CHAPTER – II

2. REVIEWS RELATING TO GOVERNMENT COMPANIES

2A. Karnataka Power Transmission Corporation Limited -Power Purchase from Private Power Producers

HIGHLIGHTS

As part of the policy to encourage private participation in power generation, 57 Private Power Producers established power plants with a capacity of 1142 MW during the period from April 1991 to March 2001.

(*Paragraph 2A.2)*

Tanir Bavi Power Company (220 MW), Tata Power Company (81.3 MW) and Sree Rayalseema Alkalies and Allied Chemicals Limited (37.8 MW) established power plants under bid route with a proposed tariff of Rs.2.62, Rs.2.79 and Rs.2.57 per unit respectively, whereas, the actual tariff on the basis of present day (March 2001) prices of fuel worked out to Rs.5.16, Rs.4.59 and Rs.4.66 per unit respectively.

(Paragraph 2A.5.1)

Enhancement in initial capacity would result in additional burden of Rs.78.88 crore per annum towards fixed charges.

(Paragraph 2A.5.2.2)

Inclusion of escalation clause in 'Other Fixed Charges' in PPA with Tanir Bavi Power Company and Tata Power Company (TPC) resulted in additional burden of Rs.160.07 crore.

(Paragraph 2A.5.5.2)

Excess time allowed to TBPC for commencement of combined cycle operation resulted in depriving the Board a benefit of Rs.34.13 crore.

(Paragraph 2A.5.5.4)

Agreeing to bear the actual fuel cost instead of fixed fuel cost in the first year in the PPA with Tanir Bavi Power Company resulted in additional burden of Rs.224.42 crore during the first year.

(Paragraph 2A.5.5.5)

Fixation of single part tariff instead of two part tariff for purchase of power from Jindal Tractabel Power Company Limited (JTPCL) resulted in passing of undue benefit of Rs.56.03 crore during the first year and arbitrary fixation of escalation charges would result in additional burden of Rs.30.88 crore.

(Paragraphs 2A.6(i) and 2A.6(ii))

Non-adoption of two-part tariff for purchase of power from JTPCL as suggested by consultant resulted in additional liability of Rs.355.07 crore.

(Paragraph 2A.6(iii))

Supply of energy on loan basis to Jindal Vijayanagar Steel Limited resulted in passing of undue benefit of Rs.39.76 crore.

(Paragraph 2A.6.3(a))

Non-inclusion of grid support charges in the tariff for 25 captive generating plants resulted in loss of revenue of Rs.15.66 crore, per annum. Similarly, non-inclusion of transmission loss of 4 per cent in the wheeling and banking agreement with 18 firms resulted in extending undue benefit of Rs.14.11 crore.

(Paragraph 2A.8.1 and 2A.9.1)

2A.1 Introduction

With the objective of bringing in additional resources for the capacity addition in the electricity sector, the Government of India formulated a policy in 1991 to encourage greater participation of private sector in electricity generation, supply and distribution. Under this policy, private sector entrepreneurs could set up power projects either as licensees or as generating companies.

2A.2 Policy initiatives

In pursuance of Government of India policy initiatives, the Government of Karnataka also framed (June 1992) its own policy with the following objectives:

i) Promotion of large, medium, mini and micro power projects in private sector.

ii) Providing the facility of wheeling and banking[⊗] arrangements to private sector units which will be operated by making use of transmission and distribution system of Board on payment of wheeling and banking charges.

[⊗] Energy generated by private power producers is deposited with the Board for transmitting the same to selected customers on payment of wheeling and banking charges.

iii) Providing incentives for installation of captive power generating units.

iv) Exemption from payment of electricity tax on power generated for own consumption for new industrial units for a period of five years.

v) Allowing private participation in major hydel projects.

In order to tackle the power crisis in the State, the Government of Karnataka decided (June 1992) to encourage private participation in power generation. During April 1991 to March 2001, in all 57 Private Power Producers established power plants having a capacity of 1142 MW.

The Government of Karnataka passed (August 1999) the Karnataka Electricity Reform Act, 1999. In pursuance of this Act, Karnataka Electricity Regulatory Commission (KERC) was established in August 1999.

2A.3 Scope of Audit

The present review conducted between November 2000 and March 2001 covers purchase of power from Private Power Producers in the State from 1991-92 to 2000-2001. The main areas of coverage are the Agreements entered into with Independent Power Producers (IPP) and captive/co-generation units for the purchase of power. Audit has also reviewed the wheeling and banking arrangements entered into by the Board. The results of the review are discussed in the succeeding paragraphs.

2A.4 Private Power Producers

The number of projects initiated, PPAs signed, and projects commissioned under different categories are tabulated below:

Particulars	Position of Private Power Producers as on 31 March 2001							
	MOU route		Bid route		Non conventional route		Total	
	No	MW	No	MW	No	MW	No	MW
PPAs initiated	18	8495	10	1070	75	548	103	10113
PPAs signed	5	1490	9	960	23	182	37	2632
Project commissioned	-	-	3	339	11	137	14	476

As on 31 March 2001, 3 projects (339 MW) under bid route and 11 projects (137 MW) under non-conventional route were commissioned. No projects under MOU route were commissioned due to non-achievement of financial closure. In addition to the above, Jindal Tractabel Power Corporation Limited (JTPCL), established (January 2000) a 260 MW power plant. The observations noticed on the projects commissioned under bid route and JTPCL are discussed in paragraph 2A.5 and 6, Non Conventional Energy route in paragraph 2A.7, captive power plants and wheeling and banking arrangements in paragraphs 2A.8 and 9 of this report.

2A.5 Independent Power Producers under bid route

As per Section 19 (2) and (3) of Electricity (Supply) Act, 1948 no generating Company is entitled to supply electricity without the consent of the Board, in any area where the Board has declared its intention to supply electricity. As the Act prohibits the generating companies from selling power directly to the consumers, the Board entered into Power Purchase Agreements (PPA) with Independent Power Producers (IPPs).

2A.5.1 Power Purchase Agreement with Independent Power Producers

In order to purchase power from IPPs, the Board signed PPAs which, interalia, included, the tariff rate, generation capacity, nature of fuel, period of PPA etc. The tariff structure in the PPAs was based on a 2 part tariff i.e. Fixed Cost and Variable Cost. The Fixed Cost was to remain fixed throughout the period of the PPA except for the changes caused by foreign exchange variations i.e. for repayment of foreign currency loans, guaranteed return in foreign currency on equity etc. The Variable Cost on the other hand was to be paid monthly on the basis of actual purchase price of the fuel procured. At the end of March 2001, only three power projects under bid route were commissioned. The projects commissioned, capacity, fuel and the tariff rate (Fixed plus Variable) included in the PPA and the tariff based on fuel prices as of March 2001 are as detailed below:

Sl No	Name of the IPP	Capacity (in MW)	Fuel	Tariff (Fixed plus Variable) in Rs. Per unit as envisaged in the PPA (Date of signing of PPA)	Tariff as of March 2001 in Rs. Per unit
1.	Sree Rayalseema Alkalies & Allied Chemicals Limited	37.5	Furnace Oil/ HSD	2.57 (15 December 1997)	4.66
2.	Tata Power Company	81.3	Naphtha/ HSD	2.79 (10 February 1999)	4.59
3.	Tanir Bavi Power Corporation (Barge mounted power project)	220	Naphtha	2.62 (15 December 1997)	5.16

Sree Rayalaseema Alkalies and Allied Chemicals (SRAAC) started commercial generation in September 2000. Though Tata Power Company, Belgaum (TPC) and Tanir Bavi Power Company, Mangalore (TBPC) synchronised their power plants with the grid, commercial generation was yet to be started (March 2001).

As per the PPAs with SRAAC, TPC and TBPC, the Board has to purchase 21 MW, 61 MW and 187 MW per annum respectively. With the present day (March 2001) cost of fuel of HSD (fuel used by TPC and SRAAC) and Naphtha (TBPC), the per unit cost worked out to Rs.4.66 (SRAAC) Rs.4.59 (TPC) and Rs.5.16 (TBPC) respectively. Thus, the current tariff (March 2001) was higher by 64.52 % to 96.95 % of the original tariff envisaged in the PPAs.

This was mainly due to increasing fuel prices contributing to enhanced cost, which would ultimately have to be passed on to the consumers.

Due to high cost of power KERC recommended the Board not to purchase power from SRAAC and instead pay deemed generation charges.

Karnataka Electricity Regulatory Commission while approving (December 2000) the tariff structure of the Board for the year 2000-01, recommended to the Board not to purchase power from SRAAC due to high cost of power (Rs.4.66 per unit) and instead pay deemed generation charges[a]. Under such circumstances, it would also be uneconomical for the Board to purchase power from TPC and TBPC, as the cost of fuel (March 2001 prices) has increased the price per unit to Rs.4.59 per unit and Rs.5.16 per unit respectively. In the new IPP policy announced by the Government of Karnataka (January 2001), it was stated that Naphtha/liquid fuel based or barge mounted projects would not be encouraged, as they were not cost effective.

2A.5.2 Enhancement of capacity

Subsequent to the invitation of the bids and based on the request of the bidders, the Board allowed enhancement in the capacity from 5.9 per cent to 36.4 per cent to IPPs with whom PPAs were signed. In this regard the following points were noticed in Audit.

2A.5.2.1 Failure to negotiate for reduction in fixed charges

Kontek Abbadi (a consortium partner of Tanir Bavi project) requested (July 1997) for the merger of their proposed 30 MW power plant at Yelahanka with the Tanir Bavi project (170 MW). Based on the request and confirmation by TBPC, the Government permitted (November 1997) clubbing of these two projects as a single project of 200 MW. This was further enhanced to 220 MW in March 1999 at the request of TBPC. Though the tariff (fixed charges) would come down with increase in capacity, the Board did not negotiate for any reduction in the fixed charges. It was noticed in Audit that another IPP, Scintilla Power Company Limited, with whom PPA was signed by the Board, offered (August 1996) to reduce the fixed cost by one paise per unit for every additional unit produced on enhancement of capacity. On a similar analogy, by not negotiating for any reduction in the tariff (fixed charges), the Board had to bear an additional burden of Rs.2.61 crore during the period of PPA.

