

## CHAPTER IV – GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

### 4.1 Overview of State Public Sector Undertaking

#### *Executive Summary*

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by Comptroller and Auditor General of India (CAG). These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2011, the State of Meghalaya had 11 working Public Sector Undertakings (PSUs) (Nine companies and two Statutory corporations) and two non-working companies, which employed 4989 employees. The working PSUs registered a turnover of ₹457.06 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 3.03 per cent of State Gross Domestic Product indicating a moderate role played by State PSUs in the economy. However, the State working PSUs incurred an overall loss of ₹96.96 crore in the aggregate for 2010-11 as per their latest finalised accounts as on 30 September 2011.

#### *Investments in PSUs*

As on 31 March 2011, of the total investment in State PSUs, 99.65 per cent was in working PSUs and the remaining 0.35 per cent in two non-working PSU. This total investment consisted of 28.72 per cent towards capital and 71.28 per

cent in long-term loans. The investment has increased by over 76.69 per cent from ₹896.80 crore in 2005-06 to ₹1584.53 crore in 2010-11.

#### *Performance of PSUs*

During the year 2010-11, out of 11 working PSUs, one PSU namely Meghalaya Government Construction Corporation Limited earned profit of ₹0.87 crore and remaining ten PSUs incurred loss of ₹97.83 crore. The major losses were incurred by Meghalaya Industrial Development Corporation Limited (₹25.07 crore), Mawmluh Cherra Cements Limite (₹12.54 crore) and Meghalaya State Electricity Board (₹56.42 crore). The losses of working PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of ₹66.43 crore and infructuous investment of ₹6.66 crore which were controllable with better management. Thus, there is tremendous scope to improve the functioning of PSUs and minimise losses.

#### *Quality of accounts*

The quality of accounts of PSUs needs improvement. All the 15 accounts finalised by working PSUs during October 2010 to September 2011

received qualified certificates. There were 12 instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated certain weak areas.

#### **Arrears in accounts**

Ten PSUs had arrears of 51 accounts as of September 2011. The PSUs need to set targets for the work relating to preparation of accounts with special focus on arrears. There were two non-

working companies as on 31 March 2011. While one non-working company has already been struck off from the records of the Registrar of Companies on 24 June 2011, the other company had not commenced the liquidation process. As no purpose was served by keeping this non-working company in existence, Government needs to expedite closure of this company

### **4.1.1 Introduction**

The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are mandated to carry out activities of commercial nature while keeping in view the welfare of people. In Meghalaya, the State PSUs occupy a modest position in the State economy. The State working PSUs registered a turnover<sup>1</sup> of ₹ 457.06 crore for 2010-11 as per their latest finalised accounts as of September 2011. This turnover was equal to 3.03 *per cent* of State Gross Domestic Product (GDP) for 2010-11. The State working PSUs incurred an overall loss of ₹ 96.96<sup>2</sup> crore in the aggregate for 2010-11 as per their latest finalised accounts as on 30 September 2011. They had employed 4,989 employees as of 31 March 2011.

As on 31 March 2011, there were 13<sup>3</sup> PSUs as per details given below. Of these, no company was listed on the stock exchange(s).

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<sup>1</sup> Including the turnover figure (₹ 415.74 crore) of erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist with effect from 1 April 2010 but included in Appendix 4.2 (Sl. B-1) so as to present correct picture of overall financial results of the State PSUs.

<sup>2</sup> Including the loss figures (₹ 56.42 crore) of erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist with effect from 1 April 2010 but included in Appendix 4.2 (Sl. B-1) so as to present correct picture of overall financial results of the State PSUs.

<sup>3</sup> excluding Meghalaya Watches Ltd. which has been de-registered from the Registrar of Companies with effect from 6 July 2010

**Table 4.1.1**

| Type of PSUs                      | Working PSUs | Non-working PSUs <sup>4</sup> | Total     |
|-----------------------------------|--------------|-------------------------------|-----------|
| Government Companies <sup>5</sup> | 9            | 2 <sup>6</sup>                | 11        |
| Statutory Corporations            | 2            | -                             | 2         |
| <b>Total</b>                      | <b>11</b>    | <b>2</b>                      | <b>13</b> |

**4.1.2 Audit Mandate**

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which not less than 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

Audit of Statutory corporations is governed by their respective legislations. Out of two Statutory corporations, CAG is the sole auditor for Meghalaya Transport Corporation. In respect of Meghalaya State Warehousing Corporation, the audit is conducted by Chartered Accountants and supplementary audit by CAG.

**4.1.3 Investment in State PSUs**

As on 31 March 2011, the investment (capital and long-term loans) in 13 PSUs was ₹ 1,584.53 crore as per details given below:

**Table 4.1.2****(₹ in crore)**

| Type of PSUs     | Government Companies |                 |                 | Statutory Corporations |                 |              | Grand Total     |
|------------------|----------------------|-----------------|-----------------|------------------------|-----------------|--------------|-----------------|
|                  | Capital              | Long Term Loans | Total           | Capital                | Long Term Loans | Total        |                 |
| Working PSUs     | 371.54               | 1,129.38        | 1,500.92        | 78.14                  | -               | 78.14        | 1,579.06        |
| Non-working PSUs | 5.47                 | -               | 5.47            | -                      | -               | -            | 5.47            |
| <b>Total</b>     | <b>377.01</b>        | <b>1,129.38</b> | <b>1,506.39</b> | <b>78.14</b>           | <b>-</b>        | <b>78.14</b> | <b>1,584.53</b> |

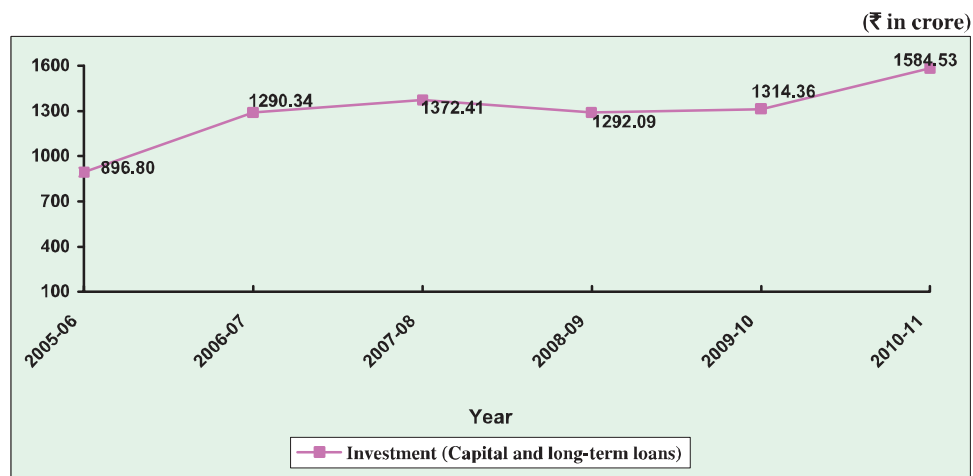
<sup>4</sup> Non-working PSUs are those which have ceased to carry on their operations. It includes one 619-B Company namely Meghalaya Electronics Development Corporation Limited.

