

CHAPTER – VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

6.1 Overview of Government companies and Statutory Corporation

6.1.1 Introduction

As on 31 March 2007, there were seven Government companies, one Statutory corporation and one Autonomous Body (all working) under the control of the State Government as against five Government companies, one Statutory corporation and one Autonomous Body as on 31 March 2006. Audit of two companies (Jharkhand Industrial Infrastructure Development Corporation Limited and Greater Ranchi Development Agency Limited) was taken up during the year. The accounts of Government companies (as defined in Section 617 of Companies Act, 1956) are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per the provisions of Section 619 (4) of the Companies Act, 1956. The CAG is the sole auditor of Jharkhand State Electricity Board under Rule 14 of the Electricity Supply (Annual Accounts) Rules, 1985 read with Section 172 (a) and 185 (2) (d) of the Electricity Act, 2003 and of the Jharkhand State Electricity Regulatory Commission under Section 104 (2) of the Electricity Act, 2003.

Working Public Sector Undertakings (PSUs)

6.1.2 Investment in working PSUs

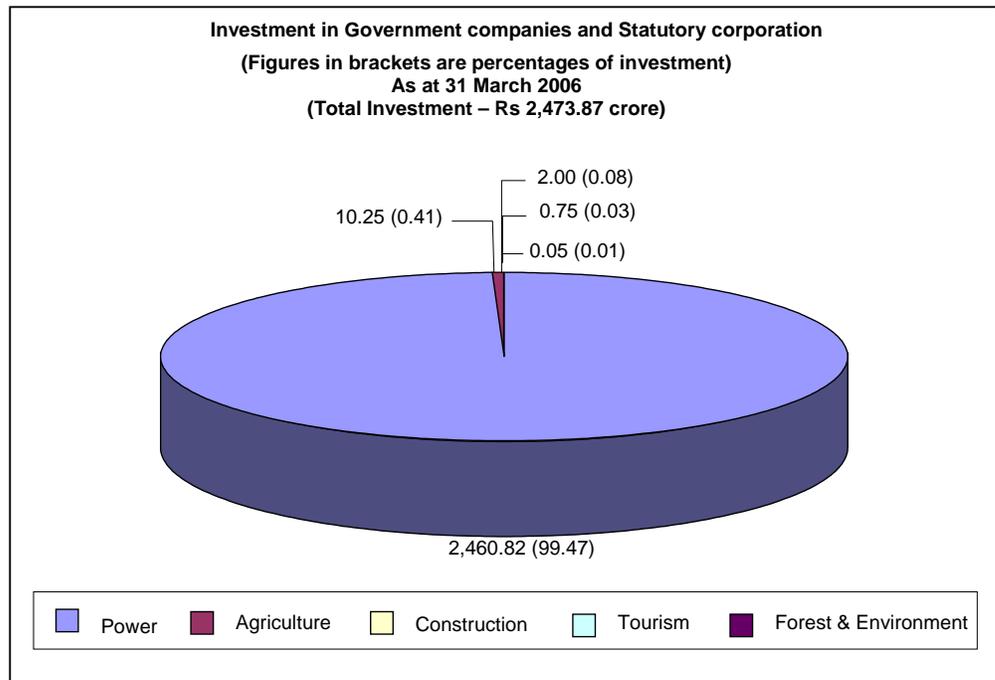
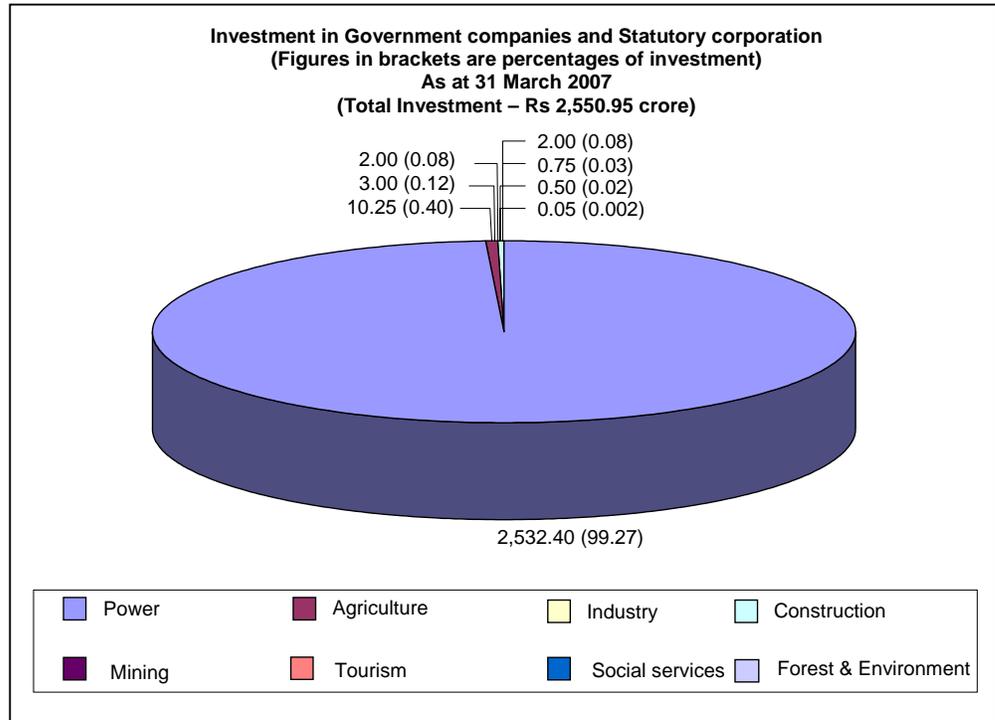
The total investment in eight PSUs (seven Government companies and one Statutory corporation) at the end of March 2006 and March 2007 respectively was as follows:

(Rupees in crore)

Year	Number of PSUs	Investment in PSUs			
		Equity	Share application money	Loan	Total
2005-06	6	7.55	0.25	2,466.07	2,473.87
2006-07	8	10.80	2.50	2,537.65	2,550.95

6.1.2.1 Sector-wise investment in the working Government companies and Statutory corporation

The investment (equity and long term loan) in PSUs in various sectors and percentage thereof at the end of March 2006 and March 2007 are indicated in the following pie charts:



6.1.3 Working Government companies

The total investment in seven working Government companies at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Year	Number of Government companies	Investment in working companies			
		Equity	Share application money	Loan	Total
2005-06	5	7.55	0.25	5.25	13.05
2006-07	7	10.80	2.50	5.25	18.55

The summarised position of Government investment in these companies in the form of equity and loans is detailed in **Appendix 6.1**.

As on 31 March 2006 and 31 March 2007, the total investment in these Government companies comprised 60 per cent and 72 per cent of the equity capital and 40 per cent and 28 per cent of loan respectively.

6.1.4 Working Statutory corporation

The total investment in Jharkhand State Electricity Board as at the end of March 2006 and March 2007 was not available due to non-apportionment of assets and liabilities between the Bihar State Electricity Board and the Jharkhand State Electricity Board. The long term loans given by the Jharkhand Government during 2005-06 and 2006-07 were, however, Rs 321.26 crore and Rs 52.00 crore respectively. The loans outstanding as on 31 March 2007 stood at Rs 2,532.40 crore (State Government–Rs 1,110.61 crore, Central Government–Rs 1,356.25 crore, Others–Rs 65.54 crore) as against Rs 2,460.82 crore (State Government–Rs 1,058.61 crore, Central Government–Rs 1,336.67 crore, Others–Rs 65.54 crore) as on 31 March 2006.

6.1.5 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of working Government companies, the Statutory corporation and the Autonomous Body are given in **Appendix 6.1 and 6.3**.

The budgetary outgo in the form of equity capital and loans and grants/subsidies from the State Government to working Government companies, Statutory corporation and the Autonomous Body for 2005-06 and 2006-07 is given below:

(Rupees in crore)

	2005-06						2006-2007					
	Companies		Corporation		Autonomous Body		Companies		Corporation		Autonomous Body	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Equity capital outgo from budget	3	3.25 ¹	-	Nil	-	Nil	2	2.50	-	Nil	-	Nil
Loans given from budget	-	Nil	1	321.26	-	Nil	-	Nil	1	52.00	-	Nil
Other grant/subsidy	-	Nil	-	Nil	1	1.10	-	Nil	-	Nil	1	1.20
Total outgo	3	3.25	1	321.26	1	1.10	2	2.50	1	52.00	1	1.20

During 2006-07, the Government did not give any guarantee.

¹ Revised figure included

6.1.6 Finalisation of accounts by working PSUs

The accounts of the Government companies for every financial year are required to be finalised within six months of the end of the financial year under sections 166, 210, 230 and 619 of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also required to be laid before the Legislature within nine months of the end of the relevant financial year. In the case of Statutory corporation, the accounts are finalised, audited and presented to the Legislature as per the provisions of Section 185 (2) (d) of the Electricity Act, 2003.

As would be seen from **Appendix 6.2**, out of seven Government companies, one Statutory corporation and one Autonomous Body, only one company finalised its accounts upto 2005-06, two companies finalised its accounts upto 2004-05, two companies upto 2002-03, and one Statutory corporation finalised its accounts upto 2001-02. The accounts of seven Government companies were in arrears for periods ranging from one to four years. The accounts of the Statutory corporation and the Autonomous Body were in arrears for five and four years respectively as on 30 September 2007.

Though the concerned administrative departments and officials of the State Government were apprised by the Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, the net worth of the PSUs could not be assessed.

6.1.7 Financial position and working results of working PSUs

The summarised financial results of working PSUs (Government companies and Statutory corporation) as per their latest finalised accounts are given in **Appendix 6.2**. According to the latest finalised accounts, two working Government companies earned aggregate profit of Rs 1.17 crore, two working Government companies incurred loss of Rs 57.63 lakh and the Statutory corporation incurred loss of Rs 49.45 crore.

