Chapter-III

Performance review relating to Statutory Corporation

3. Implementation of Restructuring of Power Sector in Madhya Pradesh

Highlights

The 'Financial Restructuring Plan' aimed at gradual transformation of Power sector, submitted initially in December 2003 and revised from time to time, had not been approved so far by the State Government.

(Paragraph 3.7)

Failure to implement "no profit no loss" based tariff till the turnaround was achieved by the Discoms, resulted in avoidable payment of income tax amounting to Rs. 19.06 crore by the companies (Transco and Genco).

(Paragraph 3.7.4)

The Board had not resorted to valuation of assets and liabilities amounting to Rs. 13,124.48 crore before transferring the same to the successor entities. Moreover, item-wise details of the fixed assets transferred were also not provided to the successor entities.

(Paragraph 3.8)

Lack of financial autonomy to the successor entities and continuation of cash flow mechanism by residual Board, left a little scope and freedom for the successor entities to improve their performance.

(Paragraphs 3.9 & 3.14)

The stated objectives of restructuring the power sector in the State could not be achieved due to high incidence of Transmission and Distribution losses, slow meterisation of consumers and cross subsidisation. Restructuring did not have perceptible improvement on these aspects.

(Paragraph 3.10)

The staff related liabilities amounting to Rs. 4,494 crore and leave encashment liability amounting to Rs. 263 crore still remained unfunded.

(Paragraph 3.13.2)

Introduction

3.1 Madhya Pradesh Electricity Board (Board) was set up in April 1957 under the provision of the Electricity (Supply) Act, 1948 with the basic objective of promoting coordinated development of generation, transmission and distribution of electricity in an efficient and economic manner in the State of Madhya Pradesh (M P). After the formation of Chhattisgarh State, separate Electricity Board namely Chhattisgarh State Electricity Board came into existence with effect from 14 April 2001.

The financial position of the Board started deteriorating as it was not able to generate sufficient funds internally or raise the required funds from the State Government for investment in generation and upgradation of Transmission and Distribution Systems. The State Government as well, could not provide funds to augment generating capacity of the Board.

Alarmed by the fast deteriorating financial position of the Board, the State Government signed (May 2000) a Memorandum of Understanding (MOU) with the Government of India (GOI) as a measure of joint commitment to undertake power sector reforms in a time bound manner. The State Government was committed to promote and develop an efficient, commercially viable and competitive power supply industry which would provide reliable and quality power at competitive prices to all consumers in the State and help the process of industrialisation. Accordingly, the State Government initiated the process of implementing the restructuring of the power sector in the State for restoration of financial viability of the Board. The commitments made by the State Government, *inter alia*, included reorganisation of M P Electricity Board, 100 *per cent* electrification of villages, undertaking energy audit at all levels, rationalisation of tariff etc. Accordingly, the Board was restructured and unbundled into five companies (Genco, Transco and three Discoms) in July 2002 namely M P Power Generation Company Limited Jabalpur, M P Power Transmission Company Limited Jabalpur, M P Poorva Kshetra Vidyut Vitaran Company Limited Jabalpur, M P Madhya Kshetra Vidyut Vitaran Company Limited Bhopal and M P Paschim Kshetra Vidyut Vitaran Company Limited Indore in accordance with Madhya Pradesh Vidyut Sudhar Adhiniyam 2000 (Reform Act 2000). For bulk power trading function of the Board, M P Power Trading Company was constituted in June 2006.

Scope of Audit

3.2 A review on power sector reforms - implementation of the terms of Memorandum of Understanding was included in the report of the Comptroller & Auditor General of India (Commercial), Government of Madhya Pradesh for the year ended 31 March 2002.

Despite restructuring power sector in the State, perceptible improvement was not noticed towards increasing the generating capacity of the power houses/ creation of new power houses or inviting Independent Power Producers (IPPs). The Board continued incurring losses since 2001-02, due to supply of power to agricultural consumers at subsidised rates, unremunerative tariff and excessive transmission and distribution (T&D) losses etc. Continued losses adversely affected the 'ways and means' position of the Board and also jeopardised its developmental activities.