2A.5.2.2 Acceptance of increase in capacity resulted in liability towards fixed charges

Increase in capacity would result in the Board being burdened with an additional liability of Rs.78.88 crore per annum.

The Government of Karnataka permitted (May 1996) SRAAC to set up a 27.8 MW Diesel Generating (DG) plant near Bellary. In May 1997, SRAAC requested the Board to increase the contracted capacity of the power plant to 37.8 MW which was approved by the Board (May 1997) without any commitment or obligation to purchase additional power generated by increase in capacity. However, it was noticed that in respect of TPC and TBPC, the Board accepted (TPC in June 1998 and TBPC in February 1999) the increase

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[a] Deemed generation charges are charges payable to the generating Company irrespective of the fact whether power was purchased from them or not. These charges are meant to compensate for the Fixed Cost incurred by the Generating Company.

in capacity from 76.8 MW to 81.3 MW and 170 MW to 220 MW respectively. As a result of accepting to purchase the power generated due to the additional capacity, the Board was burdened with an additional commitment of Rs.78.88 crore per annum towards increased fixed capacity charges at PLF of 75 per cent (TPC) and 85 per cent (TBPC).

2A.5.3 Construction of transmission lines for evacuation of power from the IPP

As per PPAs signed by the Board with IPPs, if the project is situated at a distance beyond 5 Kms from the nearest sub-station, the power producers shall pay the Board for construction of transmission facilities for such additional distance beyond 5 km. The amount shall be paid within 30 days of the effective date©. Though the above clause was included in the PPA of SRAAC and TPC no such clause was included in the PPA of TBPC. In this regard the following points were noticed in Audit.

2A.5.3.1 Delay in collection of deposit towards cost of line

As per PPA, SRAAC was required to deposit Rs.1.11 crore towards cost of construction of the transmission facility by February 1998. However, the Board accorded approval to deduct the same from the first tariff invoice submitted by the Company in October 2000. This had resulted in the Board incurring a loss of Rs.49.74 lakh in the form of interest paid on borrowed funds.

Non-inclusion of a clause in PPA towards transmission lines resulted in non-recovery of Rs.4.7 crore.

2A.5.3.2 Non recovery of cost of line due to non inclusion of a clause in PPA

The Board constructed a transmission line for a distance of 9 kms from TBPC to the nearest sub station at a cost of Rs.8.46 crore. In the absence of the clause in the PPA for recovery of cost of line beyond 5 Kms, the Board could not recover Rs.4.7 crore.

2A.5.4 Period of the PPA

The PPA entered into with TBPC was for a limited period of 7 years while all other PPAs entered into were for period of 12 years. By agreeing for a period of 7 years instead of 12 years, the Board has committed itself for higher tariff as the fixed charges were spread over a limited period of 7 years instead of 12 years. On this being pointed out, it was stated (July 1999) that the financial institutions had recommended extending the term of PPA to 12 years to make it viable and negotiations were under way with TBPC to obtain a lower tariff. However, it was seen in Audit that even while agreeing to the second enhancement of capacity from 200 MW to 220 MW, the Board did not prevail upon the TBPC for tariff reduction by extending the period of PPA. In the absence of details as to fixed charges, the benefit of tariff reduction which could have accrued to the Board could not be worked out in Audit. Incidentally it was also noticed that for a similar barge mounted project (Oak

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well Engineering) put up in Andhra Pradesh, the period of PPA was taken as 15 years.

2A.5.5 Tariff structure

In consideration of the electricity supplied by the generating companies, the Board is required to make payment under two-part tariff, i.e., fixed and variable, besides payment of incentive for achieving higher Plant Load Factor (PLF).

2A.5.5.1 Payment of return on equity on monthly basis

Payment of ROE on monthly basis resulted in additional gain of Rs.2.46 crore per year to TBPC.

As per PPAs entered with IPPs, the return on equity is to be computed on the paid up capital as a component of fixed charges at 16 per cent per annum. The payment of return on equity (ROE) to investors is normally an annual feature. However, as per the agreement with TBPC, the Board is required to pay ROE every month on pro-rata basis. Thus, TBPC is benefited by getting pro-rata ROE every month instead of one lump sum amount at the end of the year. It would have been financially beneficial, had the Board negotiated for payment of ROE on annual basis. Payment of ROE of Rs.33.6 crore on the entire equity of Rs.210 crore at 16 per cent payable on monthly basis instead of annual basis would result in yield of Rs.36.06 crore and a rate of return of 17.17 per cent per year. This resulted in a gain of Rs 2.46 crore every year to TBPC and contributed to a 2 paise increase in the per unit tariff rate.

2A.5.5.2 Inclusion of varying escalation clause for payment of other fixed charges

Inclusion of varying escalation clause for Other Fixed Charges resulted in additional burden of Rs.160.07 crore.

(i) As per the bid conditions, Other Fixed Charges (OFC) should remain fixed over the period of PPA. Accordingly, the PPA with SRAAC provided for payment of OFC, which remained constant throughout the period. However, it was noticed in Audit that in the case of the PPA signed with TBPC, the Board agreed for a five per cent escalation on three per cent of the project cost (3 per cent of Rs.700 crore). This would lead to additional burden of Rs.28.14 crore during the period of PPA. This also contributed to a 2 paise increase in the per unit tariff rate.

(ii) In the case of PPA signed with TPC, escalation on OFC was allowed and it varied from 0.79 paise per unit to 1.50 paise per unit. This would lead to additional burden of Rs.131.93 crore during the period of PPA.

2A.5.5.3 Inclusion of higher THR in variable charges

Inclusion of higher Tariff Heat Rate resulted in extra burden of Rs.9.97 crore per annum.

The Tariff Heat Rate (THR) fixed, as per PPAs with TBPC, SRAAC and TPC was 2075 to 2153.85 Kcal/unit as against the norm of 2062 Kcal/unit fixed by Government of India. While allowing higher THR and consequent higher incidents of fuel consumption, the Board was burdened with an extra commitment of Rs.9.97 crore towards variable charges (in the form of additional cost of fuel) per annum. It was stated (July 1999) that Government of India norm is based on Indian Standard Organisation (ISO) conditions and on the mean temperature at the Station. The reply is not tenable, as even

CRISIL (consultant for the Board) had pointed out (September 1998) that THR is higher when compared to other combined cycle gas turbine projects and Government of India norms.

2A.5.5.4 Additional burden due to excess time allowed for commencement of combined cycle operation

Deferring scheduled operation date for combined cycle resulted in depriving the Board the benefit of Rs.34.13 crore.

TBPC is a combined cycle power project and the net generating capacity is 160 MW under simple cycle operation and 200 MW under combined cycle operation. The time allowed for switching over from simple cycle operation to combined cycle operation was 1 year from date of commencement of open cycle operation. As per the bid evaluation by CRISIL, the normal time allowed for switching over is 6 months from the date of commencement of simple cycle. Under combined cycle of operation the TBPC would be generating additional 40 MW by operating gas/liquid fuel based turbines in combination with a steam turbine which does not require any fuel as it uses the waste heat recovered from the gas turbines. By deferring the scheduled operation date for commencement of combined cycle, the Board is deprived of the benefit of additional energy the value of which worked out to Rs.34.13 crore without any additional expenditure. This also contributed to an increase in per unit cost by 57 paise for a period of 6 months.

2A.5.5.5 Defective clause in PPA towards fuel charges

Agreeing to share the increased cost of fuel in the first year resulted in additional burden of Rs.224.42 crore.

As per the bid document for the TBPC, the tariff for the first year was to remain fixed irrespective of the change in fuel cost and that from the second year the actual cost of fuel would be passed on to the Board. The original PPA initialed by TBPC after negotiation also provided that unless prevented from importing fuel, the variable cost during the first year would remain fixed at the price indicated in the original PPA. Based on the request of the TBPC, the Board (September 1997) agreed to share equally the hike in fuel prices between the original price listed in the PPA and the actual price from the first year itself. In the final PPA signed, this condition was, surprisingly, not incorporated. Accordingly, as per the final PPA signed by the Board, the variable cost on fuel even during the first year was to be borne by the Board. The additional burden on this account based on Board’s own calculation worked out to Rs.224.42 crore. This also contributed to Rs.1.37 increase in the per unit tariff rate for the first year.

2A.5.5.6 Incentive payment for higher PLF

(i) As per Government of India notification dated 30 March 1992, incentive was payable at 0.7 per cent of return on equity for each percentage point increase in PLF. This rate was the maximum payable, and could be negotiated by the Board to a lower level. The incentive payable for TBPC, as per the PPA was fixed at 30 paise per unit for achieving PLF above 85 per cent. When compared to the norm fixed by the Government of India, the incentive payable at 30 paise was higher by 18 paise per unit. The extra burden on the Board for every 1 per cent increase in PLF over 85 per cent PLF would work out to Rs.23.52 lakh.

Non-adoption of Government of India guidelines towards incentive payment resulted in extra burden of Rs.5.09 crore per annum.

(ii) As per Government of India (GOI) notification (March 1992), incentives payable for plant availability at 85-90 per cent, in respect of Thermal Power Generating Stations awarded through competitive bidding, shall not exceed 1 paise per unit of energy per percentage point of increase in PLF. The PLF fixed for SRAAC and TPC was 75 per cent. In case of SRAAC and TPC, the incentive payable was fixed at 40 paise per unit. Compared to the GOI norms, incentive payable to SRAAC and TPC for achieving a PLF of 85 per cent would amount to Rs.5.09 crore per annum.

2A.5.6 Opening of Escrow account

The PPAs with TBPC provided for opening of Escrow account in which the Board has to maintain amount equivalent to one month's projected tariff payment which was not envisaged in the guidelines of Government of India. As the interest of TBPC is sufficiently safeguarded by opening of LC, (yet to be opened) providing additional security by way of opening Escrow account lacked justification and would be financially disadvantageous to the Board as the funds held in Escrow account (October 1999) could not earn any interest. The probable extra burden to the Board towards interest on the funds locked up would be Rs10.46 crore per year.

The Parekh Committee appointed by Government of Karnataka had also recommended (February 2000) that no private power project in the State including TBPC should be accorded Escrow cover.