6.1.8 Jharkhand State Electricity Regulatory Commission

The Jharkhand State Electricity Regulatory Commission (Commission) has been constituted by the Government of Jharkhand under Section 82 of the Electricity Act, 2003 (earlier under Section 17 of the Electricity Regulatory Commissions Act, 1998, since repealed). The Commission became operational with effect from 24 April 2003.

6.1.9 Response to Inspection Reports and Draft Paras

Audit observations noticed during audit and not settled on the spot are communicated to the heads of the respective PSUs and 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. A review of the Inspection Reports issued up to March 2007 pertaining to the Jharkhand State Electricity Board and companies disclosed that 682 paragraphs relating to 417 Inspection

Reports remained outstanding at the end of March 2007 (as given in *Appendix 6.4*).

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. It was, however, observed that against six draft paragraphs and one draft review forwarded to various departments during May to June 2007, replies to all the six draft paragraphs and one review from the Government/Board/Management are awaited (September 2007).

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

Performance Review relating to Statutory corporation

6.2 TARIFF, BILLING AND COLLECTION OF REVENUE IN JHARKHAND STATE ELECTRICITY BOARD

Highlights

Against the targeted reduction of five *per cent* of aggregate technical and commercial losses in each year, the Board could not achieve the target even after four years. Excess AT&C losses over the reduced target resulted in loss of potential revenue Rs 1,040.67 crore during 2003-07.

[Paragraph 6.2.8]

Due to non release of new connections, the Board lost minimum charges of Rs 5.71 crore.

[Paragraph 6.2.19]

The Board lost revenue of Rs 12.46 crore due to wrong measurement of capacity of induction furnaces.

[Paragraph 6.2.20]

The Board suffered loss of revenue due to non levy of surcharge on exceeding contract demand and electricity duty aggregating Rs 2.36 crore.

[Paragraphs 6.2.22 & 6.2.26]

The Board failed to collect security deposit of Rs 23.86 crore from the consumers and consequential loss of interest amounted to Rs 12.74 crore.

[Paragraph 6.2.27]

The Board failed to realise revenue arrears from the consumers. This resulted in increase in revenue arrears from Rs 2,757.62 crore in 2002-03 to Rs 4,124.17 crore in 2006-07.

[Paragraph 6.2.28]

The Board's failure to initiate timely legal action for recovery of dues from the consumers whose electricity supply has been disconnected resulted in dues of Rs 95.99 crore becoming time barred.

[Paragraph 6.2.32]

The Board suffered loss of interest of Rs 12.26 crore due to non credit of amount of Rs 33.04 crore in the account of the Board by the Banks.

[Paragraph 6.2.38]

Introduction

6.2.1 The Jharkhand State Electricity Board (Board) was formed in March 2001 by taking over the assets and liabilities relating to areas falling in Jharkhand from the erstwhile Bihar State Electricity Board (BSEB) after the State of Jharkhand came into existence on 15 November 2000. The Board is responsible for generation, transmission and distribution of electricity within the State as per Section 18 of the Electricity (Supply) Act, 1948. As per Section 172 of Electricity Act, 2003, the Board was deemed to be State Transmission Utility and a licensee under the provisions of the Act for a period of one year. The State Government with the consent of the GOI allowed the Board to act as a State Transmission Utility and a licensee upto 15 November 2007. The Chief Engineer (Commercial & Revenue) at the

Headquarters of the Board looks after the technical aspects of tariff, billing and collection of revenue such as formulation of tariff proposal, issue of clarifications on tariff etc., and on accounting side, the Director (Revenue) controls the accounting of collection of revenue under the overall control of Member (Revenue) of the Board. In the circle offices the Electrical Superintending Engineer and Accounts Officer look after the assessment and collection of revenue respectively. At division level the Electrical Executive Engineer and Accounts Superintendent monitor assessment and collection of revenue. The organisational chart of Jharkhand State Electricity Board (JSEB) relating to tariff, billing and collection of revenue is given in **Appendix 6.5**.

Scope of Audit

6.2.2 The present performance review conducted during March to June 2007 covers the performance of the Board with regard to tariff, billing of all categories of consumers for energy sold, collection of revenue and its accountal during 2002-03 to 2006-07.

6.2.3 The table given below indicates the category-wise number of consumers and revenue assessed. The sample selected is based on assessment of revenue as on 31 March 2007, which was 72 per cent of the total revenue assessed in respect of six² circles selected out of 17 circles.

Sl. No.	Category of consumers	No. of consumers	Assessment of revenue during 2006-07 (Rs. in crore)	Assessment of revenue of consumers of selected circles (Rs. in crore)	Percentage of revenue billed of consumers of the selected circles to the total revenue assessed (5/4x100)
(1)	(2)	(3)	(4)	(5)	(6)
1	Domestic	11,12,992	116.59	72.36	62
2	Commercial	1,32,396	72.89	46.37	64
3	Public lighting and water works	1,270	30.08	16.77	56
4	Irrigation	19,199	2.44	0.70	29
5	Industrial (LT)	25,229	53.27	37.63	71
6	Industrial (HT) and Railways	1,363	915.94	681.91	74
	Total	12,92,449	1,191.21	855.74	72

(Source: Provisional revenue accounts figure)

The overall performance in respect of consumers with reference to arrears, non-disconnection of supply of defaulting consumers, delay in finalisation of permanent disconnection and outstanding dues against line disconnected consumers was also examined.

Audit objectives

6.2.4 The Audit objectives were to ascertain whether:

- tariff petition was filed regularly by the Board with Jharkhand State Electricity Regulatory Commission (JSERC);
- billing operations were carried out as per the tariff efficiently;
- the collection of revenue was efficient and prompt;

² Dhanbad, Hazaribagh, Jamshedpur and Ranchi (Supply circles) and Jamshedpur and Ranchi (Transmission circles).

- account of revenue collected was accurate and was remitted into the bank promptly;
- effective efforts were made to realise/reduce the revenue arrears; and
- the internal control system was efficient and effective.

Audit criteria

6.2.5 The audit criteria adopted for assessing the achievement of audit objectives were:

- terms and conditions of tariff order and notifications issued by JSERC from time to time;
- provisions of the Electricity (Supply) Act, 1948/Electricity Act, 2003;
- provisions of the Jharkhand State Electricity Regulatory Commission (JSERC) (Electricity Supply Code), Regulations, 2005;
- directives, rules and regulations framed by the Board for billing and collection of all categories of consumers; and
- directives, rules/regulations of the State Government/JSERC/Board for taking action against the defaulting consumers.

Audit Methodology

6.2.6 The following mix of audit methodologies was adopted for achieving the audit objectives of the performance review:

- study of regulations/orders/distribution codes issued by JSERC and rules/regulations framed by the Board;
- examination of records *viz.*, tariff petition, files relating to power purchase and power generated, orders/instructions/notifications files maintained at Board Headquarters, service connection files, register of certificate of clearance issued by Electrical Inspector etc., in field offices including Energy Department and JSERC;
- scrutiny of agreements executed with consumers, meter readings, billing files, correspondence files along with ledger, revenue collection system and other reports;
- analysis of targets and achievements of the revenue and effectiveness in realisation of revenue; and
- collection and analysis of data/information through issue of audit queries and interaction with the Management.

Audit Findings

6.2.7 The audit findings were reported (June 2007) to the Government/Board and discussed in the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 7 November 2007, in which the Government was represented by the Secretary, Energy Department and the Board by its Secretary. The review was finalised after considering the views of the Government/Board.

The results of the performance audit involving financial impact of Rs 184.71 crore are discussed in the succeeding paragraphs:

Physical and financial performance

6.2.8 The table below indicates the position of energy available for sale, actual sale of energy and loss of energy during the last four years upto 31 March 2007.

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07
1	Requirement of energy in the State (MU)	5,105.00	5,809.00	6,420.00	6,646.00
2	Energy purchased and generated (available for sale) (MU)	5,501.60	6,121.19	6,580.36	6,991.04
3	Energy purchased and generated (Rupees in crore)	1,247.35	1,486.07	1,554.63	1,523.40
4	Cost of energy purchased and generated per KWH (Rupees) (3/2)	2.27	2.43	2.36	2.18
5	Energy sold (MU)	2,845.18	3,153.47	3,446.82	3,764.13
6	Loss of energy (MU) (2-5)	2,656.42	2,967.72	3,133.54	3,226.91
7	Sale of energy (Rupees in crore)	1,072.13	1,106.83	1,180.16	1,191.21
8	Value of sale of energy per KWH (Rupees) (7/5)	3.77	3.51	3.42	3.16
9	Value of loss of energy (Rupees in crore) (6x8)	1,001.47	1,041.67	1,071.67	1,019.70
10	Percentage of loss of energy (6/2x100)	48.28	48.48	47.62	46.16
11	Reduction of T&D loss as suggested by JSERC (in per cent)	5	10	15	20
12	Energy realised (MU)	2,673.00	2,992.91	3,077.40	3,564.53
13	Aggregate technical and commercial losses (MU) (2-12)	2,828.60	3,128.28	3,502.96	3,426.51
14	Aggregate technical and commercial losses (in per cent) (13/2)	51	51	53	49
15	Maximum loss of energy allowed by JSERC (MU)	2,381.09	2,343.19	2,189.94	1,977.07
16	Loss of energy in excess of loss allowed by JSERC (MU) (6-15)	275.33	624.53	943.60	1,249.84
17	Value of loss of energy in excess of loss allowed by JSERC (Rupees in crore) (8x16)	103.80	219.21	322.71	394.95
18	Value of aggregate technical and commercial losses (Rupees in crore) (13x8)	1,066.38	1,098.03	1,198.01	1,082.78

(Source: Annual accounts of respective years)

The Board suffered loss of energy of 3,093.30 MU valued at Rs1,040.67 crore due to excess AT&C losses over the target fixed by JSERC

Against the T&D losses estimated by the Board for 2002-03, the Commission approved in consultation with the Board to reduce the loss by 5 per cent in 2003-04. Adopting the target of reduction of 5 per cent in each year, the T&D losses of the Board should have been reduced to 28.28³ per cent by the end of March 2007. But the T&D loss could be reduced only by two per cent over these four years and the AT&C loss was around 50 per cent. As a result, the Board suffered loss of energy in excess of loss of energy allowed by JSERC to the extent of 3,093.30 MU valued at Rs 1,040.67 crore. Further, the Board had proposed, while filing its tariff petition (August 2003), to reduce AT&C losses by 9.66 per cent in 2003-04, as it stated (August 2003) that it was undertaking massive metering programme under the APDRP⁴, which included installation of tamper proof electronic energy meters and also feeder & distribution transformer metering. But it was observed that there was no reduction in T&D losses as proposed by the Board.

