March, 2005 & 2009 (Commercial)

1065/2014.

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INTRODUCTION

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

The Reports of the Comptroller and Auditor General of India for the years ended 31st March, 2005 & 2009, was laid on the Table of the House on 13-2-2006 & 25-3-2010. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2011-14.

This Report was considered and approved by the Committee at the meeting held on 9-10-2013.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Power Department of the Secretariat and Kerala State Electricity Board for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Power and Finance Department and the officials of Kerala State Electricity Board who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

K. N. A. Khader,

Thiruvananthapuram, *Chairman,*

30th June, 2014. *Committee on Public Undertakings.*

REPORT

KERALA STATE ELECTRICITY BOARD

AUDIT PARAGRAPH

For procurement of 2000 Nos. of 12m 'A' type poles required for 33 KV transmission lines in six Transmission circles, the Board placed (December 2003) orders on Shubham Comtech & Exports Pvt. Limited (SCE) at their lowest all inclusive rate of ` 12,168 per pole. The price was stipulated (Clause 3) as firm. The Board did not incorporate the usual price variation formula in the contract with SCE even though the steel prices were subject to frequent revision.

The delivery of the material was to commence within 30 days (January 2004) and be completed within three months (March 2004). On the ground of increase in price of steel, SCE expressed (January 2004) their inability to supply the entire quantity at firm price and delivered (April 2004) only 646 poles at the agreed rate.

SCE, thereupon, requested (April 2004) for shortclosing of the purchase order. The Board finally accepted (September 2004) a revised price of ` 14,959 per pole (all inclusive). The firm supplied (up to April 2005) 1354 poles at the enhanced rate involving additional cost of ` 37.79 lakh (1354 x ` 2791).

Audit noticed that a local SSI unit (Auto Turns, Attingal) had offered (December 2003) to supply the poles at the lowest rate of ` 12,168 per pole. The Board, however, did not accept this offer which was valid up to February 2004 though SCE in January 2004 had demanded enhancement in rate.

Thus, the injudicious decision of the Board to allow enhancement in the firm rate resulted in an undue benefit of ` 37.79 lakh to the supplier.

The Government stated (July 2005) that the Board allowed reasonable escalation in the basic price to accommodate the steep hike in the price of steel and the post tender offer of Auto Turns was not considered since it would involve violation of rules and procedures. The reply is not acceptable as SCE would have quoted the firm rates taking into account the trend of rise in the price of steel. Considering the lower offer of Auto Turns when SCE demanded revision in rates in violation of the purchase order, would not be a violation of rules and procedures. Further, the delivery period of three months was also actually extended to 16 months affecting the targeted works.

[Audit Paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2005.]

1065/2014.

Notes on the Audit Paragraph received from the Government is given in Appendix II.

1. When the Committee enquired about the undue benefit of ` 37.97 lakh given to M/s Shubham Comtech Exports Private Ltd., the contractor firm, in the procurement of 2000 numbers of 12m 'A' type poles @ ` 12,168 per Pole by the Board required for 33 KV transmission line works the witness explained that due to the urgency of poles required for the various ongoing short-term transmission line works and that the unprecedented and unexpected hike in steel price in the market, non-inclusion of price variation clause in the contract, etc., led to revision of the original tender price which resulted in the additional payment of ` 37.97 lakh to the supplier. The witness submitted that even though the work of 33 KV substation was completed, the project could be commissioned only after the completion of line work.

2. The witness informed that the Board had opted to revise the tender rate rather than to go in for retender process in order to avoid unnecessary delay in the ongoing projects. The witness added that the Board had taken the decision in good faith to this effect by taking into account the general perspective. To the audit query as to why the Board had opted to purchase poles at an enhanced rate when a local SSI unit offered to supply the same at a lower rate, the witness replied that there was a practice that those who lose the original tender would normally make post tender offers to create confusion and unnecessary problem, and if they were entertained it would create a total mess and violation of the rules and procedures.

3. The Committee confirmed this view and affirmed that it was not practical to negotiate with the 3rd lowest tenderer overruling the first lowest tenderer. In such a situation the only option left behind was either to complete the work at the earliest or to go in for retender.

4. The Committee enquired the reason for not including the price variation clause in the original contract, the witness answered that usually price variation clause was not included in short-term contract.

5. The Deputy Accountant General pointed out that KSEB had entered into the contract for supply of poles at firm rate basis as it was a short-term contract, the delivery of which was to be completed within 3 months, i.e., by March 2004. The Board authorities after inspection of poles suggested some alterations on 9-1-2004 and gave an extension of 30 days, i.e., April 2004 to make delivery of the material. But due to unprecedented hike in steel price and the absence of price variation clause in the contract the Board had to revise the original tender rate at the request of the supplier. The delivery of poles was completed on April 2005 which resulted in 16 months delay and a loss of ` 37 lakh to the Board.

6. The witness admitted that from the audit point of view the objection was correct as price variation clause was not included in the contract and hence the poles had to be procured at a higher rate. He stated that the decision was taken in good faith to complete the ongoing works of the Board without delay.

7. The Committee expressed concern about the sluggish performance of the Board in its activities especially in providing new electric connections and wanted to know whether the consumer had to bear the cost of poles including erection charges, for getting new connection. The witness explained that the Regulatory Commission had published fixed rates in accordance with the type of connection applied for by the consumer viz., single phase, two phase or three phase. According to the new Act, the licensee was empowered to collect a reasonable expense incurred for giving the power supply. He also added that in almost all areas the work of giving electric connections and power supply had been completed.