<sup>5</sup> Including Meghalaya Energy Corporation Limited (MeECL) incorporated (14 September 2009) in place of erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist (01 April 2010).

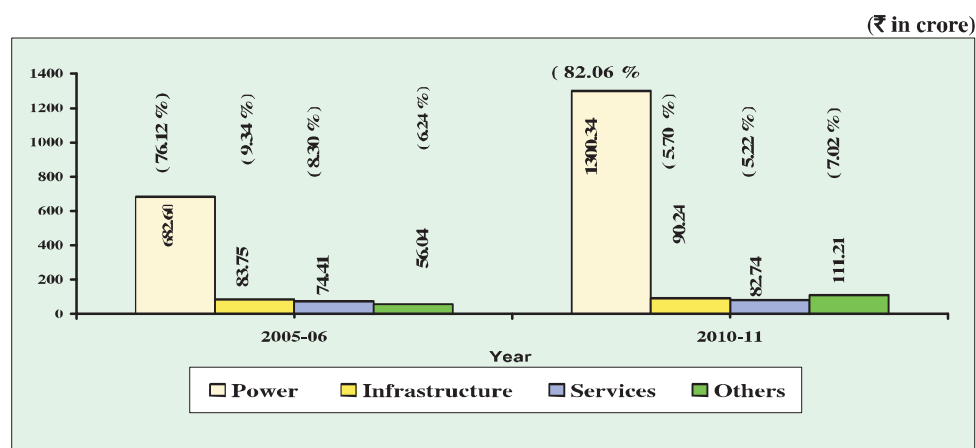
<sup>6</sup> Including one non-working company (*viz.* Meghalaya Phyto Chemicals Limited), name of which has been struck off from the records of the Registrar of Companies on 24 June 2011, and hence, it ceased to exist from that date.

A summarised position of Government investment in State PSUs is detailed in **Appendix 4.1**.

As on 31 March 2011, of the total investment in State PSUs, 99.65 *per cent* was in working PSUs and the remaining 0.35 *per cent* in two non-working PSUs. This total investment consisted of 28.72 *per cent* towards capital and 71.28 *per cent* in long-term loans. The investment has increased by 76.69 *per cent* from ₹ 896.80 crore in 2005-06 to ₹ 1,584.53 crore in 2010-11 as shown in the graph below:



The investment in various important sectors and percentage thereof at the end of 31 March 2006 and 31 March 2011 are indicated below in the bar chart. The thrust of PSU investment in the State was mainly in Power Sector during the five years which has seen its percentage share rising from 76.12 *per cent* in 2005-06 to 82.06 *per cent* in 2010-11.



(Figures in brackets show the percentage of total investment)

#### 4.1.4 Budgetary outgo, grants/subsidies, guarantees and loans

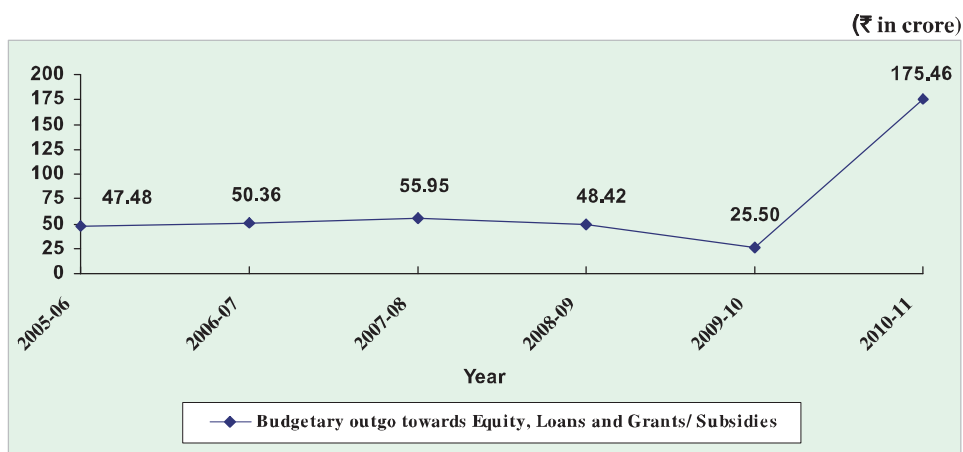
The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived off in respect of State PSUs are given in **Appendix 4.3**. The summarised details are given below for three years ended 2010-11:

Table 4.1.3

(₹ in crore)

| Sl. No. | Particulars                                | 2008-09     |              | 2009-10     |              | 2010-11      |                      |
|---------|--------------------------------------------|-------------|--------------|-------------|--------------|--------------|----------------------|
|         |                                            | No. of PSUs | Amount       | No. of PSUs | Amount       | No. of PSUs  | Amount               |
| 1.      | Equity(E) Capital outgo from budget        | 5           | 18.20        | 4           | 16.45        | 5            | 15.99                |
| 2.      | Loans given from budget                    | 1           | 11.04        | -           | -            | 1            | 23.44                |
| 3.      | Grants(G)/Subsidy(S) received <sup>7</sup> | 6           | 19.18        | 5           | 9.05         | 3(G)<br>2(S) | 131.47(G)<br>4.56(S) |
|         | <b>Total Outgo<sup>8</sup> (1+2+3)</b>     | <b>10</b>   | <b>48.42</b> | <b>7</b>    | <b>25.50</b> | <b>9</b>     | <b>175.46</b>        |
| 4.      | Loans converted into equity                | -           | -            | -           | -            | -            | -                    |
| 5.      | Guarantees issued                          | 1           | 150.49       | 1           | 116.88       | 1            | 31.77                |
| 6.      | Guarantee Commitment                       | 3           | 607.24       | 3           | 653.33       | 2            | 646.51               |

The details regarding budgetary outgo towards equity, loans and grants/subsidies for past six years are given in a graph below:



The budgetary outgo during 2010-11 was all time high at ₹ 175.46 crore in the past six years. This was mainly due to extension of budgetary support of ₹ 153.89 crore to Meghalaya Energy Corporation Limited in the form of loans (₹ 23.44 crore) and grants (₹ 130.45 crore).

<sup>7</sup> Includes grants and subsidies provided through State Government Budget only.

<sup>8</sup> Depicts actual number of PSUs which received Equity, loans, grants/subsidies out of budget.