Accordingly, functioning of the Board and its six companies was reviewed to assess the impact of restructuring of the power sector in the State for the period 2003-04 to 2007-08. The results of the review are brought out in succeeding paragraphs.

Audit Objectives

3.3 The objectives of the performance audit were to examine:

- impact of restructuring on the efficiency and commercial viability of successor entities;
- efficiency in allocation and utilization of funds;
- development and deployment of human resources;
- administrative issues/measures affecting the reform process; and
- progress achieved against the stated objectives.

Audit Criteria

3.4 Implementation of restructuring plan in the power sector companies, with regard to the stated objectives, was assessed against the following criteria:

- M P Vidyut Sudhar Adhiniyam, 2000 with regard to re-organisation of Board and transfer of the assets and personnel;
- Central Electricity Act, 2003;
- Transfer Scheme Rules, 2003;
- Notifications issued by the State Government dated 31 May 2005 and 12 June 2008;
- Directives of Madhya Pradesh Electricity Regulatory Commission (MPERC)/ Central Electricity Regulatory Commission (CERC), and

Government of India (GOI) relating to the reforms in the power sector; and

- Reports of various consultants engaged by the State Government for implementation of restructuring plan.

Audit methodology

3.5 The performance audit was conducted using the following methodology:

- Examination of records pertaining to financial restructuring, cash flow mechanism, transfer scheme, transfer of manpower;
- Scrutiny of the process of valuation and transfer of assets and liabilities;
- Review of minutes of monitoring committee and follow up reports; and
- Interaction with the Management.

Organizational Set-up

3.6 The Corporate Planning Group (CPG) of the Board headed by the Executive Director was formed to initiate the implementation of restructuring plan. The process was monitored by the Principal Secretary, Energy Department, Government of Madhya Pradesh. Besides, Chairman-cum Managing Director (CMD) of each company functions as the Chief Executive and overall in charge of the respective company. In discharging the functions, the CMD is assisted by Executive Directors, Chief Engineers, Additional Chief Engineers, Superintending Engineers and other supporting technical/ non-technical staff. The assistance of national and international consultants (Ernst & Young and KPMG) was also obtained by CPG.

Audit Findings

The Audit findings were reported to the Government/ Board in August 2008. The Audit Review Committee on Public Sector Enterprises (ARCPSE) meeting was held on 10 November 2008 at Bhopal for discussing the draft report. The response of the State Government and the auditee have been considered while finalising the performance report. The audit findings are discussed in the succeeding paragraphs.

Restructuring Plan

Financial Restructuring Plan was not approved by the State Government till date.

3.7 The Board proposed Financial Restructuring Plan (FRP) in December 2003 for financial viability of power sector with the following objectives:

- Financial viability of successor entities;
- Improving the quality and reliability of supply of power to the consumers; and
- Limiting the role of the State Government to the broad policy directives, overall planning and coordination.

The FRP contained restructuring of the Balance Sheet of the Board with an appropriate capital structure and set a basis for restoring credit-worthiness. During the period from May 2004 to April 2007, the Board submitted three revised FRPs but none of the FRPs had been approved by the State Government till date. Pending formal approval of State Government on FRP, the following financial restructuring measures had materialized so far.

The State Government stated (November 2008) that FRP was not a part of reform process. The reply was not acceptable since drawing of a financial road map was a prerequisite for evaluating the progress achieved in the reforms.

3.7.1 State Government took over outstanding power purchase and fuel related liabilities of MPSEB amounting to Rs. 2,749 crore (September 2003) by issue of interest free MSA Bonds. Later on these bonds were converted into equity by State Government (March 2006). State Government withdrew equity capital amounting to Rs. 1,354.42 crore (Rs. 539.64 crore in 2004-05 and Rs. 814.78 crore in 2005-06) against waiver of free electricity claim of sale of power to single point connection and 5 HP connection to agricultural consumers.

3.7.2 State Government adjusted (May 2003) loan amounting to Rs. 1,414 crore in respect of Rural Electrification Corporation Limited (REC) against free electricity supply claims. Thus, by doing so the State Government did not provide any cash support to the successor entities and resorted to book adjustment only.