2A.5.7 Communication facilities

The PPA with SRAAC and TPC envisaged installation of V-Sat communication facilities at the cost of the firms (limited to Rs.35 lakh). The condition was, however, not included in the PPA with TBPC. Hence, the Board would not be in a position to recover Rs.35 lakh towards establishment of V-Sat communication system.

2A.6 Purchase of Power from Jindal Tractabel Power Company Limited (JTPCL)

The Government of Karnataka permitted (March 1994) JTPCL to set up a 2x130 MW corex gas/coal based thermal power plant at Bellary. This plant originally set up as captive power plant for the supply of power to Jindal Vijayanagar Steel Limited (JVSL), was given an IPP status by the Government in February 1996, as the shareholders of power plant and steel plant were different. The techno economic clearance was given by CEA in March 1996. As JTPCL proposed to utilise the power generated for sale to JVSL, a wheeling and banking agreement was entered into (January 1996) which interalia, included a clause to sell excess energy to the Board at a negotiated price.

JTPCL commissioned its first unit in January 2000 and started supplying power from April 2000. The second unit was commissioned in August 2000. In November 2000, a PPA was initialed for a period of 5 years wherein a first year tariff of Rs.2.60 per unit (fixed charges Rs.1.70 and variable charges

Rs.0.90) upto 657 MU and Rs.2.20 per unit for the balance energy was fixed with an escalation of 5 per cent every year. However, there was no basis for fixation of tariff at Rs.2.60 and Rs.2.20 per unit. The Board did not enquire the basis for arriving at fixed cost of Rs.1.70 per unit and variable cost at Rs.0.90 per unit. The PPA was referred (April 2000) to Government of Karnataka and Karnataka Electricity Regulatory Commission for their approval, which is still awaited. In this connection the following points were noticed in Audit.

(i) Fixation of single tariff instead of two part tariff

JTPCL offered (October 1998) to sell 100 MW on a firm basis at Rs.2.90 per unit. However, during internal meeting of the Board, it was decided that as this project was meant as a captive power plant the Board need not go in to the details of the project cost to negotiate tariff based on the two part tariff notification of Government of India. As the Board would be paying only a fixed price per unit, it was felt that going into details such as the actual heat rate, O&M charges, working capital, foreign exchange protection to be provided etc., should not be done and only the cost per unit presently being offered from other sources should be compared. Further, to compensate for the variation in Rupee against the dollar, the increase in consumer price index, interest rate on working capital etc., it was decided that some annual increase in the fixed price should be allowed to take care of above mentioned items as has been done in MOU route projects. It is surprising to note that even though JTPCL was given the IPP status, the tariff was proposed to be fixed on a firm price basis instead of a two part tariff basis. In the case of the other IPPs, viz., TBPC (220 MW), TPC (81.3 MW) and SRAAC (37.8 MW) the Board had gone in for a two part tariff pattern. Keeping this in view as well as IPP status given in February 1996, it is not clear as to how the Board agreed to a single part tariff even though the off take from JTPCL was as high as 100 MW and was more than the proposed off take from TPC and SRAAC.

Acceptance of single part tariff instead of two part tariff resulted in passing of undue benefit of Rs.56.03 crore to JTPCL.

As per the Government of India notification (March 1992) a two part tariff has to be fixed for purchase of power from IPP and the fixed cost has to be recovered at 68.5 per cent PLF and the variable cost at actuals. The Board considering JTPCL as a captive unit recommended (November 2000) a single tariff of Rs.2.60 per unit (fixed charges Rs.1.70 and variable charges Rs.0.90) upto 657 MU (75 per cent of the power offered of 100 MW) and at Rs.2.20 per unit beyond 657 MU with an escalation of 5 per cent every year. Had the Board accepted a two part tariff, the cost per unit of energy would have been Rs.2.60 upto 68.5 per cent PLF (600.02 MU) and only variable cost of Rs.0.90 per unit beyond 600.02 MU was payable. This has resulted in passing of undue benefit of Rs.56.03 crore to JTPCL on the purchase of 1031 MU from April 2000 to March 2001.

(ii) Incorrect fixation of escalation charges

JTPCL offered (March 1999) to sell power at a cost of Rs.2.60 (Rs.1.70 towards fixed cost and Rs.0.90 as variable cost) with an annual escalation of 5 per cent. At that stage the Board stated that it had two options i.e., either to retain the original proposal of fixed charges being escalated by 5 per cent with

variable charges being a pass through (Proposal-I) or escalation of 5 per cent on the entire rate of Rs.2.60 per unit (fixed charges and variable charges) from second year onwards (Proposal-II). The two proposals are detailed below.

Year	Proposal-I			Proposal-II	Difference	Units	Amount
	Fixed	Variable	Total	Total		MU	Rs. in crore
1	1.70	0.90	2.60	2.60	-	657	-
2	1.79	0.90	2.69	2.73	0.04	657	2.63
3	1.87	0.90	2.77	2.87	0.10	657	6.57
4	1.97	0.90	2.87	3.01	0.14	657	9.20
5	2.07	0.90	2.97	3.16	0.19	657	12.48
						Total	**30.88**

Arbitrary escalation of variable charges resulting in additional burden of Rs.30.88 crore.

The Board suggested (April 1999) Proposal-II for approval of the Government, as it seemed a better option considering the fact that the Rupee had been depreciating heavily against the US Dollar. It is, however, clear from the table above that Proposal-I was more advantageous to the Board. Further, the Board had not worked out the advantages that would be derived from Proposal-II. Since variable cost is always a pass through, arbitrary escalation of variable cost at 5 per cent every year lacks justification. The Government accepted (May 1999) the Proposal-II for Rs.2.60 per unit with 5 per cent escalation on both fixed and variable charges from second year onwards. This rate was also included in the PPA initialed in November 2000. This would result in an additional burden of Rs.30.88 crore for payments to be made during the second to fifth year of the PPA.

(iii) Non adoption of two-part tariff suggested by consultant

Non-adoption of two-part tariff suggested by consultant resulted in loss of Rs.90.20 crore for the year and additional burden of Rs.264.87 crore for the balance period.

The matter regarding tariff fixation was referred by the Board to a consultant only in March 2000 even though by then the tariff had been fixed by the Government (May 1999). The consultant, Credit Rating and Information Service India Limited (CRISIL) opined (March 2000) that Rs.2.09 per unit is the price payable for the purpose of purchase of power from JTPCL for the first year and the price during the 5 years from 2000-01 to 2004-05 would vary between Rs.2.09 to Rs.2.11 (inclusive of fixed cost and variable cost). The recommendation of CRISIL was based on two-part tariff calculation as per the Government of India notification. Had the Board considered the consultant's opinion and negotiated for Rs.2.09 per unit for the first year (2000-01), it could have avoided payment of Rs.90.20 crore to JPTCL during that year and Rs.264.87 crore for the balance period of PPA.

(iv) Arbitrary fixation of tariff by Government

CRISIL opined that as an alternative ceiling on the purchase price could be based on the concept of "avoided cost of power". Accordingly, the tariff payable to JTPCL should be lower than the tariff being paid (off peak rate of Rs.2.45 per unit) to Maharashtra State Electricity Board (MSEB). The Board stated (April 2000) that, as the non-peak hour purchase of power from MSEB was Rs.2.45 per unit, the maximum price payable should not exceed that rate. The Board suggested (April 2000) that a maximum rate of Rs.2.45 per unit

can be given and requested the Government to revise its Order dated 12 May 1999 by which a price at Rs.2.60 per unit had already been fixed.

Arbitrary fixation of tariff by Government of Karnataka resulting in loss of Rs.13.74 crore during 2000-2001 and additional burden of Rs.44.71 crore for the balance period.

Surprisingly it was noticed in Audit that the Government of Karnataka revised (May 2000) the tariff from Rs.2.60 per unit to Rs.2.52 per unit on the ground that an anomaly had arisen on account of the fact that JTPCL was viewed as a captive power plant instead of an IPP. The reasons for reducing the rates from Rs.2.60 to Rs.2.52 inspite of the Board requesting the Government to reduce the rates to Rs.2.45 per unit were not available on record. Within three months, the Government of Karnataka reverted (July 2000) the tariff back to Rs.2.60 per unit on the grounds of honouring the earlier commitment of the Government. Had the Government fixed the tariff at Rs.2.45 per unit instead of Rs.2.52 (for the period from May to July 2000) and Rs.2.60 (for the remaining period during the year) per unit, it would have avoided payment of Rs.13.74 crore during the year 2000-01 and Rs.44.71 crore for the balance period of PPA.

2A.6.1 Non collection of wheeling charges

As per the wheeling and banking agreement with JTPCL, Board is entitled for wheeling charges of 10 per cent of the energy wheeled to exclusive customers including JVSL. During the synchronisation period from March 1999 to July 1999, JTPCL generated 24.044 MU and banked it with the Board. During the period from May 1999 to July 1999, 22.044 MU were drawn by JTPCL and supplied to JVSL. However, the Board failed to recover the wheeling charges of 2.204 MU amounting to Rs.78.24 lakh.

2A.6.2 Drawal of banked energy in contravention of the Agreement clause

Drawal of banked energy in contravention of the agreement resulted in loss of Rs.7.50 crore.

During the stabilisation period JTPCL generated 24.044 MU and banked with the Board. As per the wheeling and banking agreement with the Board, JTPCL was entitled to draw down its banked energy only after the commencement of commercial operation of its first unit. As per clause 3.1 2 of the Agreement, JTPCL is not permitted to wheel energy to any consumer of the Board. JVSL was consumer of the Board till January 2000 when commercial operation of JTPCL was started. However, during the period from May 1999 to July 1999 i.e., before commencement of commercial production, 22.044 MU were drawn by JTPCL and supplied to JVSL. Had the drawal of 22.044 MU of energy not been permitted as per the agreement, the Board would have billed the energy to JVSL at the temporary tariff rate of Rs.6 per unit. By allowing JTPCL to draw the energy contrary to the terms of agreement resulted in loss of Rs.7.50 crore to the Board.