³ 48.28 per cent – 20 per cent (@ 5 per cent for four years)

⁴ Accelerated Power Development and Reforms Programme.

Filing of tariff petition with JSERC

Non filing of tariff petition with JSERC by the Board in 2004-05 and 2005-06 resulted in non revision of tariff after January 2004

6.2.9 The Board, since its formation (March 2001), adopted the tariff notifications issued (1993) by the BSEB for all categories of consumers except HTSS⁵ consumers till December 2003. It also adopted the tariff notification issued (2000) by BSEB for HTSS consumers. The State Government constituted (August 2002) JSERC under Section 17 of the Electricity Regulatory Commissions Act, 1998 which became operational from April 2003. As per Section 62 (4) of the Electricity Act, 2003, tariff rates may be amended at least once in any financial year, for which application for determination of tariff is to be filed by the licensee with the concerned Electricity Regulatory Commission. The Board filed tariff petition in August 2003 for 2003-04 and JSERC notified (December 2003) new tariff order applicable from 1 January 2004. The Board filed tariff petition with JSERC in August 2006 for the financial year 2006-07. The Board failed to file tariff petitions for the years 2004-05 and 2005-06. Non-filing of tariff petitions in 2004-05 and 2005-06 by the Board resulted in non revision of tariff rates after January 2004 and consequent non augmentation of revenue assessment.

The Commission returned (02 August 2006) the petition for 2006-07 with the direction to trifurcate it for generation, transmission and distribution. The Board finally filed (September 2006) the revised petition. After receipt of the provisional accounts and certain information, the Commission allowed (January 2007) the Board to publish the petition inviting suggestions, comments and objections from the people. The Board notified (January 2007) it and put it on its website. The Commission, after scrutinising the petition, the objections/suggestions, held public hearings and was ready to issue the order, when Appellate Tribunal fixed the hearing on DVC⁶'s petition against the Central Electricity Regulatory Commission's (CERC) tariff determination. During the course of hearings of the case, the Appellate Tribunal ordered that JSERC and WBSERC shall not pass the final order. The Commission, however, issued (August 2007) the provisional tariff order against which the Board had filed an appeal (October 2007) in the Appellate Tribunal. Further developments are awaited (November 2007).

Billing operations

6.2.10 Billing of Extra High Tension/Railway Traction Service (EHT/RTS) and High Tension (HT) consumers is done in Transmission Circles and Electricity Supply Circles respectively, whereas the billing of consumers of Low Tension (LT) is done in supply divisions/sub-divisions.

As per the instructions issued in 1962 and the standing order (1970) read with tariff notification (1993) issued by the BSEB relating to billing of consumers and the provisions of agreement with outsourced agencies, the Board adopted the following procedure for preparation and payment of bills of HT and LT consumers:

- In respect of HT service connections, meter readings is to be completed from 24th to 28th of the month and the bills are to be prepared and issued

⁵ High Tension Specified Service.

⁶ Damodar Valley Corporation.

latest by the first of the following month to which the bill relates. For payment of bills, 20 days are allowed from the date of preparation of bills.

- In respect of LT service connections, meter readings are taken by outsourced agencies/officials of the Board. In respect of Divisions/Sub divisions where the work of meter readings has not been outsourced, bills are prepared as per instructions and standing orders of the Board. Meter readings have to be completed by 25th/30th⁷ of each month. Based on the meter readings, consumer ledgers and bills are prepared monthly and issued to the concerned consumers by the 15th of the following month. Distribution of bills is done by outsourced agencies/Board. For payment of bills 15 days are allowed from the date of preparation of bills.
- In 13 supply Divisions/Sub divisions of the Circles test checked, the work relating to meter reading, preparation of bills, assessment of consumer ledger and distribution of bills was done by the outsourced agencies. Whereas in the remaining 15 Divisions/Sub divisions the work relating to meter reading and distribution of bills was done by the officials of the Board.

The deficiencies noticed in billing operations are discussed in the succeeding paragraphs:

Checking of meter readings

6.2.11 As per instructions (August 2003) of the Board, officials of the concerned Divisions/Sub divisions were to cross check 10 *per cent* of the meter readings taken by the meter readers. A test check of records of Adityapur, Jamshedpur and Dhanbad Supply divisions for 2003-07 revealed that in Adityapur division, the Board officials checked only 0.82 to 1.36 *per cent* of the total meter readings taken by the agency concerned. Similarly in Jamshedpur division, the percentage of checking of meter readings ranged between 0.04 and 13. In Dhanbad division no cross checking of meter readings was conducted. In the absence of cross checking of meter readings, correctness of bills issued by the agencies concerned could not be ensured.

Correctness of bills issued could not be ensured due to abysmally low cross checking of meter readings

Delay in issue of bills

6.2.12 As per the standing order of the Board (February 1970), meter readings of all HT service connections were to be completed from 24th to 28th of the month and bills were to be issued latest by the 1st of each month following the month to which the bill relates. It was noticed that in Hazaribagh supply circle, out of 105 HT service connections, bills for 10 HT service connections were issued with a delay ranging between 1 to 17 days for a total amount of Rs 51.18 crore. Delay in billing and collection resulted in loss of interest of Rs 6.56 lakh at the rate of 13⁸ *per cent* per annum.

Collection of bills

6.2.13 Examination of records further revealed that 40 to 41 *per cent* of the bills issued were not realised in the same month. Against the average

⁷ wherever outsourced

⁸ The rate at which the Board obtains loan from Government

monthly assessment of Rs 7.26 crore in the test checked divisions, the average uncollected assessment in the same month worked out to Rs 2.47 crore. Due to poor cross checking of bills, there had been no improvement in collection of revenue by these divisions during the test checked months after August 2003. Possibility of a large number of bills being left undistributed could not be ruled out as the divisional offices do not have any mechanism to ensure 100 per cent distribution of bills.

Non levy of delayed payment surcharge

Non levy of delayed payment surcharge resulted in loss of Rs 18.03 lakh

6.2.14 As per Board’s instructions (August 2002) and tariff order of JSERC (December 2003), delayed payment surcharge (DPS) at half per cent per week of the amount of bill is leviable for delayed payment of energy bills by HTSS⁹ consumers. Scrutiny of the bills of 105 service connections in Electric supply circle, Hazaribagh revealed that three consumers were not levied DPS amounting to Rs 18.03 lakh during May 2002 to August 2006.

Ad-hoc billing

Contrary to the provision of 100 per cent of metering, in two circles unmetered connections as on March 2007 were 73 and 33 per cent

6.2.15 As per MOU of April 2001 between Ministry of Power, Government of India and The Government of Jharkhand, 100 per cent metering of all consumers was to be done by March 2002. Audit scrutiny, however, revealed that a large number of service connections in rural areas were not provided with meters and billing was being done for fixed units based on its connected load. The status of service connections without meters in respect of five divisions of two supply circles as on 31 March 2007 was as under:

Name of the supply circle	Registered service connections	Service connections without meters					Percentage of service connections without meters to registered service connections (7/2x100)
		(3)	(4)	(5)	(6)	(7)	
(1)	(2)	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total	(8)
Jamshedpur	54,487	2,040	2,703	6,423	28,851	40,017	73
Ranchi	2,33,165	8,422	6,363	13,974	47,384	76,143	33
Total	2,87,652	10,462	9,066	20,397	76,235	1,16,160	40

(Source: Monthly reports of divisions)

As on 31 March 2007, the unmetered service connections were 73 and 33 per cent of the registered consumers in Jamshedpur and Ranchi supply circles respectively, although 100 per cent metering was to be achieved by the Board by March 2002 as per the MOU. Number of service connections without meters were, however, continued to be released in respect of rural service connections in the case of supply circles test checked. Since service connections were not provided with meters in rural areas, billing was continued to be done on ad-hoc basis.

⁹ High Tension Special Service – service connections utilising energy for running induction furnaces

Short billing

The Board sustained loss of revenue of Rs1.91 crore due to short billing on average basis in LT services

6.2.16 The Board recovers electricity charges at the flat rate of 144 and 288 units per kilowatt of the connected load per month in case of unmetered/defective meters of domestic (DS) and commercial consumers (CS) respectively. A scrutiny of records relating to four divisions revealed that 5,577 (DS-5,120 and CS-457) consumers were billed on average basis which was below 144 and 288 units per month per kilowatt. Thus, by charging unmetered consumers at less than the fixed rate, the Board suffered loss of revenue of Rs 1.91 crore during the period 2005-06 to 2006-07.