The guarantee commitment by the State Government against the borrowings of State PSUs was increased from ₹ 607.24 crore (2008-09) to ₹ 653.33 crore (2009-10) and declined marginally to ₹ 646.51 crore in 2010-11. Fresh guarantees of ₹ 31.77 crore was issued by the State Government during 2010-11 to one PSU (the MeECL).

#### 4.1.5 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2011 is stated below:

Table 4.1.4

| (₹ in crore)                  |                                |                               |            |
|-------------------------------|--------------------------------|-------------------------------|------------|
| Outstanding in respect of     | Amount as per Finance Accounts | Amount as per records of PSUs | Difference |
| Equity                        | 248.57 <sup>9</sup>            | 440.72 <sup>10</sup>          | (-)192.15  |
| Loans                         | Not available <sup>11</sup>    | 202.78                        | -          |
| Guarantees including interest | 1102.46                        | 1102.46 <sup>12</sup>         | -          |

Audit observed that the differences occurred in equity in respect of six PSUs and four PSUs<sup>13</sup> has persistent differences pending reconciliation since 2007-08. Though the Principal Secretary, Finance Department, Government of Meghalaya as well as the PSUs concerned were apprised by Audit about the differences from time to time stressing upon the need for reconciliation, no significant progress was noticed in this regard. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

#### 4.1.6 Performance of PSUs

The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Appendix 4.2, 4.5 and 4.6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSUs' turnover and State GDP for the period 2005-06 to 2010-11:

<sup>9</sup> Includes ₹ 2.14 crore in MSWC, ₹ 68.97 crore in MTC, ₹ 89.00 crore in MIDC, ₹ 72.72 crore in MCCL, ₹ 2.32 crore in MMDC, ₹ 1.97 crore in FDCM, ₹ 0.75 crore in MGCCL, ₹ 7.96 crore in MTDC and ₹ 2.74 crore in MH&HDC.

<sup>10</sup> Includes ₹ 2.14 crore in MSWC, ₹ 67.97 crore in MTC, ₹ 202.00 crore in MeECL, ₹ 89.49 crore in MIDC, ₹ 63.11 crore in MCCL, ₹ 2.32 crore in MMDC, ₹ 1.77 crore in FDCM, ₹ 0.75 crore in MGCCL, ₹ 7.96 crore in MTDC and ₹ 3.21 crore in MH&HDC (As per details furnished by the Management).

<sup>11</sup> State Government's loans to State PSUs are extended through the Government Departments. These Government Departments reallocate the loan funds to different PSUs. Hence, the PSU-wise figures of State Government loans are not available in the Finance Accounts.

<sup>12</sup> Guarantee commitment given by the State Government against loans were ₹ 1,101.46 crore (Principal= ₹ 645.51 crore and interest = ₹ 455.95 crore) for MeECL and ₹ 1.00 crore for MGCCL.

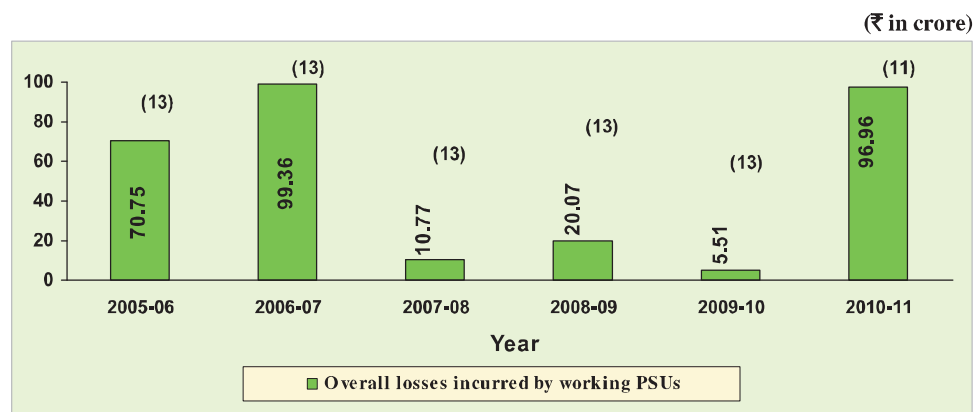
<sup>13</sup> Serial A-1, A-5, A-9 and B-1 of Appendix 4.2.

Table 4.1.4

| (₹ in crore)                        |         |         |         |          |          |                      |
|-------------------------------------|---------|---------|---------|----------|----------|----------------------|
| Particulars                         | 2005-06 | 2006-07 | 2007-08 | 2008-09  | 2009-10  | 2010-11              |
| Turnover                            | 300.64  | 278.18  | 365.47  | 386.20   | 440.72   | 457.06 <sup>14</sup> |
| State GDP <sup>15</sup>             | 7265.15 | 8625.18 | 9734.73 | 11617.04 | 13216.47 | 15077.57             |
| Percentage of turnover to State GDP | 4.14    | 3.23    | 3.75    | 3.32     | 3.33     | 3.03                 |

It can be seen from the above that during six years period ending 2010-11, the percentage of turnover to State GDP had declined from 4.14 *per cent* (2005-06) to 3.03 *per cent* (2010-11) indicating that the turnover of PSUs did not increase proportionately with the rise in the State's GDP.

Losses incurred by State working PSUs during 2005-06 to 2010-11 are given below in a bar chart.



(Figures in brackets show the number of working PSUs in respective years)

During 2005-11, the State working PSUs incurred losses every year. The overall losses incurred by working PSUs were an all time high during 2006-07 (₹ 99.36 crore), which reduced significantly to ₹ 5.51 crore during 2009-10. However, during 2010-11, the losses had sharply increased to ₹ 96.96 crore mainly due to registering of huge losses of ₹ 81.49 crore by two PSUs<sup>16</sup> against the aggregate profits of ₹ 9.85 crore earned during last year. During the year 2010-11, out of 11 working PSUs, one PSU<sup>17</sup> earned profit of ₹ 0.87 crore while remaining ten PSUs incurred loss of ₹ 97.83 crore<sup>18</sup>. The major losses were incurred by Meghalaya Industrial Development

<sup>14</sup> Turnover as per the latest finalised accounts as of September 30, 2011. It included the turnover figure (₹ 415.74 crore) of erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist with effect from 01 April 2010 but included in Appendix 4.2 (serial B-1) so as to present correct picture of overall financial results of the State PSUs.

<sup>15</sup> The Gross Domestic Product of Meghalaya at current prices as furnished by Government of Meghalaya, Directorate of Economics and Statistics vide EST.5/2011/Addl.1/3 dated 08.09.2011.

<sup>16</sup> Serial A-3 and B-1 of Appendix 4.2

<sup>17</sup> Serial A-4 of Appendix 4.2

<sup>18</sup> including the loss figure (₹ 56.42 crore) of erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist with effect from 1 April 2010 but included in Appendix 4.2 (serial B-1) so as to present correct picture of overall financial results of the State PSUs.