2A.6.3 Supply of power on barter basis to JVSL

JTPCL established (February 1999) 2x130 MW Power plant to supply power to exclusive consumers including Jindal Vijayanagar Steel Limited (JVSL). During the period of commissioning of the integrated steel plant of JVSL, some problems developed in the generating station of JTPCL, resulting in a temporary shortfall in supply of energy required for JVSL. To tide over this

problem, JVSL requested (June 1999) Government of Karnataka to supply 45 MU per month during the months from July to October 1999 for commissioning JVSL and to return the energy drawn to Board along with a suitable premium. During this period JVSL was availing power from the Board at HT-5 (temporary) tariff.

Government of Karnataka, after considering the request of JVSL, directed (July 1999) the Board to supply energy to JVSL subject to the following conditions:

(i) Board shall supply 45 MU of energy per month on loan (subject to system constraints) to JVSL for a period of four months from 1st July 1999.

(ii) JVSL to return the power drawn from the Board by pumping back the power at 1.35 times of such energy drawn starting from the date of the expiry of four months.

(iii) JVSL to repay the energy so supplied from the Board at a rate in excess of 67 MU per month.

(iv) In case JVSL fails to repay the power as above, the normal Board regulations would apply and the energy as given above shall be recovered from the future tariff from JVSL.

During July 1999 to October 1999, 159.692 MU were supplied on loan basis from the Board. As per the agreement, JVSL was to return 215.5847 MU (135 per cent of units drawn) starting from November 1999 to February 2000. However, JVSL returned only 119.162 MU during the above period leaving a balance of 96.422 MU. JVSL supplied the balance energy in March and April 2000. In this connection, following observations are made:

Supply of energy on loan basis resulted in undue benefit of Rs.39.76 crore to JVSL.

(a) Supply of energy on loan basis was not permissible as per Electricity Supply Regulations. However, as per the directions of the Government, the Board supplied 159.692 MU to JVSL on loan basis. Had the Board not given the energy on loan basis, the same could have been billed at (HT-5) tariff (temporary tariff) at Rs.6 per unit. Instead the Board permitted JVSL to adjust the energy in subsequent months at Rs.2.60 per unit (rate at which power is being purchased by the Board from JTPCL). This resulted in undue benefit of Rs.39.76 crore to JVSL and consequential loss to the Board.

(b) Since JVSL failed to return the entire energy by February 2000 the Board should have billed the energy short supplied at HT 2(a)[∅] tariff. However, the Board did not recover the amount from JVSL and instead permitted JVSL to adjust the energy in subsequent months. This resulted in undue benefit of Rs.5.31 crore to JVSL and consequential loss to the Board.

(c) As per the tariff schedule, the Board is required to collect demand charges in addition to energy charges for supply of power. In this barter transaction with JVSL, the Board did not collect demand charges of Rs.4.92 crore.

(d) On the request of JVSL, Government of Karnataka permitted (November 1999) Power Trading Corporation (PTC) to supply power from

[∅] Industrial non commercial tariff

Maharashtra State Electricity Board (MSEB) to Karnataka Electricity Board on behalf of JVSL. In January 2000, JVSL returned 28.268 MU to the Board by purchasing power from MSEB through PTC. As per the agreement between the Board and JVSL, the units not returned by the JVSL were to be billed by the Board as per HT 2(a) tariff (non-commercial). By permitting JVSL to procure power from MSEB and not billing the short returned units as per HT 2(a) tariff, the Board suffered a loss of Rs.2.69 crore. Further, by permitting JVSL to purchase power from other State Electricity Boards, the very purpose of supplying power on barter basis to JVSL was defeated.

2A.7 Co-generation of power

To achieve the dual object of achieving higher efficiency in fuel use in the industry as well as availability of surplus electricity to State grid, the Government of Karnataka formulated the policy of encouraging co-generation[©]facility based on the guidelines issued by Government of India during November 1996.

2A.7.1 Non inclusion of rebate clause in the PPA

The Board entered into agreements with Ugar Sugar Works Limited and Shamannur Sugars Limited during April 1996 and January 1998 respectively for purchase of power. The agreement, stipulated that the Board would make arrangements to pay the cost of power within 30 days of receiving the bills. In this connection it was observed that as per Government of India guidelines (March 1992), a rebate of 2.5 per cent shall be allowed for payments made through Letter of Credit (LC), where payments are made otherwise but within a period of one month of presentation of bills by the generating Company, a rebate of 1 per cent shall be allowed.

However, the Board failed to include the rebate clause in the Agreement as recommended by Government of India. Even though the payments of the energy bills were made within 1 month, the Board could not avail of the rebate of 1 per cent due to non-inclusion of the rebate clause in the agreement. The rebate foregone by the Board in respect of the above two generating companies was Rs.75.55 lakh.

2A.7.2 Non-opening of letter of credit

As per the Agreement with Sree Renuka Sugars Limited, payment of energy bills was to be made within 30 days from the date of receipt of the invoice. Further, if payment is made through an irrevocable, unconditional and revolving letter of credit on due dates, a rebate at 2.5 per cent was allowed on the amount of invoice.

However, the Board did not open the letter of credit and on the other hand all payments were made between 7th and 22nd days by cheques. The Board

[©] Co generation is defined as one, which simultaneously produce two or more forms of energy such as electrical power and steam.

purchased 32.59 MU of power from Sree Renuka Sugars Limited for the period from March 2000 to March 2001. Thus, failure of Board to open letter of credit resulted in loss of rebate of Rs.24.46 lakh on purchase of 32.59 MU upto March 2001. The Board also failed to seek suitable amendment to facilitate payment by cheque before due date to avail of this rebate.

2A.8 Captive generation of power

Keeping in view the long gestation period for large power projects and to meet the energy shortage, private industries were permitted (October 1995) to establish captive power plants to meet their own power demand and sell the surplus power, if any, to the grid. During the period under review 25 industries established their own power plants having a capacity addition of 313.20 MW.

2A.8.1 Grid Support charges

In order to compensate the Board to take care of fluctuating load of the consumer, fluctuation in frequency of the captive unit and inductive loads, the Maharastra State Electricity Board is collecting grid support charges of around 10 per cent of the demand charges payable by the consumers having captive power plants synchronised with the Grid. Though there was no provision in the tariff to levy any charges to compensate the grid disturbances, the Board had permitted consumers to synchronise their captive plants with its grid.

Non-inclusion of grid support charges in tariff resulted in loss of revenue of Rs.15.66 crore per annum in respect of 25 captive power plants.

Board proposed to levy grid support charges at 20 per cent of demand charges applicable for HT industrial consumers on the synchronised capacity of captive generating sets, which was objected to by captive power producers. Thus failure of the Board to include grid support charges in the revised tariff in October 1998 resulted in loss of revenue of Rs.15.66 crore (calculated at 10 per cent of the deemed charges being counted as grid support charges) per annum in respect of 25 captive power plants.

2A.8.2 Defective clause in Agreements

As per the Agreement entered into with Sri Prabhulingeshwar Sugar Mills Limited, the Board agreed to make the payment through letter of credit within 30 days for which a rebate of 2.5 per cent was allowed on the value of the tariff invoice. However, it was observed in Audit that in respect of Agreements with seven other captive generation units, even though it was agreed to make payment through letter of credit within 15 days, rebate clause was not included. Thus, non-inclusion of rebate clause in the Agreement resulted in non-availment of rebate of Rs.17.36 crore upto March 2001.

2A.9 Wheeling and banking of power

In order to supplement the power in the State, the Government of Karnataka enunciated its policy of banking of power generated by IPP's with the Board and wheeling of the same to other consumers by paying wheeling and banking charges to the Board.

2A.9.1 Non recovery of transmission loss

Non-inclusion of clause for transmission loss resulted in extending undue benefit of Rs.14.11 crore to 18 private power producers.

Central Electricity Authority (CEA) recommended a norm of 4 per cent towards transmission loss. The Board is wheeling National Thermal Power Corporation Limited (NTPC) energy (100 MW) to Government of Goa and is recovering 4 per cent towards transmission loss for wheeling the above energy. On a review of wheeling and banking agreements entered into with 18 private power producers, it was observed in Audit that the Board failed to include a clause in the agreement to recover the transmission loss resulted in extending undue benefit amounting of Rs.14.11 crore upto March 2001.

2A.9.2 Recovery of wheeling charges in the form of energy

Recovery of wheeling charge in the form of energy resulted in loss of revenue of Rs.9.22 crore.

The Board is transmitting NTPC energy to Government of Goa after collecting wheeling charges in the form of cash. However, in case of energy wheeled on behalf of private firms, the wheeling charges were collected in the form of energy out of the energy transmitted. Since, the energy is wheeled only to HT consumers, the Board should have collected the wheeling charges in the form of cash as is being done in case of wheeling of NTPC energy to Goa instead of energy adjustment. Since the transmission and distribution loss of the Board ranged from 18 per cent to 38 per cent, the Board could not recover the entire wheeling charges resulting in loss of Rs 9.22 crore (March 2001).

2A.10 Formation of Joint Venture Company

The Government of Karnataka approved (January 1997) establishment of 2520 MW Power Project in Mangalore. The Board identified Mysore and Bangalore as major load centers in the State and hence the power generated from these projects was required to be evacuated to these areas. Accordingly, the Board after conducting necessary load flow studies prepared a detailed project report for evacuation of power through 400 kV line at a cost of Rs.750 crore. Since the funds requirement was huge, the Board requested Infrastructure and Leasing & Financial Service Limited (ILFS) to suggest methods of financing this project. After examining various options proposed by ILFS, the Government of Karnataka decided (January 1997) to form a Joint Venture (JV) Company for fund mobilisation, construction, operation and maintenance for the above transmission system. Accordingly, the Board selected National Grid Corporation (NGC) of UK as its JV partner, which was approved by the Government in January 1998.

The JV Company is yet to be formed (March 2001). The Board so far incurred preliminary expenses of Rs.5.26 crore and NGC has incurred Rs.16.08 crore (December 2000) for the formation of the above Company. On the production side, against 2520 MW only a 220 MW Barge Mounted Power Station at Tanir Bavi near Mangalore has come up (March 2001) for which a separate evacuation system at a cost of Rs.8.46 crore was executed by the Board itself.