In four HT cases failure to install meters resulted in loss of Rs 4.65 crore

6.2.17 It was also noticed that in Dhanbad supply circle the meters of 16 HT service connections had been lying defective since April 1990 to August 2005. The Board replaced the defective meters of one consumer in September 2005 and of seven consumers during March to June 2007. A test check of energy bills of one consumer for the period September to November 2005 and of three consumers for the period April to June 2007 revealed that after replacing the defective meters, the actual consumption recorded was more than its average consumption of energy billed during the defective meter period. As the Board failed to replace the defective meters of these service connections, it lost Rs 4.65 crore during April 2002 to March 2007 as detailed in the *Appendix 6.6*. Further, due to non replacement of defective meters in remaining eight service connections, the consumers are still being extended undue benefit.

Delayed release of new service connections

6.2.18 As per Section 43 (3) of the Electricity Act, 2003, every distribution licensee, shall on an application by the owner or occupier of any premises, give supply of electricity to such premises, within one month after receipt of the application. If the licensee fails to supply the electricity within the specified period, it shall be liable to pay a penalty to the applicants/consumers which may extend to one thousand rupees for each day of default.

The position of the number of applications received and connections released in eight sub-divisions for the last five years upto March 2007 was as under:

Year	Opening balance	No. of applications received	Total no. of applications during the year	Connections released (figures in bracket indicate percentage)	No. of pending applications
2002-03	-	6,976	6,976	4,787 (69)	2,189
2003-04	2,189	9,226	11,415	6,583 (58)	4,832
2004-05	4,832	7,571	12,403	6,401 (52)	6,002
2005-06	6,002	8,573	14,575	6,621 (45)	7,954
2006-07	7,954	7,077	15,031	6,057 (40)	8,974
Total		39,423		30,449 (77)	

(Source: Data furnished by sub-divisions)

Board incurred liability of Rs 63.55 crore due to delayed release of LT service connections

It can be seen from the above table that service connections were released only to 77 per cent of the total applications received over the period of five years. The number of pending applications (8,974) as on 31 March 2007 was more than the number of applications (7,077) received during 2006-07. It was observed that during 2003-04 to 2006-07 percentage of release of connections

has decreased from 58 to 40. Besides, it was found that 1,897 applications had been pending for more than one year. Thus, the Board had incurred a liability to pay penalty of Rs 63.55 crore¹⁰ to the applicants/consumers due to delay in releasing service connections.

6.2.19 Scrutiny of records relating to delay in release of HT service connections further revealed that three HT service connections were released with a delay ranging between 4 and 17 months resulting in a loss of potential revenue of Rs 5.71 crore as detailed below:

Sl. No.	Name of the Party	Load sanctioned (in KVA)	Period of delay in sanctioning of load/release of service connection (in months)	Loss of revenue (Rupees. in crore)	Reasons for delay
1	Kumardhubi Steels Private Limited, Dhanbad	2,400	4	0.38 ¹¹	Not available
2	Maa Chinnamastika Sponge Iron Limited, Hazaribagh	2,400	17	4.13 ¹²	-do-
3	A. S. Ispat Private Limited, Jamshedpur	3,000	10	1.20 ¹³	-do-

(Source: Data furnished by circles)

In these cases audit observed that:

Delayed release of HT service connections resulted in loss of potential revenue of Rs 5.71 crore

- Kumardhubi Steels Private Limited, Dhanbad applied (November 2002) for HT service connection for a contract demand of 2,400 KVA. The feeder work was completed in August 2003 and Electrical Inspector gave (September 2003) the permission to energise the service connection. But the supply was given by the Board after four months (February 2004). Thus, the avoidable delay of four months in effecting the service connection resulted in loss of revenue towards minimum monthly charges of Rs 38.40 lakh.
- Similarly another consumer Maa Chinnamastika Sponge Iron Limited, Hazaribagh, applied (January 2002) for an HT service connection with a contract demand of 2,400 KVA. As per the notification issued (August 2002) by the Board, load was to be sanctioned within one month from the date of application for service connection. But the GM cum Chief Engineer, Electric supply area, Hazaribagh, sanctioned (August 2003) the load after a delay of 17 months. No reasons were on record for delay in sanction of the load. Finally the service was released in July 2004. Because of delay in sanctioning the load, the Board lost minimum monthly charges of Rs 4.13 crore.
- According to JSERC (Electricity Supply Code) Regulations, 2005, a maximum period of 153 days is allowed for giving electric connection to an HT consumer from the date of application. It was noticed that an HT consumer, A.S. Ispat Private Limited, Jamshedpur applied (December 2004) for an HT service connection for a contract demand of 3,000 KVA.

¹⁰ 1,897 x 335 days (365-30 days) x Rs 1,000

¹¹ 2400 KVA x Rs. 400 x 4 months

¹² Rs 1012/- per KVA x 2400 KVA x 17 months

¹³ 3000 KVA x Rs 400 x 10 months

The Board sanctioned (December 2004) the load and extended the validity period of the sanction upto September 2005 at the request of the consumer. The intending consumer requested (September 2005) the Board to measure the furnace so as to energise the service connection within the month. The Board authorities assessed (September 2005) the measurement of the furnace based on the report submitted by the measuring Committee and directed the concerned Area office of the Board to effect the service connection.

The service connection was finally energised in August 2006. Thus, the Board took more than 10 months in releasing the service connection even after measurement of the furnace. As a result, the Board lost monthly minimum charges of Rs 1.20 crore.

Wrong measurement of induction furnace capacity

The Board lost revenue of Rs12.46 crore due to wrong measurement of induction furnace capacity of 32 service connections

6.2.20 BSEB issued (March 2000) a new tariff schedule for High Tension Specified Service (HTSS) *i.e.*, HT service connections with induction furnace which stipulated that the loads sanctioned to these service connections should correspond to the load requirement of tonnage of furnaces. Later it formulated (August 2001) various parameters *viz.*, diameter of crucible, height of the coil, density of molten steel etc., for determining the capacity of induction furnaces. It also prescribed (October 2004) another parameter *viz.*, allowable thickness of ramming mass for induction furnaces of different capacities. After determining the capacity of the furnace by taking into account the above parameters, the contract demand of the service connection was to be fixed at the rate of 600 KVA per MT of the capacity of the furnace as specified in the tariff notification (March 2000).

For determining the capacity of induction furnaces, the JSEB adopted the value of 7.89/7.8 gm/cc as the density of the molten steel as was being followed by BSEB. The Board, however, from October 2004 started calculating the capacity of the induction furnace by taking the density of molten steel as 6.965 gm/cc and fixed their contract demand.

It was noticed that no justification was on the record for reduction in the value of density of molten steel from 7.89 to 6.965 gm/cc. Thus, the capacity of the furnace was being worked out less resulting in fixing of lesser contract demand. As a result, the Board lost Rs 12.46 crore towards levy of demand and monthly minimum charges in respect of 32 HT service connections relating to six supply circles¹⁴ from October 2004 to March 2007.

Tested furnace replaced by another furnace

6.2.21 The Board released (February 2002) an HTSS service connection to Rudra Steels Private Limited, Ranchi for a contract demand of 2,100 KVA. Before effecting service connection, the Board measured the capacity of the furnace¹⁵ as 3.446 MT and the contract demand of 2,100¹⁶ KVA was arrived at

¹⁴ Chaibasa, Dhanbad, Giridih, Hazaribagh, Jamshedpur and Loyabad.

¹⁵ Make GA DA NIEL India, Calcutta, Drawing No. A2-20746

¹⁶ 3.5 MT x 600 KVA/MT = 2,100 KVA

on the basis of the capacity of the furnace. The connected furnace in the supply system was inspected by the supply circle (June 2003) and found that the furnace was of a different drawing and capacity. The capacity of the furnace¹⁷ was found to be 4.53 MT. Hence the contract demand of the service connection should have been fixed at 2,718¹⁸ KVA taking into account the capacity of the furnace. As the tested furnace was replaced with another furnace by the consumer, the contract demand was required to be revised/re-measured based on the capacity of the new furnace. So, the circle requested (June 2003) the Board headquarters to communicate the modalities for further billing of the service connection. But the circle neither received any directions from the Board headquarters on this account nor pursued the matter with the Board headquarters. Hence the billing was continued to be for 2,100 KVA against 2,718 KVA. Thus, due to non preparation of bills based on actual capacity of the furnace, there was a short levy of demand charges/monthly minimum charges amounting to Rs 1.58 crore for the period February 2002 to April 2005.

Non levy of surcharge on exceeding contract demand

Failure to levy surcharge for exceeding contract demand resulted in loss of revenue of Rs 47.33 lakh.

6.2.22 As per the tariff schedule issued (May 2001) for HT service connections with induction furnaces from April 2001, the billable demand of the service connection for the month shall be 100 *per cent* of the contract demand or maximum demand, whichever was higher and in case the actual maximum demand exceeds 10 *per cent* of contract demand then the same will be contract demand for the whole financial year. The tariff order issued (December 2003) by JSERC specified the above provision. A test check of HTSS bills of 12 service connections relating to Chaibasa supply circle revealed that the Board failed to levy surcharge of Rs 47.33 lakh in respect of two service connections whose recorded demand exceeded 10 *per cent* of their contract demand in 2006-07.

Excess transformer capacity

The Board lost Rs 4.47 crore towards compensation charges realisable on account of excess capacity of transformers

6.2.23 As per clause 16.4 of the Tariff (1993) for HT consumers, the transformer capacity of an HT consumer should not be more than 150 *per cent* of the contract demand and if any consumer is found violating this provision, the service connection should be disconnected. Later, BSEB allowed (August 1996) a period of six months to all consumers for complying with the above provision. Finally, it notified (October 2002) that using transformer of a capacity higher than admissible for contract demand by any consumer shall be treated as a malpractice. It further decided (October 2002) that in such cases, compensation shall be payable by the consumer by treating the two-thirds of the transformer capacity as contract demand for the entire period of malpractice, and at twice the existing rate under appropriate tariff, less the demand already charged. In case such period of malpractice could not be ascertained, six months period prior to the detection of such malpractice should be taken.