3.7.3 The Reform Transition Period for achieving turnaround by the successor entities was proposed to be up to 2012 with effect from June 2004 in FRP submitted during December 2003. It was noticed in audit that during this period the cash support requirement along with FRP was not approved by the State Government, which indicated lack of commitment at State Government level.

Return on Equity

Claiming of return on equity led to avoidable payment of Income tax amounting to Rs. 19.06 crore.

3.7.4 During transition period or until all the successor entities achieved a turnaround, Return on Equity (ROE) claimed by GENCO and TRANSCO was not in the financial interest of Discoms who were running into losses. However, it was observed in audit that all the successor entities (GENCO, TRANSCO and three Discoms) were claiming Return on Equity at the rate of 14 *per cent* since transfer of functional autonomy (1 June 2005). As a result, Income Tax amounting to Rs. 19.06 crore (GENCO-Rs. 8.58 crore and TRANSCO-Rs. 10.48 crore) was paid during the year 2005-06 and 2006-07. It was also noticed that in Rajasthan State Electricity Board (RSEB), the State Government while approving FRPs favoured no profit no loss system till specific period of turnaround was achieved by the Discoms.

Had the companies worked on 'no profit and no loss' basis till all the Discoms achieved a turnaround, the payment of income tax of Rs. 19.06 crore could have been avoided.

The management stated (November 2008) that the matter was under examination to avoid such payments.

Transfer of assets and liabilities to successor entities

Delay in final transfer of assets and liabilities of Rs. 13,124.48 crore to the successor entities.

3.8 After the final transfer of assets and liabilities of Rs. 13,124.48 crore to the five successor entities with retrospective effect from 1 June 2005 the residual Board still had liabilities of Rs. 2,369.99 crore, as on 12 June 2008.

As per stipulation of the Electricity Act 2003 the final transfer was to take place within one year of provisional transfer. While notifying (12 June 2008) the final opening Balance Sheet of the successor entities, the State Government had neither approved the FRP nor proposed any business plan as part of overall reform programme of State power sector.

The table given below indicates the debt and equity transferred to successor entities as on 1 June 2005:

(Rupees in crore)

Particulars	GENCO	TRANSCO	East Zone	West Zone	Central Zone
Equity	1,915.08	730.43	284.08	246.55	351.88
Debt Capital liabilities	1,875.04	572.26	358.65	431.83	322.17
State Government Loan	3.04	473.05	168.16	262.37	244.59
Payment due on Capital Liabilities	124.03	267.90	123.77	134.70	130.28
Total Debt	2,002.11	1,313.21	650.58	828.90	697.04
Debt Equity Ratio	1.05:1	1.80:1	2.29:1	3.36:1	1.98:1

Injudicious transfer of loans liability to the Discoms led to out go of huge cash by way of interest liability.

- The debt equity ratio in three Discoms varied from 1.98:1 to 3.36:1. High quantum of debt led to huge outgo of funds by way of interest liability. The Discoms inherited this burden and suffered losses by way of interest liability on loans. Thus, non conversion of loan into equity to the new formed successor entities also resulted in making the financial position of Discoms unviable.

- The Board transferred additional liability of Rs. 586 crore (GPF Trust Rs. 251 crore and REC Rs. 335 crore) and contingent liabilities amounting to Rs. 560.71 crore to the newly formed successor entities, which should have been discharged by the State Government considering the precarious financial position of the successor entities.

- The valuation of assets and liabilities was not done by the Board before the final transfer of asset and liabilities in June 2008. The item wise details of the fixed assets transferred were not provided to successor entities, due to which the correct position of depreciation could not be depicted in accounts of the successor Companies.

The State Government stated (November 2008) that delay in transfer of assets and liabilities to the successor entities was on account of non finalisation of the annual accounts by the Board in respect of 2004-05 and 2005-06 (up to May 2005).

Functional and financial autonomy

Financial autonomy to the successor entities provided by the State Government was not effective.