Due to delay in clearance and implementation of power project in Mangalore, the works covered under Mangalore evacuation project could not be finalised. Thus hastily venturing into a Joint Venture Company before crystallisation of

the Power Projects in Mangalore had resulted in wasteful expenditure of Rs.5.26 crore to the Board.

The proposal for establishment of 400 kV DC line between Nelamangla and Mysore with a 400 kV receiving station at Mysore was included in the Memorandum of Understanding entered (February 2000) into between Government of India and Government of Karnataka. As per the MOU Power Grid Corporation of India Limited (PGCIL) and Karnataka Power Transmission Corporation Limited (KPTCL) will jointly undertake the funding and construction of the above line. Thus the Board could have approached Government of India for the execution of the above line instead of venturing to form a Joint Venture Company.

Conclusion

During the last 10 years, 57 Private Power Producers established power plants having a capacity of 1142 MW. The Board has extended undue benefits to the private power producers by agreeing to higher tariff rates due to shorter agreement period, excess time provided for switching over to combined cycle etc,. Some of the clauses in the Agreements dealing with first year variable cost, incentives, deemed generation and terms of payment were detrimental to the interest of the Board. This has increased the cost of power purchased from private power producers. The Board had also favoured a Private Power Producer by arbitrarily agreeing to a fixed tariff instead of two-part tariff resulting in huge financial burden. Though, the Government was able to attract investment from the private sector, the Board was burdened with high cost of energy which would ultimately burden the consumers.

2B. Karnataka State Small Industries Development Corporation Limited

HIGHLIGHTS

The company has acquired 2619 acres of land of which only 1613 acres (61.60 per cent) were utilised for the development of plots/construction of industrial sheds.

(Paragraph 2B.7)

Out of 3285 plots developed by the company, 961 plots remained vacant as on 31 March 2001, which includes 639 plots vacant for more than 10 years.

(Paragraph 2B.8)

The Company constructed 3981 sheds in 76 industrial estates, of which 314 sheds (cost Rs.13.41 crore) were lying vacant. Out of 314 sheds 87 sheds were vacant for more than 5 years resulting in locking of funds to the extent of Rs.3.31 crore.

(Paragraph 2B.9.2)

Delay in providing electricity from the date of completion of civil works led to locking up of Rs.13.53 crore from 4 to 64 months and consequential loss of interest Rs.5.01 crore.

(Paragraph 2B.9.3)

Un-authorised extension of credit facilities beyond the bank guarantee limits resulted in accumulation of arrears of Rs.1.29 crore, the recovery of which is doubtful.

(Paragraph 2B.11.1.(b))

Non-working of interest on outstanding dues towards sale of IPCL materials, failure to debit customers accounts for cheques dishonoured, crediting of amounts received from customers to other accounts and irregular extension of cash discounts led to undue favour of Rs.4.51 crore.

(Paragraph 2B.11.2 (b))

2B.1 Introduction

Karnataka State Small Industries Development Corporation Limited was incorporated in April 1960 with a view to assist, finance, protect and promote the interests of small-scale entrepreneurs for the overall development of small-scale industries in the State.

2B.2 Objectives

The main objectives of the Company as per Memorandum of Association inter-alia include the following:

- to acquire, construct, develop, establish and maintain industrial estates/industrial sheds / industrial plots;
- to provide capital, credit, means and resources to small scale entrepreneurs and
- to provide technical and managerial assistance for development of small-scale industries.

At present the activities of the company are mainly confined to forming and construction of industrial estates, plots and sheds and allotment to Small Scale Industries (SSI) on hire purchase or lease rent basis. Besides the Company also assists the SSIs by supplying raw materials like iron & steel, coal, coke, paraffin wax, PVC granules etc., procured from manufacturers. The Company has not drawn up any long-range plans for achievement of objectives.

2B.3 Scope of Audit

The performance of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1991. The Report was discussed by Committee on Public Undertakings and their recommendations were included in their 66th Report presented to the State Legislature on 29 February 1996 and covered appropriately in the review. In the present review, the activities of the Company for 5 years from 1996-97 to 2000-01 were reviewed from October 2000 to May 2001 and findings of Audit are discussed in the subsequent paragraphs.

2B.4 Organisational set up

The Company is managed by the Board of Directors comprising of 10 directors including Chairperson and Managing Director as on 31 March 2001. While 7 directors are appointed by Government of Karnataka, the remaining 3 are nominated by Karnataka State Financial Corporation, National Small Industries Corporation and Karnataka Small Scale Industries Association. The Chairperson and Managing Director is assisted by two General Managers stationed at Head office and three Chief Mangers at three zones (Bangalore, Mysore, Hubli), carrying out their functions through 11 divisional offices each is headed by Deputy Chief Manager. The present review is based on test

check of records of head office, 2 zonal offices and 4 divisions of the Company.

2B.5 Funding

2B.5.1 Share Capital

The authorised share capital of Rs.30 crore is divided into 30 lakh equity shares of Rs.100 each. The paid up capital of Rs.23.66 crore (including share deposit of Rs.50 lakh) as on 31 March 2000 was fully held by the State Government.

2B.5.2 Borrowings

The aggregate borrowing of the Company was Rs.16.01 crore as on 31 March 2000. This consisted of Rs.15.02 crore from Government of Karnataka and Rs.98.52 lakh from banks and financial institutions including Rs.37.50 lakh ad-hoc bonds issued under Government guarantee. The amount overdue against loans borrowed from Government as on 31 March 2000 was Rs.3.42 crore (principal-Rs.0.82 crore and interest-Rs.2.60 crore).

2B.6 Financial Position and Working Results

2B.6.1 The financial position and working results of the Company for the last five years upto 31 March 2000 are given in Annexure 10 and 11 respectively. From Annexure 11 it would be observed that net profit of the Company had come down from Rs.1.72 crore in 1995-96 to Rs.96.48 lakh in 1996-97 which was mainly due to decrease in sale of raw materials and work sheds. The increase in net profit from Rs.96.48 lakh in 1996-97 to Rs.2.12 crore in 1997-98 was mainly due to reduction in interest on borrowings from Rs.2.55 crore to Rs.1.42 crore despite slight decrease in sales and commission. The steep increase in net profit from Rs.1.71 crore in 1998-99 to Rs.3.85 crore in 1999-2000 was due to receipt of subsidy of Rs.1.22 crore from Government of Karnataka under Vishwa Scheme.•

2B.6.2 Appraisal of activities

As mentioned above the Company is engaged in formation of plots, construction of sheds, and allotting them to small-scale entrepreneurs and supply of essential raw materials to SSIs. Test check of theses activities revealed the following:

• Under Vishwa scheme funds were provided by the Government for construction of sheds.

2B.7 Acquisition and utilisation of land for establishing Industrial Estates

The Company identifies the land after considering its suitability based on nearness to town, type of land and soil, availability of transport, power etc. After identifying the land, the rate is fixed by the District level price fixation committee. The Company has to approach Karnataka Industrial Area Development Board (KIADB) and deposit 40 per cent of the land cost including 11 per cent service charges and balance after issue of final notification for acquisition of land. The land so acquired by KIADB is handed over to the Company. Government land found suitable is also transferred to the Company by revenue authorities.

The Company was in possession of 2619 acres and 2 guntas of land spread over 155 industrial estates as of March 2001. Pending decision of the State Government since 1974 for exemption from payment of stamp duty and registration charges, the Company had not obtained the sale deed in respect of these industrial estates.

Out of 2619 acres of land, the Company has utilised 61.60 per cent for development of plots/construction of industrial shed.

The Company had not maintained any records showing the area of the land in each place and its value. Out of 2619 acres and 2 guntas of land, the Company has utilised 1613 acres (61.6 per cent) for development of plots/construction of industrial sheds. In the absence of details, the reasons for non-utilisation of remaining land could not be analysed. Land acquired in 9 locations (147.47 acres) at a cost of Rs.1.73 crore were not utilised at all due to lack of demand from prospective entrepreneurs. This has resulted in locking of funds to the extent of Rs.1.73 crore for the period ranging from 12 to 143 months. The Company had not drawn up any action plan to utilise the land acquired. The contributory factors were:

i) 29.15 acres of land was purchased through KIADB at a cost of Rs.32.41 lakh at Channapatna, Gajendragad and Laxmeshwar without conducting any demand survey.

ii) 43.32 acres of land was purchased at a cost of Rs.15.60 lakh at Sindhanur and Hunagund at the instance of local legislators without conducting any demand survey.

iii) Acquisition of 74 acres of land at a cost of Rs.1.25 crore even though initial survey suggested that there was no industrial potential at Savanur, Kustagi, Hoovinahadagali and Hubli (Gokul-Tarihal).

On a review of land utilisation records, it was observed that in respect of 802 acres in 60 out of 155 industrial estates (IEs), the utilisation was less than 33 per cent as may be seen below.

Period under possession	No. of Industria Estates	Extent of land (in Acres)		Percentage of utilisation
		Acquired	Utilised	
Upto 5 years	5	122.09	39.75	32.56
Above 5 years and upto 10 years	13	146.04	32.07	21.96
Above 10 years and upto 20 years	31	415.25	115.07	27.71
Above 20 years	11	118.16	31.53	26.68
TOTAL	**60**	**802.14**	**220.22**	**27.45**

2B.7.1 Payment of land cost without ensuring the titles of the land

Payment of cost without ensuring the titles of the land resulted in locking up of 0.44 crore and consequent loss of interest of Rs.0.33 crore.

The Company requested (November 1994) KIADB to allot 25 acres of land at Dabbespet. At the request of KIADB, Rs.43.75 lakh was deposited (August 1996) towards land cost calculated at the rate of Rs.1.75 lakh per acre. However, it was noticed (January 1997) that the land (Plot No.83) allotted to the Company was Government land and KIADB was not in possession of the same. The Company's efforts to get an alternate site from KIADB were not fruitful; instead KIADB adjusted (December 2000) this amount towards acquisition of land at Bommasandra. Failure of the Company to ensure the title of land before making payment resulted in locking up of funds to the extent of Rs.43.75 lakh from October 1996 to December 2000 and consequent loss of interest of Rs.32.54 lakh. The Company's request for payment of interest was rejected (June 2001) by KIADB.