¹⁷ Make GA DA NIEL India, Calcutta, Drawing No. A2-07075

¹⁸ 4.53 MT x 600 KVA/MT = 2,718 KVA

Audit scrutiny revealed that four HT consumers were using the transformers of higher capacities than the required capacity. The Board, however, failed to charge these consumers for energy supplied as per the instructions issued in October 2002. As a result, the Board lost Rs 4.47 crore towards compensation charges realisable on account of excess capacity of transformers as detailed in *Appendix 6.7*.

Non review of existing agreement with Captive Power Plant

6.2.24 The Board entered (May 2002) into an agreement with Usha Martin Industries (Usha Alloys & Steel Division) for synchronous operation of 25 MW Captive Power Plant (CPP) with JSEB system for a period of 10 years. As per the terms and conditions of the agreement, the energy generated by Usha Martin Industries (UMI) was to be used for meeting its requirements. The energy generated was also to be wheeled to its other units at Gamharia, Adityapur, Jamshedpur and Ranchi and surplus power, if any, was to be fed to JSEB grid. For wheeling the power generated to its other units, the wheeling charges was to be decided by the Committee constituted by the Board and the surplus power was to be sold to the Board at 80 *per cent* of the applicable 132 KV EHT tariff rate.

But as per Section 12 read with Section 14 of the Electricity Act, 2003 (promulgated in May 2003), licence has to be obtained from the Regulatory Commission for transmission of electricity/wheeling of power generated at CPP to its other divisions located at different places of the State. Further, as per Section 62 of the *ibid* Act, the tariff for supply of power by a generating company to a distribution licensee and for wheeling of power generated by it has also to be determined by the Regulatory Commission.

Hence, the agreement entered into by UMI with the Board in May 2002 became invalid. Further, as per the agreement, UMI was allowed 30 days for payment of energy bills for power drawn from the Board for its CPP. The period was not reviewed even after notification of Electricity Supply Code Regulations, 2005, which prescribed 21 days for payment of such dues. Thus, by allowing 30 days time for payment instead of 21 days as prescribed, the Board extended undue benefit to the consumer and lost interest of Rs 6.66 lakh during November 2005 to March 2007.

Allowance of excess period for payment of energy bills

6.2.25 The Electricity Supply Code Regulations, 2005 notified (July 2005) by JSERC allowed a period of 21 days for payment of all HT bills. But the Board continued to allow a period of 30 days to GOI, State Government establishments and their undertakings for payment of their (HT and LT) bills. Non adoption of the supply code regulations from November 2005 resulted in delayed realisation of revenue of Rs 300.15 crore. Delay ranged between one to nine days in respect of 15 service connections resulting in loss of interest of Rs 74.52 lakh during November 2005 to March 2007 as detailed in *Appendix-6.8*.

Allowing excess period for payment of energy bills resulted in loss of interest of Rs 74.52 lakh

Non-assessment of electricity duty

Electricity duty amounting to Rs 1.89 crore was not levied on three Government of India Undertakings, resulting in loss to the exchequer

6.2.26 As per Section 3 (1) of the Bihar Electricity Duty Act, 1948, electricity duty shall be leviable on consumption of energy. Electricity duty, however, is not leviable on energy consumed by the GOI offices. Further, as per Section 3 (2) (d) and (f) read with Section 9, the State Government may exempt any class of person/service connection for public purpose, from payment of such duty. But the undertakings of the GOI were not exempted from payment of electricity duty.

It was noticed that electricity duty of Rs 1.89 crore was not levied for the period April 2002 to March 2007 on energy consumed by three PSUs (four service connections) of the GOI as detailed below:

Sl. No.	Name of the PSUs	Amount (Rupees in crore)
1	Heavy Engineering Corporation Ltd., Ranchi	0.69
2	Hindustan Copper Ltd., Jamshedpur	0.46
3	Uranium Corporation of India, Jamshedpur	0.74
Total		1.89

Non collection of security deposit

6.2.27 As per Section 47 (1) of the Electricity Act, 2003, a distribution licensee shall be entitled to receive security deposit when supply of electricity is made to any consumer. Audit scrutiny revealed that Bihar State Electricity Board waived (1958 and 1959) collection of security deposit for supply of power to the Central Government Departments, State Government Departments, GOI undertakings and State undertakings based on the directions (1958 and 1959) issued by the Bihar Government. The Board failed to review this aspect with reference to the provisions of the Electricity Act, 2003.

Scrutiny of records revealed that the security deposit was not collected either at the time of effecting supply or subsequently in respect of 12 service connections owned by Central Government Departments/GOI undertakings. Failure of the Board to collect security deposit of Rs 23.86 crore resulted in extension of undue benefit to such consumers with consequential loss of interest of Rs 12.74 crore for the last six years upto March 2007.

Collection of revenue

6.2.28 As the Board earns revenue from sale of power, prompt collection of revenue assumes great importance. The table below indicates balances outstanding at the beginning of the year, revenue assessed *vis-à-vis* revenue collected and the balances outstanding at the end of the year during the last five years upto 2006-07:

(Rupees in crore)

Sl. No.	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
		(Provisional)				
1	Balance outstanding at the beginning of the year	2,373.33	2,757.62	3,176.44	3,664.95	3,745.84
2	Revenue assessed	1,334.47	1,426.54	1,539.02	1,524.87	1,504.72
3	Total amount due for realisation	3,707.80	4,184.16	4,715.46	5,189.82	5,250.56
4	Amount realised during the year	950.18	1,007.72	1,050.51	1,443.98 ¹⁹	1,126.39
5	Balance outstanding at the end of the year	2,757.62	3,176.44	3,664.95	3,745.84	4,124.17
6	Percentage of amount realised to revenue assessed (4/2)	71.20	70.64	68.26	69.02 ²⁰	74.86
7	Percentage of amount realised to total dues (4/3)	25.63	24.08	22.28	27.82	21.45
8	Increase in outstanding dues (5-1)	384.29	418.82	488.51	80.89	378.33
9	Percentage of increase (8/1)	16.19	15.19	15.38	2.20	10.10
10	Balance in terms of monthly assessment (month) (5/2 x 12)	24.80	26.72	28.57	29.47	32.89
11	Realisation target	975.40	1,357.30	1,504.43	1,018.85	1,779.84

(Source: Annual accounts of respective years)

It was observed that:

Due to ineffective collection mechanism, outstanding amount increased from Rs 2,757.62 crore in 2002-03 to Rs 4,124.17 crore in 2006-07

- Collection targets fixed in each year during 2002-03 to 2005-06 were less than the revenue assessed in these years. No separate targets were fixed for outstanding dues. The target for realisation of revenue in each year ranged between 28 to 49 *per cent* on the opening dues of the respective year.
- The realisation/collection of revenue was less than the revenue assessed in each year during 2002-03 to 2006-07.
- The outstanding dues/arrears increased every year from Rs 2,757.62 crore in 2002-03 to Rs 4,124.17 crore in 2006-07. The outstanding dues in terms of monthly assessment increased from 24.80 in 2002-03 to 32.89 in 2006-07.
- The percentage of realisation of revenue to assessment of revenue ranged between 68.26 and 74.86 during 2002-03 to 2006-07.
- Age wise analysis of arrears was not done by the Board.

It was further noticed (June 2007) that the reasons for low collection of revenue and huge arrears were mainly due to failure to disconnect the service connections on non payment of dues, failure to take action for recovery of dues from the consumers whose lines have been disconnected, *etc.* The factors responsible for the ineffective system of collection of revenue are discussed in the succeeding paragraphs:

Recovery of dues

6.2.29 As per clause 15.4 (e) of the tariff order, 1993 read with Section 56 of the Electricity Act, 2003, consumers defaulting in payment are to be given 15 days' notice from the due date of payment and if the amount is not

¹⁹ It includes prior period adjustment of Rs 391.51 crore.

²⁰ Excluding prior period adjustment.

deposited during the notice period, the supply is to be disconnected so that arrear do not accumulate further and the Board has the right to recover the arrears by taking legal action. The Board, however, failed to ensure the compliance of the provisions of the Act resulting in heavy accumulation of arrears.

Scrutiny of records of supply circles for recovery of dues from consumers revealed as under:

Accumulation of arrears of running service connections

Arrears were allowed to exceed security deposit in the case of 12,485 LT consumers having arrear more than Rs 10,000, arrear accumulated amounted to Rs 223.90 crore

6.2.30 It was noticed (June 2007) that the service connections of 12,485 LT consumers in four test checked supply circles²¹ (whose dues were Rs 10,000 and above) were not disconnected even though they were having accumulated arrears of Rs 223.90 crore as on 31 March 2007. Age wise analysis of outstanding dues was not done. However, at the instance of audit, the arrear amount was classified into less than three months old, three to six months old, six to 12 months old and more than one year. The table indicating the age wise analysis of dues circle wise is given below:

(Rupees in crore)

Name of the supply circle	Less than three months		3-6 months		6-12 months		More than 1 year		Total	
	No. of consumers	Amount	No. of consumers	Amount	No. of consumers	Amount	No. of consumers	Amount	No. of consumers	Amount
Dhanbad	284	3.07	28	4.99	8	0.86	1,488	54.23	1,808	63.15
Hazaribagh	227	3.50	145	1.52	240	3.18	3,976	51.53	4,588	59.73
Jamshedpur	116	12.57	44	1.01	85	2.14	1,910	21.03	2,155	36.75
Ranchi	630	19.45	415	3.59	559	2.93	2,330	38.30	3,934	64.27
Total	1,257	38.59	632	11.11	892	9.11	9,704	165.09	12,485	223.90

(Source: Data furnished by circles)

From the above table it is observed that,

- Out of 12,485 consumers, 78 per cent are having arrear dues outstanding for more than one year and the amount involved was 74 per cent (Rs 165.09 crore) of the total dues.
- Only 1,257 consumers had their dues outstanding for less than three months.
- In all cases arrear dues amount far exceeded the security deposit received from each consumer.