Corporation Limited (₹ 25.07 crore), Mawmluh Cherra Cements Limited (₹ 12.54 crore) and Meghalaya State Electricity Board (₹ 56.42 crore).

The losses of working PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring. A review of the latest Audit Reports of CAG show that the State PSUs incurred losses to the tune of ₹ 66.43 crore and infructuous investment of ₹ 6.66 crore which were controllable with better management. Year wise details from Audit Reports are stated below:

**Table 4.1.5**

(₹ in crore)

| Particulars                                   | 2008-09 | 2009-10 | 2010-11 | Total  |
|-----------------------------------------------|---------|---------|---------|--------|
| Net Loss                                      | 20.07   | 5.51    | 96.96   | 122.54 |
| Controllable losses as per CAG's Audit Report | 1.20    | 17.17   | 48.06   | 66.43  |
| Infructuous Investment                        | 5.26    | 1.40    | -       | 6.66   |

The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses could be minimised substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

Some other key parameters pertaining to State PSUs are given below.

**Table 4.1.6**

(₹ in crore)

| Particulars                                    | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11              |
|------------------------------------------------|---------|---------|---------|---------|---------|----------------------|
| Return on Capital Employed ( <i>Per cent</i> ) | -       | -       | 2.93    | 1.87    | 2.26    | -                    |
| Debt                                           | 512.92  | 892.37  | 968.28  | 864.76  | 872.19  | 1129.38              |
| Turnover <sup>19</sup>                         | 300.64  | 278.18  | 365.47  | 386.20  | 440.72  | 457.06 <sup>20</sup> |
| Debt/ Turnover Ratio                           | 1.71:1  | 3.21:1  | 2.65:1  | 2.24:1  | 1.98:1  | 2.47:1               |
| Interest Payments                              | 51.38   | 32.11   | 38.08   | 37.69   | 43.76   | 42.35                |
| Accumulated Losses                             | 403.34  | 508.72  | 524.13  | 518.36  | 515.89  | 620.74 <sup>21</sup> |

(Above figures pertain to all PSUs except for turnover which is for working PSUs ).

The State Government had not formulated any dividend policy for payment of any minimum return by PSUs on the paid up share capital contributed by the State Government. As per their latest finalised accounts, one PSU earned an aggregate profit of ₹ 0.87 crore but did not declare dividend.

<sup>19</sup> Turnover as per the latest finalised accounts as of 30 September 2011.

<sup>20</sup> including the turnover figure (₹ 415.74 crore) of erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist with effect from 1 April 2010 but included in Appendix 4.2 (serial B-1) so as to present correct picture of overall financial results of the State PSUs.

<sup>21</sup> Including accumulated losses of two non-working PSUs (SI C-1 & C-2 of Appendix 4.2) and accumulated loss of ₹ 449.03 crore of erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist with effect from 1 April 2010 but included in Appendix 4.2 (serial B-1) so as to present correct picture of overall financial results of the State PSUs.

#### 4.1.7 Arrears in finalisation of accounts

The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalising their accounts by September 2011.

**Table 4.1.7**

| Sl. No. | Particulars                                     | 2006-07       | 2007-08       | 2008-09       | 2009-10       | 2010-11          |
|---------|-------------------------------------------------|---------------|---------------|---------------|---------------|------------------|
| 1.      | Number of Working PSUs                          | 13            | 13            | 13            | 13            | 11 <sup>22</sup> |
| 2.      | Number of accounts finalised during the year    | 11            | 13            | 12            | 10            | 15               |
| 3.      | Number of accounts in arrears                   | 60            | 60            | 61            | 64            | 51               |
| 4.      | Average arrears <i>per</i> PSU (3/1)            | 4.61          | 4.61          | 4.69          | 4.92          | 4.64             |
| 5.      | Number of Working PSUs with arrears in accounts | 12            | 12            | 13            | 13            | 10               |
| 6.      | Extent of arrears                               | 1 to 15 years | 1 to 15 years | 1 to 15 years | 1 to 15 years | 1 to 16 years    |

It can be seen from the above that the quantum of arrears in accounts and the average arrear per PSU remained high showing an increasing trend during all the years except during 2010-11 when arrear position was improved due to transfer of one company with nine accounts in arrears to defunct category (C-1 of **Appendix 4.2**).

The State Government had invested ₹ 206.83 crore (Equity: ₹ 35.76 crore, Loan: ₹ 23.44 crore, Grants: ₹ 136.86 crore and Subsidy: ₹ 10.77 crore) in eight PSUs during the years for which accounts have not been finalised as detailed in **Appendix 4.4**. Delay in finalisation of accounts of these PSUs may result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the attention of the concerned administrative departments and officials of the Government on the issue of the arrears in finalisation of accounts was regularly drawn by the Principal Accountant General on quarterly basis, no remedial measures were taken. As a result of this, the net-worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the Chief Secretary/Principal Secretary, Finance Department in the form of quarterly demi-official letters to expedite the backlog of arrears in accounts in a time bound manner.

<sup>22</sup> Excluding one company (Meghalaya Electronics Development Corporation Limited) which became non-working during 2010-11 with nine accounts in arrears. Further, a new company (serial A-8 of Appendix 4.2) incorporated on 14 September 2009 has been included. The Company has two years accounts (2009-10 and 2010-11) in arrears as it did not finalise its first accounts as on 30 September 2011.

**In view of the above state of arrears, it is recommended that:**

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

#### **4.1.8 Winding up of non-working PSUs**

There were two non-working PSUs (both companies) as on 31 March 2011. Of these two non-working PSUs, one PSU<sup>23</sup> had not commenced the liquidation process as all the employees of the Company who had opted for VRS in December 2006, were awaiting full settlement of VRS compensation. The name of the other non-working PSU (*viz.* Meghalaya Phyto Chemicals Limited) has already been struck off from the records of the Registrar of Companies on 24 June 2011 and as such, it ceased to exist from that date.

The non-working PSU (serial C-1 of **Appendix 4.2**) is also required to be closed down as its existence is not going to serve any purpose.