2B.8 Formation of industrial plots

The Company developed 3,285 plots (upto March 2001) in various estates where the entrepreneurs were allowed to construct sheds and start industry within one year. Of these, 2,324 plots were handed over, and 961 plots remained with the Company. Age wise analysis of the plots remaining vacant is given below.

Vacancy period	No of Plots	Cost (Rs. in crore)
More than 2 years but less than 5 years	105	0.95
More than 5 years but less than 10 years	217	1.03
More than 10 years	639	2.91
Total	**961**	**4.89**

Majority of 961 plots are vacant for more than 10 years.

From the above table, it would be observed that developed plots worth Rs.4.89 crore remained unallotted as on 31 March 2001 for want of demand. Thus, development of industrial areas without ensuring the demand has resulted in locking up of funds amounting to Rs.489.56 lakh. Further, 639 out of 961 of the vacant plots are vacant for more than 10 years.

Out of 2,324 plots handed over, the entrepreneurs have not started the industries in 951 plots (41 per cent). As per the agreements executed, the allottees were to start the industry within one year, failing which the allotments were to be cancelled and plots taken back. The Company, however, allowed the allottees a further time of 4 years subject to payment of penalty. Even after the expiry of extended period, neither the allottees

established the industry nor the Company took any action against the allottees. The Company stated (July 2001) that any cancellation of allotment would only add to the vacancy figures. Thus the company failed to ensure development of industries in the plots allotted.

2B.8.1 Category wise analysis of vacant plots

The Company had classified the industrial estates into three categories viz., Industrially developed as Category A, district headquarters and other industrially semi developed areas as Category B and industrially backward areas as Category C.

The following statement shows the vacancy position of plots in the three categories of areas at the end of March 2001.

Category	Formed	Allotted	Vacant (Nos.)	Amount (Rs. in crore)
Category A	366	259	107	1.72
Category B	654	383	271	1.58
Category C	1106	523	583	1.59
Total	**2126**	**1165**	**961**	**4.89**

61 per cent of the vacant plots were under category C area.

It may be seen that 61 per cent of the vacant plots were under category C. The Company stated (July 2001) that industrial climate in category C is of low key, even though the Company had been informally pursuing allotment of sheds with the local entrepreneurs. It is evident from the reply that the Company failed to promote industries in the backward areas.

2B.9 Construction of sheds

2B.9.1 One of the main activities of the Company is providing infrastructure facility to SSI units by providing sheds on lease-cum-sale basis or on rent. The Company had constructed 5,673 sheds in 146 industrial estates and allotted 5,357 sheds as of March 2001. Out of allotted sheds, lease period (10 years) was completed in respect of 3,125 sheds, but sale deeds were executed only in respect of 2,292 sheds.

The following statement shows the vacancy position of sheds in 76 industrial estates at the end of March 2001.

Category	No. of estates	No. of sheds			Value of vacant sheds (Rs. in crore)
		Constructed	Allotted	Vacant	
A	16	2546	2469	77	5.63
B	18	808	735	73	3.04
C	42	627	463	164	4.74
Total	**76**	**3981**	**3667**	**314**	**13.41**

The Company stated (July 2001) that overall vacancy was hardly 5 per cent and that this occupancy ratio was an excellent one. However, from the above table it may be seen that out of total investment of Rs.13.41crore in 314 vacant sheds, the investment of Rs.5.63 crore (42 percent) was in 77sheds in category A, considered as high demand area. This indicates that the Company

constructed the sheds without proper demand survey even in high demand areas and it failed to achieve the objectives of developing small-scale industries in the State.

2B.9.2 Age-wise analysis of vacant sheds

The age wise analysis of sheds remaining vacant is given below.

Period of Vacancy	No. of Sheds	Cost (Rs. in crore)
Less than 2 year	123	5.39
More than 2 years but less than 5 years	104	4.71
More than 5 years but less than 10 years	46	1.77
More than 10 years	41	1.54
Total	**314**	**13.41**

The Company could not find entrepreneurs to purchase 87 sheds valued at Rs.3.31 crore for more than 5 years.

It may be seen that the Company could not find entrepreneurs for 87 sheds worth Rs.3.31 crore for more than 5 years, out of which 33 sheds costing Rs.2.25 crore were in category 'A'.

An analysis of 50 vacant sheds in different industrial estates revealed that:

(a) All 6 sheds constructed at a cost of Rs.20.70 lakh at Ramdurga were vacant since completion of construction (June 1998). Though one shed was allotted in June 1999, the possession was not taken by the allottee.
(b) All 8 sheds constructed at a cost of Rs.30.17 lakh at Nagamangala remained vacant since completion of construction (May 2000). Though one shed was allotted in September 2000, the possession was not taken by the allottee.
(c) All 20 sheds constructed at a cost of Rs.96.60 lakh at Mandli, (Shimoga) remained vacant since completion of construction (January 1998).
(d) All 16 sheds constructed at a cost of Rs.43.12 lakh at Mulki remained vacant since completion of construction (September 1998).

The Company stated (July 2001) that it was trying to evolve various strategies for disposal of vacant sheds and the entrepreneurs were shying away to start industries due to difficulties experienced by them. It was further stated that construction was started after conducting demand survey. However, it was seen in audit that there was delay ranging from 5 to 13 years in completing the construction after conducting demand survey and this was the main reason for the low demand.

2B.9.3 Delay in providing electricity to sheds

The COPU in their 66th Report (Para 3.10) recommended that time and cost over run in construction of sheds should be avoided. It was, however, seen in audit that after completion of civil works of sheds, there was undue delay in providing electricity to the 19 industrial estates as detailed in Annexure 12.

Delay in providing electricity to the sheds resulted in locking up of Rs.13.53 crore from 4 to 64 months.

It may be seen from Annexure 12 that the delay in providing electricity ranging from 4 to 64 months from the date of completion of civil works was due to lack of proper pursuance of getting the electricity. In the absence of

power, these sheds could not be allotted. This led to locking up of Rs.13.53 crore from 4 to 64 months with consequential loss of interest amounting to Rs.5.01 crore.

The Company stated (July 2001) that as there was shortage of power during that period there was delay on the part of KEB in servicing the power requirement. However, it was seen in audit that (i) non-follow up action with KEB at appropriate high level. (ii) delay in finalisation of tender and award of works (ranging from 3 to 25 months from the date of approval of estimates by KEB) and (iii) lack of co-ordination between civil engineering and electrical engineering wing of the Company contributed to the delay in providing electricity to the sheds already completed.

2B.9.4 Fixation of cost and monthly installments of sheds

(i) Fixation of Cost

The Board of Directors stipulated (May 1990 and April 1993) the basis for fixation of initial cost (actual cost) for allotment of new sheds as under.

(a) Land cost;
(b) Average cost of construction based on actual expenditure incurred;
(c) Cost of infrastructure at 25 per cent of construction cost;
(d) Supervision charges at 6 per cent on items (b) & (c);
(e) 75 per cent interest incurred during construction on item No (a) to (d) for a period of 6 months only and
(f) Charging additional 10 per cent on the cost of sheds constructed in 'A' category industrial estate and to subsidise the cost of shed in the ratio of 4:6 in B and C category industrial estates respectively.

It was observed that the Company worked out the actual cost on the basis of project cost/tender cost plus premium instead of actual expenditure incurred. The details of actual cost and cost actually charged to allottees are tabulated below:

Annual construction/ special construction programme	No of sheds constructed/plots developed and allotted	Cost as per Board decision	Total cost fixed by the Company	Excess cost recoverable from allottees	Percentage of excess cost to actual cost
		(Rs in lakh)			
1993-94 and 1994-95	320	1079.24	1273.55	194.31	18.00
1995-96	255	1271.40	1430.06	158.66	12.48
1996-97	130	946.57	1092.48	145.91	15.41
Flatted factory shed at Peenya					
I Stage	11	118.91	153.98	35.07	29.49
II Stage	9	97.02	126.00	28.98	29.87
III Stage	10	108.08	140.16	32.08	29.68

Annual construction/ special construction programme	No of sheds constructed/plots developed and allotted	Cost as per Board decision	Total cost fixed by the Company	Excess cost recoverable from allottees	Percentage of excess cost to actual cost
		(Rs in lakh)			
Self finance- Techno Industrial complex, Gulbarga	70	49.40	74.76	25.40	51.42
Dr. Ambedkar Birth Centenary celebration, Jigani**					
Sheds	88	54.51	57.82	3.31	6.07
Plots	53	21.03	46.37	25.34	120.50
Supermini sheds *	32	31.71	39.87	8.16	25.73
Total	**978**			**657.22**	

It may be seen that the percentage of excess cost charged to SSIs over the cost calculated as per the Board decision varied from 6.07 to 120.5 per cent and the total of such amount worked out to Rs.6.57 crore.

Excess cost charged to SSIs over the cost calculated as per the Board guidelines was Rs.6.57 crore.

The Company stated (July 2001) that the constructed sheds should not suffer for want of fixation of cost and therefore tender cost plus 10 per cent for exigencies was taken and the cost of construction fixed to avoid any arbitrariness later. It was however, observed in Audit that tender cost plus 10 per cent was to be adopted only in cases where the actual cost was not known for reasons beyond the control of the Company, but the Company adopted this rate in all the cases where the actual costs were available, which resulted in extra burden to the SSIs.