Realisation of dues through Recovery Certificates

6.2.31 The position of issue of Recovery Certificates for collection of dues and realisation made there against during 2002-03 to 2006-07 in respect of three supply circles test checked is indicated in the table given below:

²¹ Dhanbad, Hazaribagh, Jamshedpur and Ranchi.

(Amount: Rupees in lakh)

Sl. No.	Particulars	2002-03		2003-04		2004-05		2005-06		2006-07	
		No. of RCs	Amount								
1	Opening Balance at the beginning of the year	2,269	1,197.91	2,260	1,556.98	2,683	1,727.50	3,382	2,859.24	4,664	3,249.30
2	RCs issued	670	505.27	530	192.95	792	1,146.95	1,385	404.94	1,478	483.96
3	Total realisable (1+2)	2,939	1,703.18	2,790	1,749.93	3,475	2,874.45	4,767	3,264.18	6,142	3,733.26
4	Realisation	679	146.20	107	22.43	93	15.21	103	14.88	27	2.91
5	Balance (3-4)	2,260	1,556.98	2,683	1,727.50	3,382	2,859.24	4,664	3,249.30	6,115	3,730.35
6	Percentage of realisation to amount of RC (4/3x100)	-	8.58	-	1.28	-	0.53	-	0.46	-	0.08

(Source: Data furnished by circles)

The above details indicate that action taken by the Board for recovery of revenue arrears was not effective in view of the following:

- Though number of Recovery certificate cases filed increased every year from 670 (2002-03) to 1,478 (2006-07), the number of cases disposed of declined from 679 (2002-03) to 27 (2006-07).
- Against total realisable revenue of Rs 39.32 crore, amount realised was only Rs 2.02 crore which was 5.14 *per cent* of the total realisable amount. The main reason for abysmal decrease in realisation was poor performance in disposal of the cases.
- Realisations continuously showed declining trend from 8.58 *per cent* in 2002-03 to 0.08 *per cent* in 2006-07 against the increasing trend of realisable dues from Rs 17.03 crore in 2002-03 to Rs 37.33 crore in 2005-06.
- By not filing Recovery certificate cases in time, the outstanding dues of consumers whose electricity supply had been disconnected were allowed to become time barred in many cases as discussed in the following paragraph.

Time barred cases

6.2.32 As per Section 3 of the Limitation Act, 1963, any suit initiated for recovery of sale price after a prescribed period of three years shall be dismissed. Further, as per Section 56 (2) of the Electricity Act, 2003, any sum due from any consumer shall not be recoverable after the period of two years from the date when such sum became due unless such sum has been shown as recoverable as arrears and the supply of electricity has not been cut off. In case of consumers, whose electricity supply has been disconnected due to non payment of energy dues, recovery certificates are required to be filed promptly to realise the dues. If the recovery certificate is not filed within three years of the payment date the dues become time barred.

Revenue amounting to Rs 95.99 crore recoverable from 46,741 consumers became time barred due to failure to initiate timely legal action

It was noticed that though the lines were disconnected by the Board, legal action was not taken in number of cases during the limitation period of three years from the date of disconnection. As a result, dues aggregating to Rs 95.99 crore (excluding time barred dues amounting to Rs 20.84 crore already commented in Reports of the Comptroller & Auditor General of India for the

years 2004-05 and 2005-06) from March 2004 to March 2007 against 46,741 consumers which became irrecoverable as per details in **Appendix 6.9**. The instruction (1963) issued by BSEB provided that in such cases, the concerned officer would be held responsible for dues becoming time barred and such dues could be realised from the erring officer. No action, however, has been taken against the erring officers/officials, so far (November 2007).

Performance of raid teams

6.2.33 In order to minimise the cases of pilferage/loss of energy and to save the Board from sustaining heavy financial losses on this account, Section 163 of Electricity Act, 2003 specifies the power for a licensee to enter into the premises of a consumer and to inspect and test the apparatus. Accordingly, the Board constituted one raid team at Headquarters and one each at Area offices. Executive Engineer, Anti Power Theft (APT) in each supply area of the Board is responsible to prepare the work plan for conducting raids.

The position of premises of consumers checked by the raid teams along with assessment proposed and realisations made thereagainst in respect of three supply circles²² test checked during 2004-05 to 2006-07 is given in the following table:

Sl. No.	Particulars	2004-05	2005-06	2006-07
1	Total consumers	2,19,900	3,72,397	4,15,997
2	Number of premises checked by raid teams	534	1,082	2,785
3	Percentage of consumers premises checked with reference to total consumers	0.24	0.29	0.67
4	Assessment proposed by Raid teams (Rupees. in lakh)	34.70	940.79	456.02
5	Amount realised on spot (Rupees. in lakh)	-	20.83	23.96
6	Percentage of amount realised to assessment proposed	-	2.21	5.25

(Source: Data furnished by circles)

It was observed that:

- no targets were fixed by the Board for periodicity of conducting raids and the number of consumers to be checked.
- the number of consumer premises checked by raid teams was less than one *per cent* of the total consumers.
- as no follow up action was taken by the Board, amount realised was meagre.

Pilferage of energy by disconnected/unauthorised consumers

6.2.34 A test check of Meter Surveillance Report maintained by supply circles at Jamshedpur and Ranchi revealed that a large number of line disconnected (LD) consumers were unauthorisedly drawing energy from the

²² Dhanbad, Hazaribagh and Ranchi

supply system. The details of the consumers, nature of drawal of energy *etc.*, are indicated in the following table:

Name of supply circle	Period	Nature of drawal	No. of consumers	Amount of penalty to be imposed (Rupees. in lakh)
Jamshedpur	November 2002 to October 2006	LD with running meters	14,928	1,986.55
	January to March 2007	LD with running meters	1,196	56.24
		Hooking	2,036	79.83
Ranchi	April 2004 to March 2005	LD with running meters	21,762	645.19
	June 2004 to December 2006	Hooking	4,129	36.03
	January to March 2007	Hooking	487	0.21
		LD but running	439	10.53
Total			44,977	2,814.58

(Source: Meter Surveillance Report of circle submitted by the outsourced agencies)

Surveillance report submitted by agencies were not given due cognizance resulting in non imposition of penalty amounting to Rs 28.15 crore on 44,977 disconnected consumers

Despite having information of hooking and running meters of disconnected consumers, the Board did not take due cognizance of the surveillance report and act upon the report as per Section 126 of the Electricity Act, 2003 which provides that assessment shall be made at a rate equal to one and half times the tariff applicable for three months in case of domestic and agricultural services and for six months for other category of services. Inaction on the part of the Board resulted in loss of revenue of Rs 28.15 crore.

Accountal of revenue

6.2.35 Accountal of revenue realised is of utmost importance as it ensures that revenue realised is correctly and promptly accounted for in the books of accounts of the Board and in the accounts maintained at various Banks.

For proper control on collection of revenue and its accountal and remittances with the bank, the Board had prescribed day to day collection of revenue and its deposit into banks on the following working day. The deposits made by the sub divisions into banks have to be transferred to the collection accounts maintained at the Headquarters of the Board.

The results of test check of records relating to accountal of revenue are discussed below:

Delay in transfer of funds

Delayed transfer of funds by collecting Banks to Headquarters account resulted in loss of interest of Rs 1.31 crore

6.2.36 As per the working arrangement with the Banks, the credit balance in the accounts of sub division has to be transferred to accounts maintained at Headquarter on daily basis. It was noticed (June 2007) that revenue of Rs 478.57 crore deposited during 2002-03 to 2006-07 was not remitted by the branches of concerned banks to the Headquarters account, on daily basis. The delays in remittance ranged between one to 116 days. The Board did not take prompt action to mitigate the delay in transfer of funds which resulted in loss

of interest of Rs 1.31 crore at the rate of 13 *per cent*²³ per annum on delayed transfer of amount during 2002-03 to 2006-07.

Non accountal of cheques deposited

6.2.37 By preparing monthly bank reconciliation statements, the sub divisions listed out the details of cheques deposited but not accounted for by the Bank.

It was noticed (June 2007) that 87 cheques deposited by three supply sub-divisions during the period 1998 to 2004 worth Rs 12.97 lakh were not credited (June 2007) by the Banks. Failure on the part of the Board to take up the matter in time resulted in non credit of cheques deposited in banks long back. The realisation of Rs 12.97 lakh was, therefore, doubtful. Further interest lost by the Board on this amount worked out to Rs 5.06 lakh at the rate of 13 *per cent* per annum for three years up to March 2007.