8. The Committee pointed out that consumers had to remit an amount ranging between ` 20,000 to ` 30,000 for getting an electric connection including the cost of electric post. To this the witness submitted that the KSEB had planned to implement a scheme under RGGVY to provide line connection to the nearest dwelling places in rural areas of all districts. He added that provisions are there in the statute for providing free connections to BPL and SC/ST families. The Committee wanted to issue necessary directions in this regard to the concerned at once. The witness agreed to issue the same within a week.

9. The Committee directed that before issuing such instructions a note should be prepared in this regard to get the approval of the advisory committee and then to convey the matter among the Presidents of all Panchayats in the State. The Committee recommended that the existing system in the Board should be followed irrespective of the schemes implemented. The Committee pointed out that since all the deserving people didn't have BPL card, to all those who were included in the Government approved BPL list, free electrification be given. The witness replied in the affirmative.

Conclusions/Recommendations

10. **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 forseeing 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 could not be able to avail the benefit of fixed rate 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.

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 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.

AUDIT PARAGRAPH

As part of development of its own infrastructure, the Board approved (April 1999) a proposal for 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. The finance required for the scheme was tied up (May to August 2000) with Kerala Power Finance Corporation Limited (KPFL) at 1.5 per cent above State Bank of Travancore prime lending rate from time to time. At the time of entering into agreement the annual rate of interest so fixed was 13.5 per cent. The schemes were appraised as financially viable and eight office-cum-commercial complexes involving a total area of 13565.56 sq.m. were constructed during the period from July 2001 to July 2004 at a total cost of ` 8.27 crore. This included 3737.32 sq.m. of commercial area involving a proportionate cost of ` 2.20 crore.

Audit noticed that in five out of the eight complexes, constructed (July 2001 to June 2004), the entire commercial area aggregating 1676.83 sq.m. valued at ` 1.15 crore could not be leased out and remained vacant. In the remaining three complexes only 295.72 sq.m., out of 2060.49 sq.m. area constructed could be used and the balance 1764.77 sq.m. costing ` 90.51 lakh could not be leased out. Altogether a commercial area of 3441.60 sq.m., valued at ` 2.05 crore remained unoccupied (August 2005) since construction for periods ranging between 13 and 49 months. The interest loss on the above investment worked out to ` 65.71 lakh at 13.5 per cent per annum.

The non-occupancy of these complexes was due to their location in remote areas where leasing out the commercial complexes was difficult. The Board, while recommending all locations as financially viable (March 1999) had not noted this in respect of these areas.

Thus, the decision to construct office-cum-commercial complexes without ensuring financial viability resulted in locking up of borrowed funds amounting to ` 2.05 crore leading to interest loss of ` 65.71 lakh.

The Government stated (August 2005) that the commercial complexes were constructed anticipating good response; but the actual response was not as expected. The reply indicates defective conceptualisation of the construction of buildings earmarking considerable areas for commercial purposes.

[Audit Paragraph 4.12 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2005.]

Notes on the Audit Paragraph received from the Government is given in Appendix II.

11. The Deputy Accountant General briefed that the KSEB had constructed Office-cum-Commercial Complex in 8 locations out of the 16 locations proposed with the financial assistance from Kerala Power Finance Corporation Ltd. The work was completed between July 2001 and July 2004 at a total cost of ` 8.7 crore. But the complexes in 4 towns remained unoccupied even during August, 2005 leaving the commercial area constructed at a cost of ` 2.20 crore remained vacant which ultimately lead to the loss of interest of ` 65 lakh. This loss could have been avoided if KSEB had assessed the actual demand for commercial space by accepting deposits from concerned lessee rather than depending on loans from KPFL. Hence the scheme was conceived without foreseeing its financial viability.

12. When enquired about the present position of the project, the witness informed that the existing laws do not permit KSEB to receive deposits from private individuals or from lessees for the purpose of constructing commercial complexes. Instead, for all developmental activities undertaken by KSEB, the required finance had to be met with loans raised either from KPFL or from scheduled banks. He added that major portion of the constructed areas of commercial complexes were either utilised by the Board itself or rented out. He admitted that the Board had incurred some interest loss but the constructed area could be utilised for future developmental activities of the Board and if any portions remained vacant that could be rented out to private agencies later.

13. The Committee observed that many offices of KSEB were experiencing lack of sufficient office space which adversely affected the smooth functioning of KSEB. Moreover the financial position of the Board was not too comfortable to take up construction works to redress the situation. Hence KPFL was constituted to tide over this situation. The Committee observed that since loans from KPFL were not available for exclusive use of the official function of the Board, the Board with bona fide intention, might have availed the loan from KPFL in the name of 'starting office-cum-commercial complexes' for meeting the genuine needs to accommodate many of the offices working in rented buildings and thereby saving a good amount by way of payment of rent.

14. The Committee pointed out that the Accountant General's objection was that some areas of the commercial complex were still lying vacant. The witness explained that the Board had constructed the complexes with an intention to rent out some portions of the complexes for commercial activities. As part of developmental activities in the Board when many offices like APTS and their Consumer Grievance Redressal forum, Appellate authorities etc., later came in, the Board could accomodate all these offices in its own buildings, otherwise all of them would have to function in rented buildings. To the question why no one responded to the auction for Office-cum-Commercial Complex given by the Board, the witness replied that the conditions stipulated in auctions were so stringent that no one participated in the auction. Later certain conditions were relaxed in the retendering process. When the Committee enquired about the repayment details, the witness answered that the details were not available and assured that all the details would be furnished to the Committee without delay.