(ii) Fixation of monthly instalments

The Board decided (April 1985) to allow a moratorium period of one year for payment of principal and interest. Compound interest was to be charged from the second year and first year's interest was to be recovered from 13th month till 24th month. From third year onwards principal and interest was to be recovered in equated monthly installments. The Company included the interest due on the first year's interest also in the beginning itself instead of applying the compound interest formula for calculation of interest at monthly rests on reducing balance method. This resulted in charging of excess interest of Rs.7.33 crore as detailed below:

Particulars of Annual construction/special construction programme	No of sheds	Total interest included in the E.M.I	Total interest on reducing balance method	Excess interest charged	Percentage of excess interest charged
		(Rs. in lakh)			
1993-94 and 1994-95	320	1299.21	1051.36	247.85	23.57
1995-96	255	1357.89	1165.16	192.73	16.54
1996-97	130	1070.99	888.04	182.95	20.60

** Excluding subsidy of 60 per cent.
* Excluding subsidy of 40 per cent.

Particulars of Annual construction/special construction programme	No of sheds	Total interest included in the E.M.I	Total interest on reducing balance method	Excess interest charged	Percentage of excess interest charged
		(Rs. in lakh)			
Flatted factory sheds					
Peenya I Stage	11	117.71	83.92	33.79	40.26
II Stage	9	96.33	68.53	27.80	40.57
III Stage	10	107.14	76.29	30.85	40.44
Dr. Ambedkar Birth Centenary celebration Jigani					
(60 % subsidy)	88	66.59	59.77	6.82	11.44
Supermini sheds					
(40 % subsidy)	32	45.80	35.40	10.40	29.38
Total	**855**	**4161.66**	**3428.47**	**733.19**	**21.38**

The interest recovered/re-coverable in excess from 855 allottees on account of wrong calculation was Rs.7.33 crore.

The interest recovered/recoverable in excess from 855 allottees on account of wrong calculation worked out to Rs.733.19 lakh. Thus, fixation of higher cost and calculation of interest without observing the Board's decision resulted in overcharging the small-scale entrepreneurs, which was not conducive to the growth of small-scale industries and was against the very objective of the Company.

The Company stated (July 2001) that the entire working formula was placed before the Board and the Board specifically indicated that the interest should be recovered after compounding. The reply is not correct, as the interest to be compounded should be based on monthly instalments due and not on total interest due during the year.

2B.9.5 Construction of sheds under Dr.Ambedkar birth centenary celebration

(i) Construction of super mini sheds

The Government of Karnataka approved (November 1991) construction of 60 super mini sheds in 14 industrial estates exclusively for SC/ST entrepreneurs with a grant of 60 per cent as subsidy. Construction of these sheds was taken up between December 1992 and April 1994 and completed between August 1993 and June 1996 at a total cost of Rs.92.31 lakh. The Government released (November 1991 to March 1993) Rs.85 lakh against admissible subsidy of Rs.55.39 lakh. The unspent amount of Rs.29.61 lakh had not been refunded to the Government so far. Further it was observed that the Company had passed on benefit of subsidy of only 40 per cent to SC/ST entrepreneurs against 60 per cent sanctioned and released by the Government. Further, the Company allotted 32 sheds with a delay ranging from 3 to 71 months from the date of completion of works and 28 sheds were lying vacant in 10 industrial estates at the end of December 2000 for want of demand from SC/ST entrepreneurs.

The Company stated (July 2001) that the total cost of construction was Rs.1.16 crore and 60 per cent subsidy works out to Rs.69.69 lakh and the amount refundable to Government was Rs.15.31 lakh only. However it is seen in Audit that as per books of accounts maintained and as per the formula laid down by the Board the actual cost of construction works out to Rs.92.31 lakh and based on this the unspent grant refundable works out to Rs.29.61 lakh and the fact remains that the Company has not refunded the excess subsidy received.

(ii) Construction of sheds and plots at Jigani

Government of Karnataka approved (March 1994) establishment of an Industrial Estate with 100 industrial sheds and 84 industrial plots on 16.96 acres of land at Jigani exclusively for SC/ST entrepreneurs at a project cost of Rs.2.22 crore which was revised (March 1995) to Rs.2.82 crore. As per the scheme, 60 per cent of the cost would be contributed by the Government by way of grant and the balance to be met by the Company.

The Company took up (March 1994) the work of construction of sheds and formation of plots and completed by October 1994 at a cost of Rs.2.18 crore. The Company received Rs.1.57 crore from the State Government against Rs.1.31 crore eligible based on actual cost incurred. The remaining amount of Rs.26.91 lakh has not been refunded to the Government.

Upto the end of February 2001, the Company allotted 88 sheds but none of the allottees had started the business as of April 2001.

Out of 84 plots developed, 53 plots were allotted but factory sheds were constructed only in 4 plots. The total EMI and penal interest due from defaulters was Rs.62.90 lakh and Rs.27.77 lakh respectively. The Company had neither cancelled the allotment for failure to start business nor taken back the plots in accordance with the agreement. Thus, the purpose of encouraging SC/ST entrepreneurs to start Small Scale Industries as envisaged by the Government could not be fulfilled.

2B.9.6 Construction of sheds under self-financing scheme

The Board of Directors approved (June 1994) construction of Techno Industrial Complex at Gulbarga under self-financing scheme at a project cost of Rs.1.81 crore. Under the scheme 20 per cent of the cost was to be collected in advance and the balance in 4 instalments based on the progress of work from the allottees.

The project consisted of 47 shops (5,904 sq.ft) in the basement area, 46 shops (5,639 sq.ft) in the ground floor and 12,605 sq.ft office area in the first floor. The civil portion of the work awarded (November 1994) for Rs.1.14 crore was to be completed within 24 months from the date of handing over of site. The site, which was to be handed over in December 1994, could be handed over in May 1995 due to delay in the demolition of an old building on the site. The work though completed in August 1997 at a cost of Rs.1.10 crore, electricity was provided to the building only in July 1999 after a delay of about 2 years

from the date of completion of civil works. Though the Company had interviewed (1993) 140 applicants for allotment of sheds, only 70 entrepreneurs came forward to accept the shops when allotted in 1996. The company could not allot 2798 sq ft (23 shops) and 12,605 sq. ft office area so far resulting in idle investment of Rs.78.55 lakh.

As per the self-financing scheme, the total cost of the project were to be recovered from the allottees. The Company collected Rs.59.61 lakh only from the allottees against Rs.1.25 crore spent. The balance of Rs.65.09 lakh was met out of Company's own funds / borrowed funds resulting in interest burden of Rs.23.38 lakh for the period from June 1999 to March 2001 at the rate of 19.6 per cent per annum. The arrears of penal interest recoverable from allottees for belated payment was Rs.15.15 lakh as of December 2000.

2B.10 Targets and recovery of dues

2B.10.1 An analysis of recovery of dues revealed that the percentage of collection to amounts due had declined from 56.90 per cent in 1997-98 to 44.2 per cent in 2000-2001 resulting in mounting of arrears from year to year. The targets fixed for collection of arrears had not been achieved in any of the years as could be seen from the table below.

Year	Amount due	Target fixed	Amount Collected	Percentage of target fixed to amount due	Percentage of collection	
	(Rs. in lakh)				To target	To amount due
1997-98	2895.86	1940.00	1649.32	66.99	85.02	56.95
1998-99	3206.87	2000.00	1546.78	62.37	77.34	48.23
1999-00	3840.99	1900.00	1710.34	49.48	90.02	44.53
2000-01	4176.93	1900.00	1846.29	45.49	97.17	44.20

The percentage of collection to amounts due had declined from 56.95 per cent in 1997-98 to 44.2 per cent in 2000-01.

The Company had not carried out any analysis to ascertain the reasons for decrease in collection over the years. The increase in percentage of collection to targets fixed from 85.02 in 1997-98 to 97.16 in 2000-01 was due to drastic reduction in fixation of targets for recovery from 66.99 per cent in 1997-98 to 45.49 per cent in 2000-01.

A test check of 60 individual cases of arrears above Rs.1 lakh in 4 divisions revealed failure on the part of the Company to take effective steps for recovery as seen from the following:

(a) Though orders for seizure of sheds were issued between September 1996 and May 2000 in 19 cases involving Rs.51.03 lakh, these were not implemented. The penal interest due in these cases was Rs.9.92 lakh.

(b) Action was not taken after issue of notice for seizure during the period from March 1994 to December 2000 in respect of 20 cases where Rs.52.29 lakh was outstanding towards instalments and Rs.8.15 lakh penal interest.

(c) No action was initiated against 12 allottees for recovery of Rs.32.71 lakh towards instalments and Rs.6.78 lakh penal interest.

(d) 2 sheds seized were released in December 1998 and March 2000 on the condition of clearing of arrears but allottees failed to pay Rs.6.32 lakh towards instalments and Rs.1.95 lakh penal interest, even then no further action was taken.

(e) 7 sheds were seized between July 1990 and April 2000 but no action was taken for reallotment and for recovery of Rs.25.60 lakh due.

(f) The recovery of dues ranged from 0 per cent to 5.64 per cent of the total amount recoverable, from 1998-99 onwards, in 6 industrial estates of Gulbarga division and no action was taken for recovery of balance dues.

2B.10.2 Recovery of dues as land revenue

When allottees fail to pay the dues to the Company the allotment of the shed is cancelled after serving due notices and the shed is to be seized. In the event of failure of the ex-allottee to pay up the dues even after the seizure, the amount along with cost and interest is recoverable as arrears of land revenue under the Karnataka Public Money Recovery of Dues Act 1979. The amount collected and arrears outstanding in respect of revenue recovery certificates issued to the revenue authorities during the last 4 years is tabulated below:

Year	No of cases	Amount due	Amount collected	Arrears
		(Rs. in lakh)		
1997-98	.N.A	312.92	0.20	312.72
1998-99	N.A.	338.86	1.42	337.44
1999-2000	256	396.15	1.77	394.38
2000-2001	278	555.65	2.17	553.48

From the above it would be seen that the collection was less than one per cent of the dues for which revenue recovery certificates were issued. Thus the Company failed to effectively pursue the matter with revenue authorities.

2B.10.3 Collection of dues from sheds under Vishwa Programme

For the promotion of employment in rural areas, the Government of Karnataka introduced Vishwa Programme under which the rural entrepreneurs are trained in running of industries and provided infrastructure facilities to start industries. The Company constructed 800 sheds and placed them at the disposal of District Industries Centre for allotment to the rural entrepreneurs on rental basis. The scheme was reviewed and incorporated in the Report of the Comptroller and Auditor General of India for the year ended 31st March 1996 (No.3 Civil) about the construction of sheds under Vishwa Programme.

The collection of dues and arrears pending collection at the end of each year for the 4 years ending 2000-2001 is tabulated below.