Loss of interest

6.2.38 It was noticed (June 2007) that Rs 33.04 crore transferred between July 2001 and March 2006 from sub division collection accounts to bank accounts at Head Office were not credited by the main branch of the Bank at Ranchi of the Bank in the accounts of Head office. The failure on the part of the Board to take up the matter with the higher authorities of the bank till liquidation of such uncredited amount resulted in loss of interest of Rs 12.26 crore on un-credited amounts at the rate of 13 *per cent* per annum besides blocking of funds of Rs 33.04 crore as detailed below:

Non accountal of cheques deposited resulted in blockage of Rs. 12.97 lakh besides loss of interest of Rs 5.06 lakh

Fund amounting to Rs 33.04 crore were blocked due to non credit of the same in the accounts of the Board maintained at Headquarter by the collecting Banks with consequential loss of interest of Rs 12.26 crore

(Rupees in crore)

Bank	No. of Item	Period	Sub-divisions	Amount	Interest
Central Bank of India, Lalpur, Ranchi	70	2001-02 to 2006-07	Tupudana	27.09	9.76
Allahabad Bank, Hatia, Ranchi	10	2001-02 to 2005-06	Tupudana	4.43	2.09
Union Bank of India, R K Mission	7	2002-03 to 2006-07	Tupudana	0.09	0.03
Indian Overseas Bank, Giridih, UCO, Bermo and SBI, Tisri	13	2002-03 to 2005-06	Giridih, Bermo and Tisri	1.43	0.38
Total	100			33.04	12.26

(Source: Bank correspondence files of the Board)

It is evident from the perusal of above details that the amount remained uncredited as back as from 2001-02 resulting in huge uncredited amount of Rs 33.04 crore out of which Central Bank of India, Lalpur alone did not credit Rs 27.09 crore till June 2007. Since it is going on for a long time and the Board failed to take any effective step to get the amount credited, it points to poor internal financial control system in Board.

²³ The rate at which the Board obtains loan from State Government.

Internal Control and Internal Audit System

Internal Control

6.2.39 Internal control is a process designed for providing reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. A built in internal control system and strict adherence to the statute, codes and manuals minimise the risk of errors and irregularities. An evaluation of the system in vogue in the Board revealed the following weaknesses:

- The Board failed to arrest AT & C losses due to non implementation of any control system to reduce these losses, to carry out timely issue of bills and effecting service connections in time as per Supply Code issued by JSERC.
- The Board could not effectively implement the system to disconnect the service connections, in case of default in payment of dues.
- The Board failed to implement the system for timely recovery of its dues to reduce its arrears.
- Bank transactions were not being reconciled with Bank Statements in time.

Internal Audit

6.2.40 Internal Audit is a system designed to ensure proper functioning as well as effectiveness of the internal control system and detection of errors and frauds. It should, as an independent entity, examine and evaluate the level of compliance to the financial rules and procedures. It was noticed that:

- The sanctioned strength of staff for internal audit wing has not been prescribed by the Board even after six years of its existence. No schedule / target for conducting internal audit of units was fixed by the Board. Personnel deployed for internal audit were on *ad hoc* basis and audit of various units conducted by them was not regular.
- For revenue and expenditure audit, the Board outsourced (2005-06) the internal audit work for the years 2001-02 and 2002-03 to 17 Chartered Accountant firms. All firms submitted (June/October 2007) their reports to Member (Finance)/Chairman. No action had been taken on these reports although number of important issues relating to the period 2001-03 have been pointed out.

Conclusion

The billing and collection procedures and surveillance were deficient as the Board could not reduce the AT&C losses due to non-installation of meters and failure to check theft of energy, release service connections in time, ensure checking of meter readings, levy demand charges and issue electricity bills in time. The collection of revenue was not effective as the outstanding dues at the end of each year were increasing. Failure to take prompt action led to outstanding dues becoming time barred.

Recommendations

The Board needs to:

- **take effective steps to reduce AT&C loss in a phased manner;**
- **install meters in all service connections in a time bound action plan;**
- **ensure the correctness of meter readings and prompt distribution of bills;**
- **improve the collection mechanism including legal actions, for prompt realisation of its dues;**
- **ensure prompt credit of revenue by banks; and**
- **strengthen Internal Control System.**

The audit findings were reported to the Board/Government (June 2007); their replies are awaited (November 2007).

6.3 Transaction Audit Observations

Important audit findings emerging out of test check of transactions of the State Government company/corporation are included in this Chapter.

Government Company

JHARKHAND STATE FOREST DEVELOPMENT CORPORATION LIMITED

6.3.1 Loss of Revenue

Wrong computation of reserve price resulted in loss of revenue of Rs 43.96 lakh on the sale of kendu leaves.

The Company invited tenders (April/May 2002) for rights to collect Kendu leaves from the areas under its control. As per the provision in the Forest manual issued by the Government of Bihar, reserve price is to be fixed on the basis of average sale price of preceding three years and when the quoted rate is not less than 75 per cent of the reserve price, the Company has to accept such offer.

It was noticed (November 2006) that though the sale price was not available for all the three years of 1999, 2000 and 2001 (in some cases prices for two years, in others, only in one year were available) in respect of certain lots, the reserve price was fixed in 2002 by dividing the aggregate of available sale prices for the period by three. By treating the reserve price so fixed as benchmark, those lots were sold. This resulted in fixation of reserve prices at much lower level than the actual level²⁴.

Thus, due to wrong computation of reserve price, the company lost revenue of Rs 43.96 lakh in respect of the lots sold as detailed in the *Appendix 6.10*.

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

Statutory Corporation

JHARKHAND STATE ELECTRICITY BOARD

6.3.2 Avoidable expenditure

Due to injudicious placement of orders, lack of timely action by the Board against the defaulters in supplies resulted in incurring of avoidable expenditure of Rs 1.49 crore on procurement of conductor at higher rates subsequently.

Jharkhand State Electricity Board (Board) issued (May 2003) a short tender notice for procurement of 25,000 Kms. of AAA²⁵ weasel conductor for

²⁴ Actual level is the aggregate of sale price of preceding one, two and three years divided by the number of years for which sale prices were available.

²⁵ All Aluminium Alloy

electrification of 2,000 villages during 2003-04 under Rural Electrification Programme. The techno-commercial bids (July 2003) of 11 tenderers, out of 28 tenderers were found technically suitable. The price bids of these tenderers were opened (August 2003) and the firm landed cost of Gupta Cable Limited, Bhubaneswar was found to be the lowest at Rs 11,857 per Km but the firm agreed to supply only 700 Kms. per month. Subsequently (August 2003), six tenderers also expressed their willingness to supply the material at the L-1 rates.

The actual requirement of 23,840 Kms. of the conductor was arrived at (August, 2003) after taking into account the stock at stores as on March 2003. The Central Procurement Committee (CPC), however, decided (August 2003) to place purchase orders with seven tenderers for a total quantity of 17,550 Kms. of conductor only with the delivery schedule of completing the supply within three months. CPC further decided that the two small scale industrial (SSI) units of the State, whose offers were not considered at the time of opening of techno-commercial bids, due to non-submission of BIS licence, may be requested to submit the same within one month. In case of failure to submit the licence by these two firms, the balance quantity was to be procured from those firms who would complete the delivery at the earliest. As one tenderer, Sarthak Enterprises, Allahabad failed to execute agreement for supply of 5,400 Kms. of conductor, the Board placed (October 2003) orders only with the six tenderers, for 12,150 Kms. for delivery within three months, commencing after 30 days from the date of issue of order (upto February 2004). Against the above orders, only 8,288 Kms. of conductors were supplied up to May 2004 and only three tenderers could complete the ordered quantity in full.

Again during June 2004 (only a month after the supply of 8,288 Kms of conductor), the Board invited fresh tenders for supply of 25,000 Kms. of conductor of the same specification and finally placed (December 2004 and January 2005) purchase orders for 11,000 Kms. at a landed cost of Rs 13,213 per Km. Against the above order, 10,959 Kms. of conductor were supplied upto February 2005.

In this connection, Audit observed the following (February 2007):

- Against the two short tenders (May 2003 and June 2004) for total supply of 50,000 Kms. of conductor, CPC placed orders only for 12,150 Kms. and 11,000 Kms. respectively. This indicated that assessment of requirement was not made on realistic basis.
- The purpose of awarding contract on short tender basis was defeated as estimated supplies were not received. Eventually balance quantities were procured at higher cost. Even splitting of the orders did not help in completing the supplies.
- Against the first short notice tender, the two SSI units did not submit complete documents. Instead of cancelling their offer as per codal provisions, they were given one month time to submit the documents. The SSI units, however, did not submit the same. The orders for quantities to be placed on these firms were, however, not placed on the six successful tenderers.

- Though Sarthak enterprises failed to execute the agreement within the stipulated time, the Board did not place the supply order for 5,400 Km. of conductor on the other six tenderers.
- As per tender condition, the suppliers were asked to offer not less than 25 *per cent* of the tendered quantity (6,250 Km.) in the techno-commercial part. Split orders were, however, placed on seven parties for as low as 600 Km. (2.4 *per cent* of tendered quantity). Non completion of supply by three suppliers indicated that the technical capabilities of the suppliers were not properly evaluated by the CPC. Moreover, the supplier who had agreed to supply 10,000 Km. was placed with an order for only 2,100 Km.
- The Board did not initiate any action for short supply against three suppliers who agreed to supply at L-1 firm price. As the defaulted suppliers were registered with NSIC, they were exempted from depositing earnest money. Hence, the Board did not have any recourse against these suppliers in the event of their default in the supplies.
- Tender conditions stipulated that, in case of failure to supply within contracted period, the Board reserved the right to cancel the contract and recover damages/loss suffered on procurement from other sources. But this clause was not incorporated in the purchase order. Hence, the Board lost the opportunity to recover the excess cost incurred in procurement of the material subsequently.
- As per tender condition the Board could extend order for 20 *per cent* of the previously ordered quantity on the same supplier within six months from the date of placement/acceptance of order on the same terms and conditions. As this condition was not included in the purchase order, the Board had to invite fresh short tenders. Using this clause, the Board could have procured 10,959 Kms. at the rate of Rs 11,857 per Kms., which was subsequently procured at higher rate of Rs 13,213 per Km.

Thus, due to injudicious placement of orders, lack of timely action against defaulters in supplies coupled with non observance of terms and conditions of tender led to an extra expenditure of Rs 1.49 crore²⁶.

The matter was reported to the Board/Government (May 2007); their replies are awaited (November 2007).