3.9 The main objective of restructuring power sector was to provide operational, managerial, functional and financial autonomy to successor entities to enable them to operate on commercial lines. In order to achieve this, operation and maintenance (O&M) agreement were entered (July 2002) between the Board and the newly incorporated five companies, stipulating and delineating the role, rights and obligation of successor entities. By virtue of the provisional transfer of assets and liabilities of erstwhile Board, the functional autonomy was given to the successor entities with the condition that all the revenue of successor companies shall be retained by the residual Board and the same will be utilised in the manner as described in the Cash Flow Mechanism notified by State Government (May 2005). Thus, financial autonomy provided by the State Government left a little scope and freedom for the successor entities to improve their performance.

Commercial viability of Power Sector

Commercial viability could not be achieved by the Discoms.

3.10 Rapid and self sustaining growth of power sector with financial viability was essential for socio-economic development of the State. The commercial viability of the power sector rests upon the distribution companies. Commercial viability of the Discoms mainly depended on the funds available at their disposal, for which, it was imperative that at the time of restructuring, loan and interest there upon could have been waived by the State Government and not passed on to the successor entities. However, this was not done as has already been discussed in paragraph 3.8.

The particulars of losses incurred, interest payable and percentage of interest to the loss over a period of three years ending 2007-08 in respect of all the three Discoms are given below:-

(Rupees in crore)

Particulars	East Zone			West Zone			Central Zone		
Years	**2005-06**	**2006-07**	**2007-08**	**2005-06**	**2006-07**	**2007-08**	**2005-06**	**2006-07**	**2007-08**
Loss	238.65	304.42	613.77	200.42	153.80	679.80	304.60	523.72	494.22
Interest	35.65	45.80	90.05	51.07	78.14	101.34	27.99	40.85	47.96
Percentage of interest to loss	14.94	15.05	14.67	25.48	50.81	14.91	9.19	7.80	9.70

It is evident from above that during the last three years ending March 2008, the losses of the Discoms were on the rise despite functional autonomy and the element of interest during the same period ending 2007-08 increased steadily from Rs. 35.65 crore (2005-06) to Rs. 90.05 crore (2007-08) in respect of East Zone, Rs. 51.07 crore (2005-06) to Rs. 101.34 crore (2007-08) in respect of West Zone and Rs. 27.99 crore (2005-06) to Rs. 47.96 crore (2007-08) in respect of Central Zone companies. Thus, the Discoms had been rendered commercially unviable due to heavy interest burden. Had the loans been converted into equity interest burden could have been avoided and loss would have been reduced to that extent, thereby improving the commercial viability of the Discoms.

To achieve turnaround in Power Sector, the State Government did not evolve any broad roadmap for distribution companies. However, the following goals were envisaged in various legislations and policy documents issued by the Central Government/ Commission from time to time:

- Reduction in distribution losses;
- Promoting private participation in distribution of electricity;
- Ensuring efficient revenue realisation; and
- Meterisation of consumers.

Performance against aforesaid objectives is discussed in the succeeding paragraphs:

Reduction in Distribution Losses

Targets for reduction in distribution losses could not be achieved by the Discoms.

3.10.1 The power sector in the State had been reporting Transmission and Distribution losses at around 43-44 *per cent* in the years from 2002-03 to 2005-06. These T&D losses were not sustainable and remained on higher side as compared to the norm of 15.5 *per cent* fixed by the Central Electricity Authority.

The particulars of generation and sale of power, T&D losses etc. for the period 2002-03 to 2005-06 i.e. up to transfer of functional autonomy to the successor entities are given in ***Annexure-11.***

Distribution companies could be viable only after cutting down distribution losses. The Commission had set (March 2006) target for gradual reduction of distribution losses for each Discom and gave following directives for taking measures for reducing distribution losses for the Discoms:

- Installation of High Voltage Distribution System (HVDS) in high loss area;
- Segregation of technical and commercial losses;
- Developing road map for reduction of loss level so as to bring it at par with international level by 2012; and
- Prior approval of the Commission for additional purchase of power (short term).