Year	Amount		Balance
	Due	Collected	
	(Rs.in lakh)		
1997-98	342.55	0.15	342.40
1998-99	369.51	2.47	367.04
1999-2000	439.44	2.88	436.56
2000-2001	529.98	3.22	526.76

It would be seen from the above table that the collection of arrears was meagre and the arrears had mounted up from Rs.3.42 crore in 1997-98 to Rs.5.27 crore as of March 2001. The Government was considering a proposal to sell these sheds to the beneficiaries. The final decision of the Government was awaited (July 2001).

2B.11 Trading activities

The trading activities of the Company inter alia included distribution of certain controlled raw materials like iron and steel to SSIs. These activities were continued even after de-regulation of these controlled items during 1991-92. The findings of Audit with regard to the trading activities are discussed in the subsequent paragraphs.

2B.11.1 Trading in Iron & Steel material

a) Injudicious purchase of Iron & Steel material under special discount scheme

Mention was made in Paragraph 4A.10 of the Report of Comptroller and Auditor General of India for the year ended 31 March 1998 (No.2-Commercial Government of Karnataka) on the injudicious purchase of Iron & Steel materials from Essar Steel Limited and consequent loss of Rs.2.51 crore. It was further seen that the Company procured (between 1995 and 1996) Iron & Steel materials from Essar Steels Limited, Steel Authority of India Limited and Tata Iron & Steel Company Limited under special discount scheme. These materials could not be marketed as the producers themselves offered heavy discounts to the customers due to which the Company's prices became higher. The rebates and credit facilities announced by the Company during 1996 and 1997 did not invoke much interest from buyers hence old stock of 1246 MT was disposed off (May/June1998) for Rs.1.99 crore against a purchase cost of Rs.2.44 crore resulting in a loss of Rs.44.32 lakh.

The Company stated (July 2001) that by comparing the purchase value with sale value during 1998-99, it earned a margin of Rs.1.27 crore. The Company's reply is hypothetical as it considered the selling price with average prevailing price instead of comparing it with actual cost.

(b) Unauthorised extension of Interest Free Credit (IFC) facilities

Unauthorised extension of credit facilities resulted in accumulation of arrears of 1.29 crore from 5 parties.

The old stock of Iron & Steel items lying since 1995-96 was disposed off by the Company by extending IFC upto 30 days and offering rebates on prices. The IFC facilities were extended for a limited period from 26 August 1996 to 12 November 1996 and from 2 January 1998 to 31 March 1998. But this facility was unauthorisedly extended beyond the credit period to 8 customers by the Chief Manager (Commercial). An interest amounting to Rs.33.88 lakh was claimed (July 2000) from these 8 parties, but 5 parties refused to accept the debit notes and stopped business with the Company. The Company accounted the interest claimed from these 5 parties as 'interest income' in the accounts for the year 1999-2000 against its accounting policy and paid Rs.10.67 lakh as income tax.

In order to recover the dues, the Raw Material Committee (RMC) decided (February 2000) to extend IFC facilities to these 8 parties upto 31 March 2000 as a one time measure provided all the dues including interest beyond 30 days of IFC period were cleared before 31 March 2001. 3 parties accepted the one time settlement and cleared the dues along with interest while other 5 parties refused. As these 5 parties failed to comply with the terms of one time settlement offered by the Company, revised claims amounting to Rs.1.22 crore towards principal and Rs.69.87 lakh towards interest were made (April 2001). Bank guarantee to the extent of Rs.61.75 lakh was invoked and a sum of Rs.1.30 crore remained to be recovered from the following 5 parties as detailed below.

Name of the parties	Total dues	Bank guarantee Amount invoked	Balance amount recoverable
	(Rupees in lakhs)		
Jain Brothers	40.83	9.00	31.83
Merlecha Steel (P) Ltd	35.25	-	35.25
Reliance Steel	62.86	15.00	47.86
Ajay Steel	34.54	25.00	9.54
Allwell Engineering	18.21	12.75	5.46
Total	**191.69**	**61.75**	**129.94**

In this connection the following points were also noted.

(i) One party (Merlecha Steel (P) Limited) had furnished a bank guarantee of Rs.10 lakh. The Chairperson & Managing Director directed (19 October 2000) to invoke the Bank guarantee, which was valid upto 23 November 2000. However, the Bank guarantee was invoked on 29 November 2000 and hence the Bank refused to pay the money. Thus, due to delay in invoking the Bank guarantee before the validity period, the Company had to forego an opportunity of claiming outstanding dues of Rs.10 lakh.

(ii) The credit facilities were to be limited to 95 per cent of the amount of Bank guarantee. However, credit facilities were extended beyond the Bank guarantee limit ranging from 175 per cent to 1780 per cent, with the result that Rs.1.30 crore, became doubtful.

The Company stated (July 2001) that it was negotiating with the customers and the option of taking legal action would be explored if the negotiations fail. Further it was stated that disciplinary action was being initiated against the concerned officials.

2B.11.2 Trading in products of Indian Petro Chemical Limited (IPCL)

a) Non-recovery of dues under Plant Dispatch Advice (PDA) scheme

Under PDA scheme the SSI units were allowed to lift materials from IPCL production centers on the guarantee of the Company for prompt payment. It was observed that during the period from June 1999 to January 2000, IPCL debited Rs.68.15 lakh against the Company due to dishonour of cheques issued by 2 customers. However, the Company did not debit the parties account in its books along with interest of Rs.24.28 lakh. The Company stated (May 2001) that a sum of Rs.8.57 lakh only was outstanding for recovery. However, the difference of Rs.59.58 lakh was not explained.

b) Distribution of IPCL materials under credit scheme

In September 1995, the Company introduced a credit scheme to the buyers. Under the Scheme, the Company allowed 30 days credit (subsequently enhanced to 60 days) against post dated cheques in addition to obtaining indemnity bond after ascertaining the credit worthiness of the SSI units from their bankers. The first 15 days of the credit period was interest free and interest at 19 per cent was chargeable for the remaining 45 days. Any delay in payment beyond 60 days attracted penal interest at 2 per cent per month. The maximum credit limit allowed was Rs.6 lakh (subsequently enhanced to Rs.10 lakh). Further as per the Scheme, new material was to be released only if the material supplied earlier had been paid for with interest even if the amount was within the credit limit. In the event cheques being dishonoured, payments were to be obtained by way of pay orders or demand drafts. The Chief Manager (Commercial) was made solely responsible for the operation of the credit scheme.

A test check of 20 accounts of customers who obtained credit facilities revealed the following irregularities:

(i) Under the rules of appropriation of funds, amounts received should first be appropriated towards interest and then to the principal outstanding. It was observed that the interest due was not worked out on the outstanding amount and appropriated first; instead the whole amount was credited to the party's account resulting in excess credit afforded to the parties.

(ii) The customers account were not debited for cheques dishonoured. It was observed that the Company received cheques worth Rs.1.12 crore on 31 March 2000. Of these, cheques valuing Rs.84.62 lakh were dishonoured. The Company reversed the entry in the books to the extent of Rs.6.30 lakh only. The details of the balance amount of Rs.78.32 lakh were not available for verification. Further, 4 cheques dishonoured during 1997-98 to 1999-2000 have not been debited to the customers accounts so far (May 2001).

(iii) Remittance of money by some customers (who had credit facilities) were credited to the accounts of other customers who did not have credit facilities.

(iv) Cash discount was allowable against cash payment only. It was found that the Company allowed cash discounts amounting to Rs.1.30 crore to the parties who had not made payment in cash.

Extension of undue favour in sale of IPCL materials to 20 customers was Rs.4.51 crore.

In view of the above irregularities noticed, the accounts of 20 customers were recast (May 2001) in Audit. It was observed that the total amount recoverable was Rs.6.80 crore against Rs.2.29 crore shown in the accounts. This had resulted in extension of undue favour of Rs.4.51 crore to these customers.

In addition the following irregularities were also noticed**.**

⇒ Credit facilities were extended without sanction of credit limits or extended beyond sanctioned limits without proper authority.
⇒ Materials were issued even though the value of the materials issued earlier remained unpaid.
⇒ The customers unit was not inspected and the materials were seized consequent to dishonour of cheques.
⇒ No action was taken against the customers when the cheques received in lieu of dishonoured cheques had also bounced.
⇒ The complete details of total discount allowed to customers even were not available. During 1997-98 to 1999-00 the Company allowed Rs.3.54 crore as discounts. As against this, details were available only for Rs.1.83 lakh. The material on which discount of Rs.1.83 lakh was allowed to Swetha Industries also did not qualify for any discount. Thus the Company's strategy of deploying its own funds to earn additional income by way of discounts has been totally defeated.

The Raw Materials Committee of the Board laid down that the Chief Manager (Commercial) submit a monthly report on credit transactions to the Managing Director in order to review the implementation of the credit scheme. However, it was observed that the monthly reports did not contain all the credit transactions as well as the sanctioned credit limit and the amount outstanding against each customer.

The Company stated (July 2001) that the accounts of these customers recasted in Audit have not taken all the credits and debits and the procedure followed by IPCL. It was further stated that the accounts were recast by the Company and submitted separately. However, the recasted accounts were not produced for verification in Audit though called for (August 2001). The Company however stated (July 2001) that the process of fixing responsibility was being initiated.

Irregularities regarding operation of the credit scheme for sale of IPCL products were also pointed out by Audit in May 2000 through the regular Inspection Reports. The Raw Material Committee of the Board decided (June 2000) to investigate and fix responsibility for the lapses pointed out.

However, no action has been taken to investigate the matter and fix responsibility so far (May 2001). Further, the Company had at no point of time, analysed the economics of trading in these items particularly in the changed economic scenario.

Conclusion

The Company was formed mainly with the objective of promoting small-scale industries by formation of industrial sheds and plots in the State. The Company had acquired land and formed industrial estates without conducting proper demand survey thereby resulting in vacancy of plots and sheds. The Company had disregarded Board guidelines and fixed higher cost defeating the very purpose of encouraging growth of small-scale industries in the state. Further, the recovery of dues has shown a declining trend and this has led to accumulation of arrears.

The trading activities of controlled raw materials continued even after de-regulation. The economics of trading activities had not been worked out and in view of irregularities noticed, the desirability of continuing the trading activities needs to be examined.