6.3.3 *Extra expenditure on price variation claim*

Adoption of wrong base date for calculating price variation resulted in payment of excess claim of Rs 60.68 lakh to the suppliers.

6.3.3.1 The Board invited (June 2004) tenders for supply of 25,000 Kms. of AAA weasel conductor, to be submitted by 12 July 2004. After completing the tender formalities, the Board placed (December 2004 to July 2005) orders for a total quantity of 17,000 Kms. with sixteen suppliers at a landed cost of Rs 13,213 per Km. with a maximum price variation of ± 20 *per cent* with its base date as 1st day of the month of tender. Against the above

²⁶ (Rs 13,213 – 11,857) x 10,959 Km.

orders, the Board received (December 2004 to August 2005) a total quantity of 16,958 Kms. and allowed price variation claims of Rs 1.16 crore.

Audit scrutiny revealed that:

- According to the terms and conditions of tender, the price variation was to be allowed with reference to the price prevailing on the base date *i.e.*, first day of the month of tender. It meant that the basic prices of raw materials (notified by CACMAI²⁷) that prevailed on the first day of the month of tender opening (1 July 2004) was to be considered basis for calculation of price variation claim. In contravention of the terms and conditions of tender, the Board allowed the price variation claim taking into account the price of the raw material prevailing on 1 June 2004. (*i.e.* first day of the month of invitation of tenders).
- While allowing price variation in the case of purchase of power transformers, the base date was taken as the first day of the month of opening of tender and the basic price of raw materials notified by IEEMA²⁸ at the time of opening of tender was considered.
- Even some of the suppliers of AAA conductor had submitted their tenders/price variation claim to the Board by taking the base date as 1 July 2004.

Thus, failure of the Board to adopt the correct base date for allowing price variation claims resulted in an excess allowance of price variation claim of Rs 55.38 lakh (including taxes and duties) in respect of cases listed in the **Appendix-6.11**.

6.3.3.2 The Board also invited (June 2004) tender for supply of 1,000 Kms. of ACSR²⁹ dog conductor, which were to be submitted by 12 July 2004 and placed (November 2004 to October 2005) orders for 1,200 Kms. with seven suppliers at a landed cost of Rs 44,057 per Km. with a maximum price variation of ± 20 per cent with its base date 1st day of the month of tender. The Board received 1,199 Kms. of the material and paid a total price variation claim of Rs 17.79 lakh on 621 Km. of the material.

Audit scrutiny revealed that in this case too, base date was adopted as 1 June 2004 instead of 1 July 2004 (first day of the month of tender). This led to payment of excess price variation claim of Rs 5.30 lakh as listed in **Appendix-6.12**.

Thus, the Board's action in adopting wrong base date for price variation claim resulted in extra expenditure of Rs 60.68 lakh.

The matter was reported to the Board/ Government (May 2007); reply had not been received so far (November 2007).

²⁷ Cable and Conductor Manufacturers Association of India

²⁸ Indian Electrical and Electronics Manufacturers' Association.

²⁹ Aluminium Conductor Steel Reinforced.

6.3.4 Blocking of Funds

Procurement of wagon tippler without any immediate requirement resulted in blocking up of funds of Rs 1.18 crore with consequential loss of interest of Rs 45.98 lakh.

The Board placed (August 2002) a purchase order on Elecon Engineering Limited, Gujarat for supply of Modernised Inhaul Beetle Charger Complete Set for Wagon Tripler-2 for Coal Handling Plant of Patratu Thermal Power Station at a total cost of Rs 1.15 crore (Rs 95.00 lakh plus excise duty & taxes) FOR V.V. Nagar with a delivery period of 12 months from the date of purchase order. Payment terms, *inter alia*, stipulated 10 per cent advance payment against submission of equal amount of Bank Guarantee and 90 per cent alongwith all taxes and duties against despatch documents. Further, as per guarantee clause, all goods were guaranteed against faulty design, bad workmanship, defective materials and unsatisfactory services for a period of 12 months from the date of commissioning or 18 months from the date of despatch, whichever was earlier.

It was noticed (February 2007) that the Board paid (April 2003) advance of 10 per cent of the cost of equipment amounting to Rs 9.50 lakh. The supplier made (July 2003) the supplies and the balance amount of Rs 1.05 crore was paid (June 2004).

The equipment remained (December 2004) in the store of Road Transport Corporation. The equipment was got released (January 2005) after payment of Rs 1.70 lakh towards freight and Rs 1.90 lakh towards storage and demurrage charges. Even after lapse of about two and half years of the receipt the equipment is still lying (August 2007) in the central store despite central store's request for early lifting as the equipment is lying in open. Thus, the equipment procured at a total cost of Rs 1.18 crore has not been commissioned as yet (August 2007). Moreover, there is no scope for any replacement/rectification (equipment is lying in open) since the guarantee period has already elapsed in December 2004 (18 months from despatch).

The General Manager, PTPS stated (May 2007) that as the existing wagon tippler no. 2 alongwith its Beetle Charger commissioned in 1978 was giving frequent problems in its operation around the year 2001-02, it was felt imperative to replace the existing Beetle Charger. Hence, procurement of the equipment was made (July 2003). It was further stated that the replacement of Beetle Charger required complete shutdown of wagon tippler no. 2 for considerable period and as the wagon tippler no. 3 was out of service due to some technical snag and wagon tippler no. 2 was used in its place, the situation did not permit the Board to take shutdown of wagon tippler no.2 till March 2007. As the wagon tippler no. 2 was also giving problems, order was placed (June 2006) for supply of different equipment for complete overhauling of the tippler no. 2. The replacement of the Beetle Charger and overhauling of tippler no. 2 would be taken up simultaneously.

The reply confirms that the procurement was made without immediate requirement, since the Wagon Tippler no. 2 has been working without the replacement of Beetle charger for last five years (from August 2002). This led

to blocking up of Boards' funds amounting to Rs 1.18 crore and consequential loss of interest of Rs 45.98 lakh³⁰.

The matter was reported to the Government (June 2007); their reply is awaited (November 2007).

6.3.5 Injudicious procurement

Injudicious procurement of diaphragms resulted in interest loss of Rs 29.61 lakh.
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Patratu Thermal Power Station (PTPS) under Jharkhand State Electricity Board (JSEB) placed order (January 2001) on Poltavsky TPS Power Service Ltd., New Delhi for supply of three set diaphragms at a total cost of Rs 40.20 lakh, for replacement of damaged diaphragms of unit no. two with the delivery period of six months from the date of receipt of purchase order.

The purchase order, *inter alia*, provided guarantee clause against manufacturing defective material and unsatisfactory service for a period of 18 months from the date of supply or 12 months from the date of commissioning whichever is earlier. The supplier had to produce a Bank Guarantee for 10 *per cent* of the value of supply towards performance guarantee at the time of despatch of documents and 100 *per cent* payment was to be made by the Board against despatch documents.

Audit scrutiny revealed that the procurement of material was made on 'urgent basis'. The supplier supplied the material (August 2001) and payment was made (October 2001). The JSEB continued to use the existing diaphragms of Unit no. two (July, 2007). The capital overhauling of the unit was undertaken (January 2004) but, the diaphragms were not replaced even during the capital maintenance and the unit was under operation with its old diaphragms (July 2007). The diaphragms procured in August 2001 continued to be kept in stores /unutilised (July 2007). The guarantee of the equipment expired (February 2003) and Bank guarantee was released (June 2003) without checking the performance of the material.

Thus, injudicious procurement of spares without any immediate requirement resulted in avoidable blocking up of funds to the tune of Rs 40.20 lakh with a consequential interest loss of Rs 29.61 lakh³¹.

The matter was reported to the Management/ Government (June 2007); their replies are awaited (November 2007).

6.3.6 Avoidable payment of surcharge

Delayed execution of agreement resulted in avoidable payment of surcharge of Rs 13.19 lakh.
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The Jharkhand State Electricity Board (Board) was availing benefit of 10 *per cent* surcharge relief by making payment of coal freight through credit note cum cheques (CNCC) on prepaid Railway Receipt basis at loading station of

³⁰ Interest was calculated @ Rs 13 *per cent p.a.*; the rate is applicable to Government Loans received by Board.

³¹ Rs 40.20 lakh x 13 *per cent* x 68 months

coal to Railways. The above benefit of surcharge was not available in case payment was made otherwise than through CNCC.

Audit scrutiny revealed (February 2007) that Eastern Railways (ER) had informed (September 2002) Patratu Thermal Power Station (PTPS) that after coming into existence of East Central Railway (ECR) a fresh agreement was required to be executed for continuance of CNCC facility for the period beyond March 2003. CNCC facility continued upto April 2003 and was stopped thereafter and later on extended upto 15 May 2003 by ECR with the direction to execute fresh agreement after clearing all dues. PTPS intimated (May 2003) ECR that outstanding dues would be paid after receipt of approval of the Apex Board and requested to extend CNCC facility upto June 2003. But ECR intimated (July 2003) that earlier CNCC had expired on 16 May 2003 and after completion of all the formalities and execution of fresh agreement further grant of CNCC would be made available. PTPS furnished security deposit in the last week of July 2003 and agreement was executed in the first week of August 2003. Meanwhile during 16 May 2003 to August 2003, 68 Railway Receipts Ex. K.D.H Sdg. and one Railway Receipt Ex. K.D. Sdg were issued under freight "To Pay" basis involving payment of surcharge of Rs 13.19 lakh. Consequently, the Board had to sustain loss on avoidable payment of surcharge of Rs 13.19 lakh due to delayed execution of agreement for which no action has been taken against the officials who were responsible for delay in execution of the agreement.

The matter was reported to the Management/Government in June 2007; their replies are awaited (November 2007).

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