15. The Deputy Accountant General pointed out that the figures were not tallying between total commercial area constructed and the commercial area which could not be leased out. The Deputy Accountant General also pointed out that the Board had built commercial building in remote areas inspite of adverse remarks from FA & CAO.

16. The Committee wanted to know the savings created by the Board, by way of rent, due to shifting of offices to its own building and the interest paid by the Board for this project.

Conclusions/Recommendations

17. **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. Though the Board could save**

some amount by way of rent, the Committee points out that the Board had 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.

18. **The Committee finds that lack of proper study about the financial viability and absence of estimation of requirement are 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.**

AUDIT PARAGRAPH

The Board invited (December 2007) tenders for galvanizing 4165 MT of line materials (V Cross Arms-3575 MT and Stay rods-590 MT) with a probable amount of contract of ` 6.31 crore. Out of two offers received (December 2007), the offer of The Metal Industries Limited, Shoranur (a State PSU) was rejected for lack of experience while the other offer of Alsteel Industrials, Kollam, which had quoted a price of ` 18.18 per kg. (excluding transportation) was selected and the pre-qualification committee recommended (April 2008), the offer for sanction by the Board, subject to ensuring the reasonableness of the rates with reference to IEEMA circulars.

The Board further negotiated the price to ` 18 per kg. (excluding transportation) and a work order for galvanizing 4165 MT of line materials (Cross Arms-2707 MT and Stay rods-1458 MT) was issued (May 2008) and an agreement concluded (June 2008). As per agreement entire quantity was to be supplied by December 2008. The contractor delayed supply and requested (February 2009) extension of time up to March 2009, which was duly approved by the Board, without any financial commitment on both the sides. The contractor completed the supply of 4158.576 MT of galvanized material during December 2008-April 2009.

Audit noticed that at the time of inviting (December 2007) tenders, the price of zinc was reckoned as ` 1.74 lakh per MT and was witnessing a declining trend since January 2008. The price of zinc was ` 1.18 lakh/MT at the time of negotiation (March 2008) and ` 0.69 lakh/MT (November 2008) when first lot was supplied (December 2008) by the contractor. The contractor did not complete supply of galvanized material as per schedule (December 2008) and extension was granted (March 2009) to the contractor, the price of zinc had further declined to ` 0.68 lakh per MT. Out of the total cost of galvanization, the cost of zinc was 42 per cent. Despite decline in zinc prices by 32 per cent to 60 per cent during December 2007 to November 2008, no attempt was made to renegotiate the price by the Board even when there was an opportunity while extending the delivery period to the convenience of contractor.

Thus, failure of the Board to negotiate the rates for galvanization of line material while extending the delivery period for the convenience of the contractor was an opportunity foregone which resulted in an extra expenditure and undue benefit to the contractor amounting to ` 95.53 lakh.

Audit suggests that the delivery time extension should be made by competent authority in the same way as a new purchase decision is dealt with to protect the financial interest of the Board.

The matter was reported to Government/Management in June 2009; their reply was awaited (September 2009).

[Audit Paragraph 4.15 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2009.]

Notes on the Audit Paragraph received from the Government is given in Appendix II.

19. The Committee inquired about the audit para regarding undue benefit of ` 95.53 lakh given to the contractor by granting delivery extention and providing firm rate instead of variable rate in the galvanizing contract of 4165 MT materials of KSEB inspite of the declining trend in the price of zinc, the main item used for galvanizing.

20. The witness submitted that the Board had entered into a contract with M/s Alsteel Industrials, Kollam for galvanizing various line materials which was to be completed within 6 months, i.e., by 23-12-2008. As per the terms and conditions of the contract, the agreed rate shall be firm (` 18/Kg.) and no revision of rate shall be allowed during the contract period.

21. Hence an extension up to March 2009 was granted to the firm because as per the contractual conditions the Board could not supply required fabricated materials to the firm in time due to some legal issues with the bidders. Moreover the revision of rate too was not possible on short-term contract as the variable rate could be applied only when the implementation period exceeds 18 months. The witness further added that though the price of zinc, which contributes about 40% of the galvanizing charges, had shown a decreasing trend, the price of all other components had increased considerably. The witness admitted that the Board lagged clarity while quoting rates and assured that in

future while entering into a contract the Board would take due care in taking cognizance of the market situation, whether variable or fixed rate would be more beneficial to the Board.

22. On the basis of Audit observation, the Committee expressed the view that since the work of pole casting, galvanizing etc., were regular requirements incurring an annual expenditure of an amount of ` 18 crore to Board, the Board should have conducted a proper market analysis on the issue before inviting tenders.

Conclusions/Recommendations

23. **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 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.**

24. **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 market analysis on the issue before inviting tenders.**

AUDIT PARAGRAPH

Thrissur Municipal Corporation (TMC) is a deemed distribution licensee under section 14 of Electricity Act, 2003, even though no agreement evidencing distribution licence existed between the TMC and the Kerala State Electricity Board. The licensee had (March 2007) a connected load of 20 MVA (2 x 10 MVA) in excess of the contracted demand of 8 MVA at 66 KV which was irregular as per stipulation of Kerala State Electricity Regulatory Commission (KSERC) in Supply Code 2005. Pending construction of own 110 KV Substation, to tide over the difficulty, TMC requested (March 2007) for an additional 11 KV supply from KSEB's 110 KV substation at Ollur.