The above directives except installation of HVDS system had not been complied with by Discoms. The Commission had prescribed road map for reduction in distribution losses for the period up to 2008-09. The particulars of targets of distribution losses fixed by the Commission *vis-à-vis* actuals thereagainst are given below:

(Distribution loss in *per cent*)

Year	East Zone		West Zone		Central Zone	
	Target	Actual	Target	Actual	Target	Actual
2006-07	32.5	36	30	32	37	42
2007-08	29.5	37	27.5	34	32	41
2008-09	26.5	NA	25	NA	27.5	NA

It would be seen from above that Discoms could not achieve the desired level of reduction in distribution losses in any of the years. Strengthening of the sub-transmission and distribution system plays a vital role in reduction of distribution losses, for which the GOI/State Government launched various schemes *viz.* Accelerated Power Development Reform Programme (APDRP) and works were undertaken with financial assistance of Asian Development Bank (ADB). The Audit findings relating to these schemes appeared in the report of Comptroller and Auditor General of India (Commercial) for the year ended March 2006- Government of Madhya Pradesh.

It was observed that over a period of five years a sum of Rs. 665.06 crore was allotted under APDRP scheme of which only Rs. 399.22 crore could be utilised up to March 2008. Similarly, in ADB assisted work, the entire amount of Rs. 495.41 crore was utilised for procurement of material from 2002-03 to

2006-07 and execution of related works was to be taken up by the respective Discoms which was under progress.

It is observed from above that the fund could not be utilised optimally under APDRP as utilisation of fund was 60 *per cent*. Had the allotted funds utilised to the extent possible within the stipulated time frame, the distribution loss would have been reduced to a sizable extent.

The State Government stated (November 2008) that efforts for reducing distribution losses were being made.

Promoting private participation in distribution sector

3.10.2 Policy directives or any business plan with specific time schedule were not prepared to attract private participation in distribution sector. Discoms were unable to attract private sector participation during the last five years of functional autonomy (July 2002 to March 2007).

Ensuring efficient revenue realisation

Billing efficiency remained in the range of 57 to 69 *per cent* of the power available for sale.

3.10.3 One of the objectives of the restructuring of the Board was to ensure that Distribution companies increase their realisation of revenue by increasing their billing and collection efficiency.

The billing efficiency of the Board prior to restructuring was around 56 *per cent.* After reorganisation, slight improvement in the billing efficiency of Discoms was noticed. The details of billing and collection efficiency in respect of Discoms for the period 2005-06 to 2007-08 are given below:

(Figures in percentage)

Sl no.	Performance parameter	East Zone			West Zone			Central Zone		
		2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
1	Billing efficiency[32]	63	64	58	68	69	66	57	58	58
2	Collection efficiency[33]	92	89	91	93	92	92	83	88	94

It is apparent from the above table that the gap between the energy billed and energy released was still very wide. It is also observed that while the billing efficiency in West Zone was in the range of 66 to 69 *per cent* the same remained 57 to 58 *per cent* in Central Zone and 58 to 64 *per cent* in East Zone. Thus, there was ample scope of improvement in billing efficiency in East and Central Zone. The poor billing indicated widespread leakage and theft of power.

The Management of Central Zone stated (November 2008) that a policy on franchising low revenue earning areas would be evolved for generating surplus.

[32] *It represent the percentage of energy billed to total input of energy in units.*

[33] *It represents the percentage of revenue collected to revenue billed.*

Meterisation of consumers

Slow pace of meterisation of domestic and agriculture consumers.