#### **4.1.9 Accounts Comments and Internal Audit**

Eight companies forwarded fourteen<sup>24</sup> audited accounts to Principal Accountant General (Audit) during the year 2010-11. Of these, seven accounts of five companies were selected for supplementary audit and seven accounts were issued non review certificate. The accounts of Mawmluh Cherra Cements Limited for 2010-11 was received on 29<sup>th</sup> September, 2011 and Supplementary audit was in progress (October, 2011). The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

**Table 4.1.8**

(₹ in crore)

| Sl. No. | Particulars                      | 2008-09            |        | 2009-10            |        | 2010-11            |        |
|---------|----------------------------------|--------------------|--------|--------------------|--------|--------------------|--------|
|         |                                  | Number of accounts | Amount | Number of accounts | Amount | Number of accounts | Amount |
| 1.      | Decrease in profit               | -                  | -      | -                  | -      | 1 <sup>25</sup>    | 21.06  |
| 2.      | Increase in loss                 | 1                  | 0.47   | -                  | -      | 4                  | 1.80   |
| 3.      | Non-disclosure of material facts | 1                  | 1.94   | 1                  | 0.21   | 2                  | 6.51   |
| 4.      | Errors of classification         | -                  | -      | -                  | -      | 3                  | 0.86   |

<sup>23</sup> Meghalaya Electronics Development Corporation Limited.

<sup>24</sup> Including one year accounts of one Non-working company namely Meghalaya Electronics Development Corporation Limited.

<sup>25</sup> Accounts of Meghalaya Industrial Development Corporation Limited for 2003-04.

It can be seen from the above that one company had impact of comments under ‘decrease in profit’ category of ₹ 21.06 crore during 2010-11.

During the year, the Statutory auditors had given qualified certificates to all the fourteen accounts. The compliance of companies with the Accounting Standards remained poor as there were twelve instances of non-compliance in fourteen accounts during the year.

Some of the important comments in respect of accounts of companies are stated below:

**Mawmluh Cherra Cements Limited (2009-10)**

- Capitalisation of repair charges has resulted in overstatement of fixed assets and understatement of loss for the year by ₹ 44.98 lakh.

**Meghalaya Industrial Development Corporation Limited (2003-04)**

- Non provision for loss against the amount of bridging loans given to the three subsidiary companies (Meghalaya Electronics Development Corporation Limited, Meghalaya Bamboo Chips Limited and Meghalaya Watches Limited) that are not recoverable due to continuous losses and erosion of capital base of the Subsidiary Companies has resulted in overstatement of Current Assets, Loans and Advances and Profit (each by ₹ 20.56 crore).
- Non provisioning of interest accrued to SIDBI amounting to ₹ 49.83 lakh has resulted in overstatement of Profit with corresponding understatement of Current Liabilities by ₹ 49.83 lakh.

**Forest Development Corporation of Meghalaya Limited (2000-01)**

- The written down value of gassifire plant at the Saw Mill at Darugiri was ₹ 1.00 lakh only as on 31 March 2001 out of the total cost of ₹ 7.41 lakh. However, the Company has not reduced the value of the reserve representing the grant received (₹ 6.94 lakh) in proportion with the diminution in the value of the grant assets resulting in overstatement of Reserve and Surplus by ₹ 6.41 lakh with corresponding overstatement of Profit and Loss Account debit balance.
- The Capital Expenditure on Plantation Project includes ₹ 76.48 lakh being the expenditure incurred by the Company on Teak and Pine Plantations on private land taken on lease basis and the profit from the plantation will be shared in the ratio of 60:40 between the Company and land owners respectively on harvesting. The Company was not able to execute agreements in some cases with the land owners of the plantations due to disputes. The Company also noticed varying levels of illegal felling of trees in some of the plantations. The losses on account of illegal felling, loss accrued on the standing plantations and the contingent liability for cases of dispute where no agreement has been signed, have not been worked out and provided/disclosed in the Accounts.

Similarly, two working statutory corporations<sup>26</sup> forwarded their two accounts to Principal Accountant General during the year 2010-11. Out of the two Statutory Corporations, one was selected for sole audit by CAG and the second Statutory Corporation was selected for supplementary audit and both were completed. The audit reports of statutory auditors and the sole/supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of CAG are given below:

**Table 4.1.9**

(₹ in crore)

| Sl. No. | Particulars                      | 2008-09            |        | 2009-10            |        | 2010-11            |        |
|---------|----------------------------------|--------------------|--------|--------------------|--------|--------------------|--------|
|         |                                  | Number of accounts | Amount | Number of accounts | Amount | Number of accounts | Amount |
| 1.      | Decrease in profit               | 3                  | 108.09 | 1                  | 16.12  | -                  | -      |
| 2.      | Increase in loss                 | 3                  | 19.65  | 1                  | 3.02   | 2                  | 5.98   |
| 3.      | Non-disclosure of material facts | 1                  | 4.91   | -                  | -      | 2                  | 16.71  |
| 4.      | Errors of classification         | 1                  | 4.19   | -                  | -      | 1                  | 0.76   |

It can be seen from the above that the average impact of comments per account under ‘increase in loss’ category decreased to ₹ 2.99 crore during 2010-11 from ₹ 6.55 crore in 2008-09. Average money value of the non-disclosure of material facts was ₹ 8.36 crore as per audited account during 2010-11 as against ₹ 4.91 crore in 2008-09.

During the year, the two accounts of two Statutory corporations<sup>27</sup> received qualified certificates.

Some of the important comments in respect of accounts of statutory corporations are stated below:

#### **Meghalaya State Electricity Board (2009-10)**

- Non accountal of ₹ 1.45 crore being the loss suffered during the flood of October 2009 in Myntdu Leshka Hydro Electric Project (MLHEP) has resulted in overstatement of Net Fixed Assets and understatement of deficit for the year 2009-10 by ₹ 1.45 crore.
- Non-provision/write-off action against dues from permanently disconnected consumers (Net of Security Deposit forfeited) of ₹ 83.31 lakh which was lying in the accounts since 2004-05 has resulted in understatement of deficit and overstatement of Current Assets by ₹ 83.31 lakh.
- Liabilities did not include ₹ 1.28 crore being the amount payable to PTCIL<sup>28</sup> and PGCIL<sup>29</sup> towards purchase of power. This resulted in understatement of expenditure for purchase of power and deficit for the year by ₹ 1.28 crore.

<sup>26</sup> Including erstwhile Meghalaya State Electricity Board (MeSEB) ceased to exist w.e.f. 1 April 2010 and a new company, Meghalaya Energy Corporation Limited (MeECL) was formed in its place.

<sup>27</sup> Meghalaya State Electricity Board and Meghalaya State Warehousing Corporation Limited.

<sup>28</sup> Power Trading Corporation of India Limited.

<sup>29</sup> Power Grid Corporation of India Limited.

- Non accountal of ₹ 0.74 crore being the amount of insurance premium reimbursable for 2009-10 to contractor relating to construction of Myntdu Leshka Hydro Electric Project (MLHEP) which was admitted (March 2010) and paid by the Board in May 2010 resulted in understatement of other current liabilities and deficit for the year by ₹ 0.74 crore each.
- Non provision of ₹ 1.53 crore being the amount recommended by the Committee constituted for examining the claims (₹ 25.40 crore) of contractor for civil work of New Umtru Hydro Electric Project has resulted in understatement of Other Current Liabilities and Deficit for the year by ₹ 1.53 crore each.