The Board sanctioned (April 2007) a temporary connection of 11 MVA in HT IV tariff, which was higher than 66 KV grid tariff, from Board's own infrastructure as a special case. According to standing orders (1987), of the

Board which provide that no additional load/power allocation should be given to a defaulting consumer and concurrence of the KSERC is essential for giving supply to a consumer at two points at different voltage levels, TMC did not satisfy both the requirements when additional load was sanctioned (April 2007).

Audit noticed that TMC owed ` 3.55 crore (April 2007) to the Board towards electricity tariff pertaining to the period January 1986-November 2002, including interest at concessional rate of three per cent per annum and also delayed the execution of HT agreement up to September 2007, resulting in delay of regular billing by five months (April-August 2007) and loss of interest to the Board amounting to ` 2.30 lakh. The additional load was shifted to TMC's substation in April 2008 and an amount of ` 2.88 crore was overdue from TMC towards defaulted payments as of January 2009.

The Board, however, based on the request (May 2007) from TMC, immediately, after giving (April 2007) connection, accorded (June 2007) sanction, for converting the tariff from 11 KV HT IV to 11 KV Grid 1 tariff, with a lesser rate. The revenue, thus, foregone by the Board by converting the connection to Grid 1 tariff (11 KV) for the period (April 2007–March 2008) amounted to ` 75.05 lakh.

Audit observed that by granting relaxation in existing rules, procedures and stipulation of KSERC, on giving two different service connections to TMC at different voltage, Board incurred loss of revenue and extended undue benefit to TMC amounting to ` 75.05 lakh during April 2007 to March 2008.

The matter was reported to Government/Management in June 2009; their reply was awaited (September 2009).

[Audit Paragraph 4.18 contained in the Report of the Comptroller and Auditor General of India for the year ended 31-3-2009.]

Notes on the Audit Paragraph received from the Government is given in Appendix II.

25. The Committee enquired about the loss of revenue incurred to the Board on account of extending undue benefits to Trichur Municipal Corporation by providing two different service connections at different voltages and by granting relaxation in existing Rules and Stipulations of KSERC, the witness explained that when Thrissur Municipality, a licensee, distributing power to public, became a Corporation the distribution areas under it has been increased manifold. The witness further added that in addition to the 66 KV substation from which electricity was supplied earlier, additional points were also added to 11 KV to meet the extra demand.

26. The witness stated that the rates charged by the Board and TMC were the same. But as 80% of the Board's consumers were domestic, the Board could charge only ` 1.20 per unit for the first 40 units on the other hand the TMC could charge ` 8/per unit as majority of its consumers' in the Corporation area belonged either to commercial or to industrial categories. The TMC was getting a good share by way of charging this rate of tariff. The Committee strongly expressed its dissatisfaction over this and stated that supplying electricity at a lower rate to a particular Corporation was unjust and unfair which in turn enabled them to make huge profit at Board's expense. To this the witness stated that the Regulatory Commission had given a proposal to revise the electricity charges on the basis of revenue earned by respective local bodies.

27. The Committee wanted to conduct a study on the above matters and sought for a detailed report in this regard.

Conclusions/Recommendations

28. **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 tarriff 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.**

29. **The Committee recommends that the distribution and tariff collection in respect of industrial and commercial consumers must be directly undertaken by the Board itself and the collection of 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 Boards expense by procuring power at a lower rate from the Board and selling the same at higher rate to industrial and commercial consumers.**

30. **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 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.**

31. **The Committee is not satisfied with the overall performance of Kerala State Electricity Board.**

K. N. A. KHADER,

Thiruvananthapuram,
30th June, 2014.

Chairman,
Committee on Public Undertakings.

Appendix I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	*Para No.*	*Department concerned*	*Conclusions/Recommendations*
(1)	(2)	(3)	(4)
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 forseeing 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 could not be able to avail the benefit of fixed rate 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.
2	11	„	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

(1)	(2)	(3)	(4)
			that free electrification should be 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.
3	18	Power	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. Though the Board could save some amount by way of rent, the Committee points out that the Board had 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.
4	19	„	The Committee finds that lack of proper study about the financial viability and absence of estimation of requirement are 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.

(1)	(2)	(3)	(4)
5	24	Power	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 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.
6	25	„	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 market analysis on the issue before inviting tenders.
7	29	„	The Committee observes that when Thrissur Muncipal 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

(1)	(2)	(3)	(4)
			enabled TMC to make huge profit at Board's expense as most of its consumers fall either in commercial or industrial tariff.
8	30	Power	The Committee recommends that the distribution and tariff collection in respect of industrial and commercial consumers must be directly undertaken by the Board itself and the collection of 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 Boards expense by procuring power at a lower rate from the Board and selling the same at higher rate to industrial and commercial consumers.
9	31	„	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 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.
10	32	„	The Committee is not satisfied with the overall performance of Kerala State Electricity Board.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Sl. No.	*Audit Paragraph*	*Reply furnished by Government*
(1)	(2)	(3)
1	4.9 (2004-05)	The KSE Board invited tenders in October 2003 for procurement of 2000 numbers of 12m 'A' type poles required for six Transmission Circles as detailed below: Date of invitation of tender : 9-10-2003 Date of opening of tender : 23-10-2003 Date of validity of offer : 22-2-2004 Number of tender documents issued : 12 Number of tender received : 6 Date of purchase committee meeting : 18-11-2003 Date of purchase order : 12-12-2003 The tenders who submitted tender and whose tenders were opened were the following: (1) M/s Auto Turns, Attingal. (2) M/s Vyshnava Charities and Welfare Society, Kollam. (3) M/s Alsteel Industries, Kollam. (4) M/s Balamuruga Engineering Works, Trichy. (5) M/s Crown Fabricators Pvt. Limited, Chennai. (6) M/s Subham Comtech and Exports, Bangalore.