3.10.4 As per rule 55 of Electricity Act, 2003, all categories of consumers should be metered within the time period as prescribed by the State Electricity Regulatory Commission. As per the road map provided by the licensees (three Discoms) and approved by the Commission, all unmetered connections in domestic category shall be metered by March 2010. The licensees have further committed that all Distribution Transformers (DTRs) predominantly supplying to agriculture consumers shall be metered by March 2011. The table given below indicates the details of consumers meterised during the year 2005-06 to 2007-08:

(In percentage)

Category	East Zone			West Zone			Central Zone		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Domestic	78	79	68	89	80	77	89	93	89
Agriculture	43	48	52	N.A.	N.A.	N.A.	30	33	39
Distribution transformers	-	5	6	2	9	18	2	3	4

It is evident from above that meterisation of agriculture consumers was very low and ranged between 30 and 39 *per cent* in Central Zone and 43 and 52 *per cent* in East Zone. There was no progress in meterisation of domestic consumers and it rather decreased during 2007-08 indicating that despite increase in domestic consumers, pace of meterisation was very slow. The meterisation of distribution transformers (DTRs) was also very low reflecting poor status of energy audit on 11 KV feeder.

The State Government stated (November 2008) that practical difficulties were being faced for meterisation of agricultural consumers. The fact remains that meterisation was essential to have an effective control on revenue leakage.

Short term power purchase at higher cost

3.10.5 Under transitional provision of Section 172 of the Electricity Act, 2003, the Board continued to function as trading licensee for a period of about one year (1 June 2005 to 9 June 2006). After unbundling of the Board, the bulk power trading function was transferred to a newly formed company namely Madhya Pradesh Power Trading Company Limited (TRADECO) with effect from June 2006.

The annual power purchase requirement of the Discoms is determined by the Commission in their tariff order. In case power purchase by Discoms exceeds over and above the projected annual requirement, it is termed as unregulated additional purchase of power. In addition, Discoms overdraw power from the system which creates load on the grid, for which a penalty is imposed by the Grid Management. It is observed that Discoms purchased power over and above the annual power requirement. Such purchases were not accepted by the Commission at the time of fixation of tariff.

The table given below indicates the details of additional purchase of power made by TRADECO during the year 2005-06, 2006-07 and 2007-08 in addition to its annual power requirement approved by the Commission.

Sl. No.	Particulars	2005-06	2006-07	2007-08	Total
1	Power purchase - Qty.(MUs)	2,246.45	1,327.02	419.91	3,993.38
	Amount (Rs.in crore.)	777.71	722.33	274.29	1,774.33
2	Over drawal of Power - Qty.(MUs)	416.28	Nil	369.39	785.67
	Amount (Rs. in crore.)	154.81	Nil	315.09	469.90

As a result of short term purchase and overdrawal of power from grid, the expenditure was on higher side as compared to normal purchases. While the average rate of purchase of power during the year 2006-07 and 2007-08 was Rs. 1.53 and Rs. 1.65 per unit respectively, the rate worked out to Rs. 5.44 (2006-07) and Rs. 6.53 (2007-08) per unit in respect of additional purchases and Rs. 8.53 per unit in respect of overdrawal of power during the same period. As a result, it led to increase in the deficit of the Discoms, since this element of cost was not considered for inclusion by the Commission in the tariff of the Discoms.

Efficiency in allocation and utilization of funds

Financial support from State Government

3.11 The State Government provided financial support to the Power Sector, in the shape of Tariff subsidy amounting to Rs. 4,690 crore from 2001-02 to 2007-08 and short term working capital loan amounting to Rs. 1,240 crore from 2005-06 to 2007-08 after providing functional autonomy to successor entities. Audit scrutiny revealed that instead of providing subsidy, the State Government had made book adjustments such as 'subsidy receivable' was adjusted with the 'interest due' on State Government loan without involving any cash transaction. Similar adjustments were also made against the equity while settling/ waiving arrears of electricity in respect of different categories of consumers.

Thus, in fact, there was no remittance of subsidy from State Government in the form of cash flow. Therefore, power sector was not financed in an effective manner.

Rationalisation of Tariff

3.12 The clause (g) of Section 61 of Electricity Act, 2003 stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and also reduce cross subsidy in a manner as specified by the Commission.

Accordingly, National Tariff Policy envisaged that the tariff of all categories of consumer should range between 80 to 120 *per cent* of the ACOS by 2010-2011. The Commission also recognized that the consumer tariff should reflect the cost of supply to bring about reduction in cross subsidy.

The details of tariff of various categories of consumers and ACOS of power are given in ***Annexure-12***.