#### Meghalaya State Warehousing Corporation (2009-10)

- Arrear pay of staff of the corporation of ₹ 5.05 lakh pertaining to the period prior to 2009-10 was wrongly adjusted against General Reserve without routing through Profit and Loss Account. This resulted in understatement of Establishment Expenses and Loss for the year by ₹ 5.05 lakh each.
- The Gratuity Fund Investment includes an amount of ₹ 3.21 lakh of gratuity fund kept in Savings Bank Account instead of investing in Fixed Deposit as per Rule 17 of the Meghalaya State Warehousing Corporation Rules, 1976. This should have been disclosed in the accounts.

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system and other areas in respect of eight companies<sup>30</sup> for the year 2009-10 and eight companies<sup>31</sup> for the year 2010-11 are given below:

**Table 4.1.10**

| Sl. No. | Nature of comments made by Statutory Auditors                                         | 2009-10                                             |                                                                 | 2010-11                                             |                                                                 |
|---------|---------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|
|         |                                                                                       | Number of companies where recommendations were made | Reference to serial number of the companies as per Appendix 4.2 | Number of companies where recommendations were made | Reference to serial number of the companies as per Appendix 4.2 |
| 1.      | Auditors Report & Comments/ Draft paras/Mini Reviews not discussed in Audit Committee | 2                                                   | A-2, A-5                                                        | 1                                                   | A-5                                                             |
| 2.      | Non prescribing of Maximum/ Minimum level of stock                                    | 1                                                   | A-1                                                             | 4                                                   | A-1, A-2, A-5, A-8                                              |
| 3.      | No ABC analysis adopted to control the inventory                                      | 5                                                   | A-1, A-2, A-5, A-7, C-1                                         | 4                                                   | A-1, A-2, A-5, A-8                                              |
| 4.      | Inadequate scope of Internal Audit                                                    | 3                                                   | A-1, A-5, C-1                                                   | 1                                                   | A-5                                                             |

<sup>30</sup> Sl. No. A-1, 2, 4, 5, 6, 7, 8 and C-1 in Appendix – 4.2

<sup>31</sup> Sl. No. A-1, 2, 3, 4, 5, 6, 8 and C-1 in Appendix – 4.2

| Sl. No. | Nature of comments made by Statutory Auditors                | 2009-10                                             |                                                                 | 2010-11                                             |                                                                 |
|---------|--------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|
|         |                                                              | Number of companies where recommendations were made | Reference to serial number of the companies as per Appendix 4.2 | Number of companies where recommendations were made | Reference to serial number of the companies as per Appendix 4.2 |
| 5.      | Absence of proper maintenance of Fixed Asset Register        | 5                                                   | A-1, A-2, A-4, A-8, C-1                                         | 6                                                   | A-1, A-3, A-5, A-6, A-8, C-1                                    |
| 6.      | Inadequate credit policy                                     | 1                                                   | A-7                                                             | 7                                                   | A-1, A-2, A-3, A-4, A-6, A-8, C-1                               |
| 7.      | Inadequate system of giving discount                         | 1                                                   | A-7                                                             | 2                                                   | A-8, A-2                                                        |
| 8.      | Inadequate system for timely recovery of outstanding dues    | 2                                                   | A-4, A-7                                                        | 4                                                   | A-1, A-2, A-4, C-1                                              |
| 9.      | No system of obtaining confirmation of balances from debtors | 3                                                   | A-1, A-6, A-7                                                   | 6                                                   | A-1, A-2, A-3, A-4, A-8, C-1                                    |

#### 4.1.10 Recoveries at the instance of audit

During the course of propriety audit in 2010-11, recoveries of ₹ 3.54 crore were pointed out to the Management of various PSUs, of which, recoveries of ₹ 3.54 crore were admitted by PSUs and recoveries of ₹ 1.34 crore were effected.

#### 4.1.11 Status of placement of Separate Audit Reports

The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Table 4.1.11

| Sl. No. | Name of Statutory corporation                   | Year up to which SARs placed in Legislature | Year for which SARs not placed in Legislature |                                 |                                               |
|---------|-------------------------------------------------|---------------------------------------------|-----------------------------------------------|---------------------------------|-----------------------------------------------|
|         |                                                 |                                             | Year of SAR                                   | Date of issue to the Government | Reasons for delay in placement in Legislature |
| 1.      | Meghalaya State Electricity Board <sup>32</sup> | 2008-09                                     | 2009-10                                       | 1 July 2011                     | Under printing.                               |

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the legislature(s).

#### 4.1.12 Disinvestment, Privatisation and Restructuring of PSUs

During the year 2010-11, no exercise was undertaken by the Government of Meghalaya for the Disinvestment, Privatisation and Restructuring of PSUs.

<sup>32</sup> The erstwhile Meghalaya State Electricity Board (MeSEB), which ceased to exist w.e.f. 1 April 2010 and a new company, Meghalaya Energy Corporation Limited (MeECL) was formed in its place.

## PERFORMANCE AUDIT

### POWER DEPARTMENT

#### 4.2 Meghalaya Energy Corporation Limited

##### Executive Summary

*In Meghalaya, distribution of power was carried out by the erstwhile Meghalaya State Electricity Board (MeSEB) which was corporatised on 01 April 2010 as Meghalaya Energy Corporation Limited (MeECL). The performance audit of distribution activities of MeECL was conducted for the period from 2006-07 to 2010-11 to assess whether aims and objectives of National Electricity Policy/Plans (NEP) were adhered to and distribution reforms with regard to strengthening of distribution network through implementation of centrally sponsored schemes and other measures were achieved.*

##### *Financial Position and working Result*

*The accumulated losses of the MeECL which increased by 33.84 per cent during the performance audit period, from ₹403.78 crore in 2006-07 to ₹540.41 crore in 2010-11 had fully wiped out the paid up capital (₹202.00 crore). Despite revision in tariff on five occasions during 2006-11, the per unit loss increased by ₹0.39 from (-) ₹1.80 (2006-07) to (-) ₹2.19 (2009-10) due to increase in the cost per unit by ₹0.86 during said period.*

##### *Distribution Network Planning*

*The MeECL did not plan/set target for addition in the distribution network based on the anticipated growth in demand/ connected load during any of*

*the five years covered in performance audit.*

##### *Rural Electrification*

*As on 31 March 2006, out of total 6026 villages in the State (as per 2001 Census), 3568 villages (59.21 per cent) were electrified. Under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), out of the total 6026 villages (including villages already electrified), the MeECL targeted to electrify/intensify total 5388 villages by January 2012 in lines with National Electricity Policy (NEP) and only 55.89 per cent of targeted villages were electrified during the period 2007-11. The planning of MeECL was deficient as the target fixed for 2007-11 were not linked on rational basis with the overall schedule of implementing RGGVY in the State. Further, MeECL failed to achieve even the lower target (2,149 villages) for 2007-11. As such, there is a distant possibility that the MeECL will be able to provide access to electricity for all households by the year 2012 as envisaged under NEP. In implementation of RGGVY, several other deficiencies like, under utilisation of scheme funds, delayed completion of works, provision of excess capacity of transformers, high variation in the rates of material, etc were noticed. The Restructured Accelerated Power Development and Reforms Programme*

(R-APDRP) meant to strengthen the distribution system and reduce AT&C losses was yet to be taken up for implementation even after lapse of more than three years of its launching in July 2008.