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		The rate quoted by the above tenderers were as follows: (1) M/s Auto Turns, Attingal–Rs. 12,747.20 pole (All inclusive rate). (2) M/s Vyshnava Charities and Welfare Society, Kollam–Rs. 16,800 pole (Excluding Sale tax, AST and Income tax) (3) M/s Alsteel Industries, Kollam–Rs. 12,291 pole (All inclusive rate) (4) M/s Balamuruga Engineering Works, Trichy–Rs. 17,947 pole (All inclusive rate) (5) M/s Crown Fabricators Pvt. Limited Chennai–Rs. 12,600 pole (Exluding entry Tax) (6) M/s Subham Comtech and Exports, Bangalore–Rs. 12,168 pole (including 4% entry Tax) From the above it may be seen that M/s Subham Comtech and Exports, Bangalore was the lowest by quoting Rs. 12,168 pole and M/s Auto Turns was the third lowest quoting Rs. 12,747 pole. As per clause 7 of the Purchase Order–Delivery period and schedule–delivery has to commence within 30 days and complete within 3 months from the date of Purchase Orders. The tenders were floated on firm rate basis and order was placed with the lowest tenderer M/s Shubham Comtech and Exports (P) Ltd., Bangalore on 12-12-2003 at their all inclusive rate of Rs. 12,168 per pole. This was the first time that the Board was purchasing 'A' type poles through open tender. So inspection of the prototype before despatch became necessary. The supplier M/s Shubham Comtech and Export Ltd., Bangalore informed on 22-12-2003 that the prototype was ready for inspection. An official of the Board inspected the prototype on 9-1-2004. On inspection of the

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		prototype, the inspecting officer found that the prototype, made as per the tender specification, needed certain modifications so that better and easy fixing of accessories can be made. In view of the modifications suggested the supplier had to implement alterations to the prototype. Therefore, instruction granting extension of one month i.e. up to 10-4-2004 for supply was given.
		The price of steel started increasing unexpectedly and unprecedently after the purchase order was issued to the firm. So the firm before dispatching their first consignment in January 2004 informed that they could procure raw material for the fabrication of 600 Nos. only and because of the unexpected huge increase in price of steel they were not in a position to supply the balance quantity at the quoted rate.
		The firm supplied 646 Nos. of 'A' type poles to the various Transmission circles till 25-4-2004. Their extended supply schedule was only up to 10-4-2004. A notice was issued to the firm to complete the supply within the extended supply period without any price escalation as they were bound to supply the same at their firm rate. In response to the notice, the firm informed that they were not able to supply the balance quantity because of the huge increase in price of steel and requested to relive them from supplying the poles by short closing the order.
		The Purchase Committee in its meeting on 2-6-2004 found that short closing of the Purchase Order without risk and cost to the supplier cannot be entertained. However, in the context of rising trend in the price of steel, the Committee decided to re-examine the issue after the firm provides a revised offer for supplying the balance quantity of 1354 Nos. of 'A' type poles. The Committee also directed the Chief Engineer (TC & M) to

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		estimate the cost of the pole independently to facilitate decision on the request of the supplier.
		The firm submitted their revised rate as Rs. 16,708 pole including all taxes and entry tax. The cost estimated by the Chief Engineer (TC & M) with respect to the IEEMA rates for steel was Rs. 16,888 per pole.
		The relevant IEEMA rates showing the price increase of steel angles are given below:
		IEEMA rates/MT (Basic Price) for MS light angles from September 2003–May 2004

Sept. 03	*Oct. 03*	*Nov. 03*	*Dec. 03*	*Jan. 04*	*Feb. 04*	*Mar. 04*	*Apl. 04*	*May. 04*
18,797	19,543	19,495	20,207	21,275	21,974	25,945	25,563	27,700

The Purchase Committee again considered the matter in its meeting on 25-6-2004 and decided to place the issue before the Full Board for consideration.

The poles were urgently required for the various transmission works. Considering the steep increase in the price of steel angles it was observed that supplying the balance quantity of 'A' type poles at their original rate was impossible for the firm. Even if fresh tenders were invited, the chance of getting a more competitive rate than the revised rate given by the firm appeared Limited. Invitation of fresh tender would result in further delay when the poles were urgently required.

It may please be noted that the Board has given an increase of only Rs. 1,998 in the basic price per pole. That is an increase of 23.41%, while the price of MS Light angles as per IEEMA rates had increased by 41.84% as of May 2004 from October 2003.