A comparison of tariff *vis-à-vis* ACOS revealed that during 2006-07 and 2007-08, out of 13 categories of consumers, the average realisation in respect of two categories of consumers (Domestic & agriculture) was below 80 *per cent* of ACOS and in respect of the five categories of consumers (industrial and non industrial, coal mines, railway, L.T. industries and non domestic) realisation was more than 120 *per cent* of ACOS. The reason for higher tariff and non achievement in reduction of cross subsidy was attributed to high T&D losses and low billing efficiency. The Discoms have not initiated any steps to reduce cross subsidization.

Deployment of human resources

Human Resources

3.13.1 During the functional unbundling of the Board, the staff was transferred to successor entities on "as is where is basis" subject to finalisation of terms and conditions of service which had not been finalised so far. The cadre controlling authority still rests with the residual Board and had not been transferred to successor entities so far.

It was observed in Audit that the manpower requirement and Human Resource Development Policy relating to successor entities especially for Discoms, were not formulated by the Board before providing functional autonomy. The Companies did not formulate such policies even after lapse of more than three years since their formation (June 2005). The Commission also observed that no clear-cut demarcation of duties and responsibilities was made and there was lack of technical expertise.

Liabilities related to staff

3.13.2 The liabilities toward gratuity, pension and family pension were assessed at Rs. 4,494 crore as on March 2005 which remained unfunded till date (October 2008). Successor entities were not making any contribution towards the funding of Terminal Benefit Trust (TBT) which was operationalised in April 2006. In addition, the leave encashment liability of Rs. 263 crore as on 31 May 2005 also remained unfunded so far.

The Management accepted (November 2008) the audit observation but expressed their inability to resolve the issue.

Functions retained by residual Board

3.14 As per unbundling plan the residual Board was entrusted with the following functions:

- Cash flow management and debt servicing on behalf of all companies; and
- Cadre control and personal matters of the employees.

The main theme of the Cash Flow Mechanism (CFM) was the centralisation of the cash management function across all the companies with residual Board till such time the cash deficit in the Power Sector was resolved or the State Government decided for the same. In the cash deficit situation, the cash received by the Discoms was to be controlled by the residual Board and a payment mechanism was to be evolved to release the payments/funds to various agencies and the companies.

It was observed in audit that even after expiry of more than three years, the CFM remained with Residual Board. Thus, the Discoms lacked flexibility. This has adversely impacted the day to day operations and discharge of short term commitments. Moreover, companies could not chalk out their developmental schemes. As required in Transfer Scheme Rule 2003, presently, the three distribution companies neither have full control over their revenues nor over the power procurement process.

The State Government apprehended (November 2008) that in the event of delegation of CFM functions, payment crisis might arise. The fact remains that the Board should have a definite action plan to dispense with the present system and enable the successor entities to become independent to chalk out their own strategies.

Increase in generating capacity

3.15.1 The table given below indicates the details of installed capacity of generation in the State and purchase of power from outside during the years from 2002-03 to 2007-08:

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Installed capacity of						
M P Genco (MW)	2,990.50	2,990.50	2,990.50	3,050.50	3,050.50	3,064.70
Joint Venture (MW)	--	--	--	--	1,826.50	1,826.50
Total (MW)	**2,990.50**	**2,990.50**	**2,990.50**	**3,050.50**	**4,877.00**	**4,891.20**
Peak power demand (MW)	4,471	4,800	5,049	5,588	NA	NA
Energy shortage (MW) with reference to capacity	1,480.50	1,809.50	2,058.50	2,537.50	NA	NA
Own generation (MU)	14,252	14,493	14,420	13,952	14,999	14,550
Purchase of power from outside source (MU)	12,926	14,000	16,206	17,696	18,270	20,447
Purchase of power (Amount Rs. in crore)	2,354.38	2,742.05	3,068.60	3,359.19	3,535.82	4,404.29

It is evident from above that during the past three years ending 2007-08 there was addition of 1900 MW only toward the total generating capacity, as compared with the rising demand of power in the State, resulting in increased dependence upon power purchase from outside source. The Board on its own could add only 60 MW (3x20) in hydel plant at Madhikheda during the year 2006-07. A 500 MW (1x500) thermal plant at Birsinghpur was also commissioned in August 2008.