#### **Aggregate Technical & Commercial Losses**

Compared to the actual reduction of AT&C losses by 1.42 per cent from 41.90 (2006-07) to 40.48 (2010-11), the projection for reduction of AT&C losses by 14.75 per cent (36.80 in 2006-07 to 22.05 in 2010-11) during the years 2006-07 to 2010-11 was unrealistic. Value of energy losses in excess of limit allowed by MSERC amounted to ₹51.82 crore during the performance audit period. The reasons for high energy losses were attributed (November 2010) by the MeECL to inadequate maintenance of Distribution Transformers (DTRs), large number of un-metered connection, stopped/defective meters, theft / pilferage of energy, non-installation of capacitor banks (CBs), etc.

#### **Consumer metering**

During performance audit period, against the growth of consumers by 17.45 per cent, percentage of metered consumers had increased from 30.57 to 63.01 per cent. Despite this, MeECL is still far behind the objective of attaining 100 per cent metering by 36.99 per cent.

#### **Operational efficiency**

The state remained largely dependent upon purchase of power though it had slightly decreased from 70.49 per cent (2006-07) to 68.98 per cent (2010-11) of total availability of power. There had been continuous power deficits as compared to the assessed demand as per the Electric Power Survey during the

period 2006-07 to 2010-11 except for 2007-08 and the quantum of power deficits was increasing over the said years. Out of the total 1369 Distribution Transformers (DTRs) purchased during 2007-11, purchases to the extent of 577 DTRs (42 per cent) could have been avoided had the Work Centre, Sumer timely cleared the backlog of un-repaired DTRs existing as on 31 March 2011. The MTI & Vigilance activities were not commensurate with the number of consumers and the expenditure incurred for maintaining these divisions did not add value to the MeECL's performance.

#### **Billing and Collection efficiency**

Deficiencies in the billing system, such as non billing of consumers on regular basis, incorrect billing, non-disconnection of power of consumers running with low power factor, etc., were noticed. The collection activities of MeECL also had several shortcomings like, mounting arrears against electricity dues, huge recoveries pending against permanent disconnected consumers, non-disconnection of supply of defaulting consumers and consumers with heavy arrears, etc.

#### **Subsidy Support and Cross Subsidisation**

The outstanding against subsidy receivables from the State Government increased from ₹155.15 crore in 2006-07 to ₹254.74 crore in 2010-11. As the financial position of the MeECL was not very sound, the viability of the MeECL was heavily dependent on the Government support. The target of bringing the tariff of all the category of consumers within plus or minus 20 per cent of Average Cost of Supply (ACOS) by the year 2010-11 as envisaged in the

*National Tariff Policy was not achieved by MeECL.*

#### *Energy Conservation*

*The MeECL was yet to consider and implement vigorously energy conservation measures and was yet to take up energy audit.*

#### *Monitoring by top Management*

*A rigorous MIS is an essential pre-requisite for a successful commercial organisation. The MeECL did not have proper MIS in place for exercising effective control over its activities by top management.*

#### *Conclusion*

*The distribution reforms envisaged under National Electricity Policy/Plans were not fully achieved by MeECL. The increase in the distribution capacity was not commensurate with the pace of growth in demand leading to network overloading with resultant frequent tripping of system and adverse voltage regulation. MeECL failed to complete the power projects in time leading to high dependence on outside power purchase resulting high cost of power.*

*The implementation of the centrally sponsored schemes for rural electrification (RGGVY) and strengthening the distribution network (R-APDRP) was not efficient and effective. While the implementation of RGGVY had several deficiencies like,*

*under utilisation of scheme funds, delayed completion of works, provision of excess capacity of transformers, etc., R-APDRP was yet to be taken up for implementation even after lapse of more than three years of its launching. The AT&C losses of MeECL continued to be high mainly on account of poor billing and collection efficiency, overloading of transmission & distribution network, large number of un-metered connections and stopped/defective meters and theft/pilferage of energy, etc. The billing and collection system of MeECL also not efficient causing adverse impact on the financial health of MeECL.*

*The guidelines of MSERC were not strictly adhered to as far as addressing the consumer grievances and conducting energy audits were concerned.*

#### *Recommendations*

*The performance audit contains seven recommendations for timely implementation of GoI Schemes, strengthening the distribution network, evolving effective system of billing and revenue collection, expediting the cent percent metering of all consumers and other measures for controlling the AT&C losses, expedite completion of pending power projects for reducing dependence on outside purchase of power, timely redressal of consumer complaints, conducting energy audit and evolving an appropriate MIS, etc.*

### **4.2.1 Introduction**

The distribution system of the power sector constitutes the final link between the power sector and the consumer. The efficiency of the power sector is judged by the consumers on the basis of performance of this segment. However, it constitutes the weakest part of the sector and the real challenge of reforms in the power sector lies in efficient management of the distribution system. The National Electricity Policy (NEP) in this regard *inter alia* emphasises on the adequate transition from financing support to aid restructuring of distribution utilities, efficiency improvements and

recovery of cost of services provided to consumers to make power sector sustainable at reasonable and affordable prices.

As part of power sector reforms, the erstwhile Meghalaya State Electricity Board (MeSEB) was unbundled and the Meghalaya Energy Corporation Limited (MeECL) was incorporated on 14 September 2009, however, pending formation of its three subsidiaries viz., Meghalaya Power Generation Corporation Limited, Meghalaya Power Transmission Corporation Limited and Meghalaya Power Distribution Corporation Limited. At present, the business of these three subsidiary companies viz., generation, transmission and distribution is being carried out by the holding company, the MeECL, which is under the administrative control of Power Department, Government of Meghalaya and has started functioning with effect from 01 April 2010. The management of the MeECL is vested with the Board of Directors (Board) comprising Chairman-cum-Managing Director (CMD), four full time Directors<sup>1</sup> and two Directors appointed by the State Government. The day-to-day management of the affairs of the MeECL is carried out by the CMD under the supervision, direction and control of the Board.