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		In this circumstances, a reasonable price escalation in the basic price to accommodate the steep hike in the price of steel was considered and approved by the Full Board in its meeting dated 30-6-2004. The revised agreed price inclusive of all taxes is Rs. 14,959. The increase allowed was only on the basic price for accommodating the hike in the price of steel only which is quantified as Rs. 1,998 per pole based on the price of steel during April 2004 and applicable taxes thereto and no increase was allowed on other components of the price.
		The audit observed that a local SSI Unit (Auto Turns, Attingal) had offered (December 2003) to supply the poles at the rate of Rs. 12,168 per pole but the Board did not accept this offer which was valid up to February 2004. To this observation the following remarks are offered:
		The lowest tenderer, M/s SCE had informed that they could supply 'A' type poles as per the requirement and as per the schedule fixed by the Board. The local SSI unit M/s Auto Turns was the third lowest in the tender. After finalization of the tender, this firm made a post tender *suo moto* offer to supply the poles at the same rate of the selected tenderer. In fact the representation was submitted to the Hon'ble Minister for Electricity by the firm during the last week of 11/2003 and the same was received in the Board on 1st December 2003. In the representation they had not mentioned that their offer to supply at the same rate of the lowerst tenderer was valid up to February 2004. The audit observation that the offer of M/s Auto Turns was valid up to February 2004 is only an inference.
		The tender was opened on 23-10-2003. The post tender *suo moto* offer of the firm to supply at the same rate of the lowest tender was made during the last week of 11/2003. M/s Auto Turns made

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		their offer to supply at lowest rate during the last week of 11/2003 when the price of steel was more or less same as that of the month of submitting tenders. They has not followed up their representation since the price of steel stated increasing. Normally such post tender offers are made by the tenderers other than the lowest to make confusion and unnecessary problems to the lowest tenderer as well as to the Board. As such the intention behind such an offer was doubtful and hence it was not entertained.
		So it can be quite reasonably presumed that had the total quantity been divided and placed with this firm also, the firm could not have been able to supply promptly as per schedule owing to the unexpected and unprecedented hike in steel prices. The firm could have been placed in the same difficult situation faced by the lowest tender, M/s SCE and the firm would have raised similar request as that of M/s SCE for enhancement of rates for the completion of supplies.
		In this instant it may also be noted that Board did not try dividing the total quantity between more than one supplier, because as per the Stores Purchase Manual and as per the B.O. dated 28-11-2001 which instructs to strictly follow the Store Purchase Manual no further negotiations with other tenderers to match with the price of the lowest tenderer shall be made after opening of tenders. Post tender negotiations can be made only with the lowest tenderer. Had the post tender offer of the firm been considered, it would have been a violation of the rules and procedures.
		The Audit has pointed out that in firm rate contracts, the future eventuality and the consequence thereof is immaterial and the profit or loss arising there from has to be borne by the parties to the contract themselves. But it may please be noted that to get the material from the

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		supplier and to use them for the targeted works, such rigid stand is not often feasible and appropriate decisions to tide over the difficult situation are to be taken. As pointed out above, the price increase that happened in this case is highly unexpected and unprecedented one. The alternative to the course of action taken was to cancel the contract and suffer for want of material contract. Even if new tender was invited, the price would have been much more due to spiraling of the cost of steel. It was almost a force majeure condition which necessitated special dispensation. It may also be noted that had the tenders been floated on variable price basis instead of the firm rate basis the additional financial commitment the Board would have to incur on payment according to price variation calculations was more than that happened in this case. In view of remarks mentioned above, it is requested that the decisions taken by the Board in this issue should not be viewed as an injudicious one and so the audit para may please be dropped.
2	4.12 (2004-05)	The Board has decided to construct administrative complexes at places where the Board had its own land and wherever offices were functioning in rented buildings as a part of its infrastructure developments. The Board had identified 16 such locations. They are: (1) Alappuzha (2) Attingal (3) Ayoor (4) Chenganassery (5) Chennamangalam (6) Cherthala

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		(7) Kanhangad (8) Kothamangalam (9) Kottiyam (10) Manjeri (11) Palarivattom (12) Ponkunnam (13) Punnapra (14) Thodupuzha (15) Tiruvalla (16) Vaikom In these locations the Board's offices were functioning at rented buildings, many of which were not having sufficient space for keeping records, storage of materials etc. and the conditions of the buildings were also found to be poor. The Board was liable for paying huge rent for these buildings. Many buildings were under threat of vacation and there were demands for rent increase. To overcome this problems and to provide congenial working conditions to the employees as well as to the consumers, the Board decided to build its own office buildings, wherever Board's land is available. The objective of the Board was to bring all the widespread offices in one roof and giving better working atmosphere to the employees and better facilities to the consumers. The objective of housing the Board's offices in these locations was achieved in the new buildings and all the offices are functioning satisfactorily in a very healthy atmosphere. In this newly constructed building, the Board has provided cash counters with modern facilities for speedy collection of money. As far as KSEB is concerned the consumer's satisfaction is the prime

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		important. Accommodation of all Board's offices in an area under the same roof is convenient to the consumer's of the Board besides avoiding unnecessary expenditure on rent etc. Originally it was planned to construct buildings for office accommodation only. But due to financial stringency of the Board, and for availing financial assistance from financial institutions, the Board had to construct buildings with commercial facility. The Commercial areas of the buildings cover only about 25.71 % of plinth area. The Board had constructed office-cum-commercial buildings at 8 locations. Regarding renting out of the commercial part of the office complexes, the terms and conditions for tender/auction were approved by the Board on 25-5-2004. Auction for the commercial areas of the various locations were conducted till August 2004 with vide publicity. In the case of Alappuzha, Cherthala, Vaikom and Chennamangalam, no offers were received presumably due to rent/rent advance fixed. Therefore the Board vide its order dated 25-5-2005 has revised the tender conditions by reducing anticipated rent limits and reauctions conducted in June 2005. The whole space in the Chennamangalam building have been occupied by the Board accommodating Electrical Division Office, Paravoor, Electrical Subdivision, Chennamangalam and Electrical Section, Chennamangalam.
		The commercial complexes were constructed anticipating good response. But in actual the response so far is not as expected. The buildings are in the centre of the cities and not in remote area as pointed out by audit. It is pointed out that there is large savings by way of rent of buildings due to shifting of offices to its own buildings. The construction of office-cum-commercial complexes may be viewed in its right conception of providing sufficient and convenient