Under Joint Venture Project of GOI and GOMP, the addition of 1826.50 MW hydel power (Indira Sagar 1000 MW and Sardar Sarovar 826.50 MW) was made during the year 2006-07. As regard future capacity addition, the following thermal power projects were proposed for commissioning during 11th Plan period (2007-2011).

- Amarkantak Extension Unit No.5 (1x210 MW) at Chachai.
- Satpura Extension Unit No.10 & 11 (2x250 MW) at Sarni.
- Malwa TPP (2x600 MW) at Purni Khandwa.

Thus, on its own, the State was far lagging behind in the addition of generating capacity and largely depended on purchase of power from outside source.

3.15.2 Several Independent Power Producers (16 IPPs between the period from July 1993 to January 1995 and 23 IPPs between January 2007 to March 2008) have entered into power purchase agreements with the State Government. However, none of IPPs could add to the generation capacity so far (October 2008).

Thus, the implementation of the power sector reform was unable to attract any fresh investment toward the addition of generating capacity in the form of IPPs which clearly indicated the lack of any concrete plan to promote private participation.

Introduction of "Open Access" in Transmission & Distribution System

3.16 Section 39 (2) (d), 40 (c) and 42 (2,3) of Electricity Act 2003 stipulates 'Open Access' in transmission and distribution to encourage private participation in generation and also to promote competition in bulk power supply and retail electricity market. An 'Open Access' is the non-discriminatory provision for the use of transmission lines or distribution system or associated facilities with such lines or system by any licensee or consumer or a person engaged in generation in accordance with the regulations specified by the Appropriate Commission. The State Commission notified the regulations for intra state access in the State from 24 June 2005. The long term/short term Open Access customers having contracted demand of one MW and above situated anywhere in State may now obtain Open Access in transmission and distribution system from June 2005 onwards.

As per Electricity Act, 2003 besides cost of generation, the open access consumers had to bear the surcharge levied by State Government to compensate the distribution licensee for loss of the cross subsidy element and additional surcharge for meeting the fixed cost of the distribution licensee. It was also envisaged that the amount of surcharge and additional surcharge levied on consumers arising out of his obligation to supply under open access should not become so burdensome so as to eliminate competition that was intended to promote generation and supply of power directly to consumer under open access. Thus, it was essential to reduce the surcharge progressively with the reduction of cross subsidy. It was however, observed that even after a lapse of three years since the introduction of Intra State Open Access Regulation in the State, no private customer had availed this facility due to absence of assured supply of power and high tariff projected in the open access system. Thus, the introduction of Open Access in the State since June 2005, could not promote competition in bulk power supply and retail electricity Market.

Conclusion

Madhya Pradesh State Electricity Board was unbundled into six successor entities (MPPTCL, MPPGCL, TRADECO and three Discoms) to provide functional autonomy to constituent units for improving their performance in efficient generation, transmission and distribution of power to benefit the consumers by reducing cost of operation. To achieve turnaround in Power Sector, the State Government did not evolve any broad roadmap for distribution companies. The goals, envisaged in various policy documents, with regard to reduction in distribution losses and meterisation of agriculture consumers were not achieved. While the distribution losses remained in the range of 32 to 42 *per cent,* the meterisation of agriculture consumers remained from 30 to 52 *per cent* of

the total agriculture consumers even after restructuring. The staff related liabilities and other additional liabilities remained un-settled. Even after a lapse of more than six years since the formation of five Companies many staff related matters like cadre management remain unresolved.

Recommendations

- **The State Government should consider approval of Financial Restructuring Plans for Reforms and financial support.**

- **The Board should consider providing financial autonomy to Discoms to achieve better results.**

- **The Discoms should take concrete measures to reduce T&D losses, plug loopholes in theft, pilferage and un-metered supply of electricity and achieve efficiency in realization of revenue.**