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		accommodation to field offices rather than earnings from the commercial complexes. In view of the above the audit para may please be dropped.
3	4.15 (2008-09)	The tender for hot dip galvanizing of 4165 MT of various line materials was invited from the office of the Chief Engineer (Civil Construction) South during 12/2007. The work was awardeed to M/s Alsteel Industrials, Kollam vide Board order dated 2-5-2008 and the agreement was executed by the contractor on 30-6-2008. The time of completion of work was six months i.e. up to 29-12-2008. The contractor commence the work on 7-7-2008 and completed galvanisation for a quantity of 2485 MT out of 4165 MT during the original completion period. The fabrication works were arranged by the Board through other contact agencies and the fabricated materials supplied to the contractor M/s Alsteel Industrials for galvanizing. The delay in completion of the galvanizing work was due to the delay in supplying various fabricated line materials. Since fabrication works could not be progressed as planned as some of the bidders/ prospective bidders for fabrication works filed OP in the Hon'ble High Court. The materials required for galvanizing were proposed to be supplied from the Mechanical facilities at Kozhikode, Angamaly and Pallom. The fabricated materials from the Mechanical facility at Kozhikode were not supplied during the months of July to November 2008. The fabricated materials could be supplied for galvanisation only by December 2008. As per terms and conditions of the agreement, the agreed rates shall be firm during the contract period and no revision of rates will be allowed on any account during the contract period or during

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		the extended period of contract. Also, the extension of time of completion of work can be granted if there is non supply of departmental materials. In the agreement, there was no scope for negotiation with the contractor while granting extension of time of completion of the works as raised by the Audit. The present rate for galvanizing is Rs. 18.70/Kg. excluding transportation charges whereas the rate at which the work was arranged through M/s Alsteel Industrials, Kollam during the extended period is at Rs. 18/Kg. excluding transportation charges and hence there is no loss to the Board as pointed out, due to the time extension granted. It is also submitted that some mistakes have crept in the computation of loss by the audit as detailed below: The galvanizing charges include not only 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. The cost of zinc was fluctuating heavily and on a decreasing trend during 2008 when compared to the 2007 price level. Also the cost of zinc was Rs. 10,71,000/T during January 2006, where as it was Rs. 2,21,000/T during January 2007, but Rs. 1,09,800/T during January 2008. Thus the cost of zinc was fluctuating heavily and nobody could predict how the actual cost of the item will be. The cost of all other components like labour, furnace oil etc. has increase heavily during contract period when compared to 2007 price level. As per estimate, the cost of zinc contributes only below 40% of the galvanizing work and the other components as above contributes above 60% of galvanizing works.

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		The audit has worked out a loss of Rs. 1.23 crore considering the cost of zinc at the time of tendering as Rs. 1,74,000/MT and the cost of zinc immediately before the supply of first lot (November 2008) as Rs. 68,700/MT. The work was tendered during 12/2007 and agreement for the work executed on 30-6-2008 and the galvanizing works started immediately and the first lot of galvanized items supplies on 9-7-2008 when the basic price of zinc as per IEEMA was Rs. 90,300/T. The basic price of zinc at the time of tendering 12/2007 as per IEEMA was only Rs. 1,11,100 as against Rs.1,74,000/T and Rs. 90,300/T at the time of supply of first lot as against Rs. 68,700/T taken by the audit team. The contract was an item rate contract where no departmental rate is provided in the tender and wherein the contractor shall quote the rate based on his own assessment for the completion of the work. The bid submission date was 29-1-2008. The contract was a fixed rate contract and not a variable rate contract and hence it cannot be concluded that there was loss to the Board due to reduction in cost of zinc in the open market during the contract period. The audit has worked out the loss in a fixed price contract, 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 heavily. The audit should have considered the increase in cost of the major components (above 60%) of the work also. Also the contract has completed 2485 T of galvanizing i.e. about 60% of the agreed quantity during the original time of completion. But the loss is worked out on the entire agreement quantity of 4165 T.

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		A work can be got executed only as per terms and conditions of contract executed for the work. But the audit observations are made without considering the terms and conditions of the contract agreement. It may also be noted that the Board has 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. Any delay was not acceptable to the Full Board who were reviewing the supply of galvanized materials closely. Due to the diligence taken in arranging the galavanizing works, KSE Board could construct record length of 11 KV lines and install record number of transformers. Any tinkering with the work progress would have made it impossible to achieve the targets. The cost in terms of Transmission and Distribution loss and consumer dissatisfaction would have been very high. In short, the observation made by the audit are against facts and there is no loss to the Board and undue benefit to the contractor as alleged due to the following reasons: (1) The time extension was granted as per terms and conditions of contract agreement as K.S.E Board could not supply the fabricated materials in time due to litigation and other reasons. (2) The contract was a fixed price contract and no revision of rates was possible for the extended period of work as per terms and condition of the contract agreement. (3) The contract price on open tender (March 2009) for galvanizing works is Rs. 18.70/KG whereas the work was done during the extended period at Rs. 18.0/Kg.

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		(4) The cost of Zinc is highly fluctuating and zinc is only one of the several components required for the work. Cost of all other components had increased. (5) A contract work is governed by the terms and conditions of the contract agreement executed for the work. But the observation made are without considering the terms and conditions of the contract. Considering the above, the objection raised by the audit may please be dropped.
4	4.18 (2008-09)	Thrissur Municipal Corporation (TMC) is a Licensee distributing power to public for many decades, from the time of Maharaja of Cochin. During February 2006, TMC requested KSEB to undertake construction of a 110 KV substation on their behalf for availing power. The Board accorded sanction to construct 110 KV substation for TMC under work deposit basis at an estimated amount of Rs. 7.78 crore. Thrissur Municipal Corporation used to avail supply from KSEB at 66 KV. Even though the Contract Demand was only 8 MVA their Recorded Maximum Demand was about 19 MVA during March 2007. TMC requested for an additional 11 KV supply as a temporary measure for meeting the immediate demand, in order to avoid heavy load shedding. Thrissur Municipal Corporation had outstanding arrears as on 30-4-2006 (Principal Rs. 22,90,06,801 plus surcharge). Considering the request from TMC for permitting one-time settlement of outstanding arrears of electricity charges, the Board had reduced the rate of interest to 3% on the condition that Rs. 25 Crore will be remitted in lump on or before 31-3-2007 [BO (FB) No. 544/ 2007 (HTB.21/1029) dated 8-3-2007]. There was a dispute regarding balance amount payable by TMC.

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		Since TMC has already requested KSEB to undertake construction of 110 KV substation and since TMC had remitted arrear amount except for some disputed amount. Board vide BO (FM) No. 633/2007 (TPC 2/25/2004) dated 20-3-2007 accorded sanction to allocate power to the extent of 12 MVA at 110 KV provisionally to TMC subject to the condition that accounts will be settled and balance amount paid within two months, additional load availed should be regularized and that all other formalities shall be completed. It is to be noted that on earlier occasions also, during occasions like Thrissur Pooram, when the demand shoots up drastically, KSEB used to provide additional supply at 11 KV at the request of TMC. Neither Electricity Act, 2003, nor the Licensing Regulations (2006) contain any provision prohibiting licensees from availing power supply at different voltage levels. The Board, had permitted a temporary connection at 11 KV under HT IV tariff to meet the immediate requirement of TMC [BO (FM) No.1017/2007(KSEB/TRAC/KSERC/TCR/04)dated 30-4-2007]. It is to be noted that supply of additional power at 11 KV for Thrissur Corporation was later approved by KSERC (vide KSERC/II, TCR/HT Supply/2007/658 dated 29-9-2007). On 14-5-2007, Secretary, TMC was requested to execute agreement, but TMC disputed on the tariff (HT IV) assigned, on the grounds, that HT IV is applicable to commercial consumers. Licensees/sanction holders are classified into two, namely: **Category G I**: Licensees/Sanction Holders who distribute more than 50% of the energy availed from, KSEB to the general public consisting of domestic, agricultural, industrial, commercial and

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		other categories of consumers in accordance with the tariff orders issued by KSEB from time to time. **Category G II**: Other Licensees/Sanction Holders. It is evident that TMC will definitely fall under first category, i.e. Category G I. Only a portion of the same distribution load of TMC, which has been fed from the existing, 66 KV Substation, is diverted to the 11 KV supply point. Considering these aspects, the Board, vide BO (FB) No. 1362/2007 (DPC II/Mis. 06/2007) dated 13-6-2007 had sanctioned 11KV grid G1 tariff to the energy supplied at 11 KV at Mundupalam supply point. It is to be noted that KSERC also approved this tariff vide KSERC/II. TCR/HT Supply/2007/658 dated 29-9-2007 (Order of KSERC). Meanwhile Provisional bill of Rs. 66,51,380 was issued to TMC on 13-9-2007 for the period 4/2007 to 8/2007. The delay in billing was due to dispute in the allotted tariff. A notice for Rs. 2,88,46,326 including power factor of penalty and penal interest, was issued to TMC and TMC remitted Rs. 1,81,40,934 on 4-7-2008, disputing the balance amount of Rs. 1,07,05,392 being power factor penalty. It is to be noted that TMC had cleared all arrears, except those amount which was disputed and pending with KSERC. The corporation continues to remit the monthly bill debiting the power factor penalty. In this connection it may be noted that even though no agreement has been signed between M/s TMC and KSE Board, the licensee is being billed in the Recorded Maximum Demand (RMD), as the licensee is Local Self Government Institution

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		distributing electricity for the past few decades. As TMC is a local body and distributing licensee it cannot be treated on par with a private commercial consumer. Only a portion of the same distribution load of TMC, which has been fed from the existing 66 KV substation, is diverted to the 11 KV supply point. They are distributing majority of the load availed from KSEB to general public. Moreover, the grid tariff applicable to 11 KV is higher than that for 66 KV. Hence KSEB has not sustained any monetary loss. Considering the fact that the Board had not incurred any monetary loss by giving two service connections in different voltage, the audit may consider dropping the Para.