During 2006-07, 832.75 MUs of energy was sold by the erstwhile MeSEB which increased to 1104.52 MUs in 2010-11 i.e. an increase of 32.64 *per cent*. As on 31 March 2011, the MeECL had a distribution network of 0.24 lakh CKM, 112 sub-stations (33/11 KV) and 6437 transformers of various capacities. As on 31 March 2011, the number of consumers was 2.71 lakh. The turnover of the MeECL was ₹ 380.17<sup>2</sup> crore in 2010-11, which was equal to 90.12 *per cent* and 2.52 *per cent* of the State PSUs turnover (₹ 421.86<sup>3</sup> crore) and State Gross Domestic Product<sup>4</sup> respectively. The MeECL employed 3611 employees as on 31 March 2011. NEP aims to bring out reforms in the power distribution sector with focus on system up-gradation, controlling and reduction of T&D losses and power thefts and making the sector commercially viable besides financing strategy to generate adequate resources. It further aims to bring out conservation strategy to optimize utilisation of electricity with focus on demand side management and load management.

In view of the above, a performance audit on the working of the power distribution set up of the MeECL was conducted to ascertain whether it was able to adhere to the aims and objectives stated in the NEP and how far the distribution reforms have been achieved.

During the last five years ending 31 March 2010, a review on Implementation of Accelerated Power Development and Reforms Programme, a para on Implementation of Rural Electrification Schemes and a Performance Audit on Power Generating Undertaking (the MeECL) in the State of Meghalaya were included in the Reports of

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<sup>1</sup> Director (Corporate Affairs), Director (Finance), Director (Distribution) and Director (Generation).

<sup>2</sup> First accounts of MeECL not finalised. Figures as furnished by MeECL

<sup>3</sup> Including the turnover figures (provisional) of MeECL for 2010-11, which has not been included in the Introductory portion (Appendix 4.2) of this Chapter pending finalisation of first accounts of MeECL.

<sup>4</sup> GSDP at current prices as furnished by Directorate of Economics and Statistics, Government of Meghalaya as on 01 September 2011 which stood at ₹ 15078 crore.

the CAG (Civil & Commercial), Government of Meghalaya for the year ended 31 March 2007, 31 March 2008 and 31 March 2010 respectively. The Committee on Public Undertakings (COPU) had discussed the para on Implementation of Rural Electrification Schemes in August 2010 and Performance Audit on Power Generating Undertaking (the MeECL) in the State of Meghalaya in September 2011. However, recommendations of the COPU on the said Para/Performance audit are yet to be received.

#### **4.2.2 Scope and Methodology of Audit**

The present performance audit conducted during March 2011 to July 2011 covers the performance of the distribution set-up of the MeECL during the period from 2006-07 to 2010-11. The performance audit mainly deals with network planning and execution, implementation of Central Schemes, operational efficiency, billing and collection efficiency, financial management, consumer satisfaction, energy conservation and monitoring.

For the purpose of this performance audit, three<sup>5</sup> out of eleven distribution divisions (27.27 *per cent*), two<sup>6</sup> out of five Rural Electrification (RE) construction divisions (40 *per cent*) and two<sup>7</sup> out of the six Meter Testing, Investigation (MTI) & Vigilance Sub-Divisions (33.33 *per cent*) were selected based on highest activities involved in terms of number of sub-stations, capital expenditure and numbers of consumers respectively. Two<sup>8</sup> out six revenue divisions (33.33 *per cent*) were selected adopting the combination of highest and lowest revenue collected. Further one work centre *viz.*, Work Centre, Sumer being the largest of two<sup>9</sup> work centres (50 *per cent*) was selected, while the Central Stores was covered to the extent related to this performance audit. However, for comparison purposes, information pertaining to other distribution/revenue divisions was also considered.

The methodology adopted for attaining the audit objectives with reference to audit criteria consisted of explaining audit objectives to top management, scrutiny of records at Head Office and selected units, interaction with the audited entity personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with the Management and issue of draft performance audit report to the Management for comments.

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<sup>5</sup> East Khasi Hills Distribution Division, Shillong, East Garo Hills Distribution Division, William Nagar, and West Garo Hills Distribution Division, Tura

<sup>6</sup> RE Construction Division Jowai (covering Jaintia Hills District) and RE Construction Division, Tura (covering South and West Garo Hills District)

<sup>7</sup> Shillong and Central, Shillong

<sup>8</sup> Western Revenue Division, Umiam (being the highest revenue earning division) and East Garo Hills Revenue Division, William Nagar (being the lowest revenue earning division)

<sup>9</sup> Work Centre, Sumer and Work Centre, Mendipather

#### **4.2.3 Audit Objectives**

The objectives of the performance audit were to assess:

- whether aims and objectives of National Electricity Policy / Plans were adhered to and distribution reforms achieved;
- adequacy and effectiveness of network planning and execution;
- efficiency and effectiveness in implementation of the Central Schemes such as Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) and Restructured Accelerated Power Development and Reforms Programme (R-APDRP).
- operational efficiency in meeting the power demand of the consumers in the State;
- billing and collection efficiency of Revenue from consumers;
- whether a system is in place to assess consumer satisfaction and redressal of grievances;
- the energy conservation measures were undertaken; and
- that a monitoring system is in place and the same is utilised in review of overall working of the Distribution Company.

#### **4.2.4 Audit Criteria**

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

- provisions of Electricity Act 2003;
- National Electricity Plan, Plans and norms concerning distribution network of the MeECL and Planning criteria fixed by the Meghalaya State Electricity Regulatory Commission (MSERC);
- terms and conditions contained in the Central Scheme Documents;
- standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- norms prescribed by various agencies with regard to operational activities;
- norms of technical and non-technical losses;
- guidelines/ instructions/ directions of State Government / MSERC; and
- best performance under various parameters in the region / all India averages.

#### **4.2.5 Financial Position and Working Results**

The financial position of the MeECL for the five years ending 2010-11 is given below:

Table 4.2.1

(₹ in crore)

| Particulars                                                   | 2006-07        | 2007-08        | 2008-09        | 2009-10        | 2010-11 <sup>10</sup> |
|---------------------------------------------------------------|----------------|----------------|----------------|----------------|-----------------------|
| <b>A. Liabilities</b>                                         |                |                |                |                |                       |
| Paid up Capital                                               | 202.00         | 202.00         | 202.00         | 202.00         | 202.00                |
| <b>Reserve &amp; Surplus (excluding Depreciation Reserve)</b> |                |                |                |                |                       |
| (i) Consumers' Contribution                                   | 46.31          | 49.31          | 52.93          | 60.46          | 66.08                 |
| (ii) Grants/Subsidies                                         | 202.55         | 336.91         | 536.52         | 843.06         | 1057.18               |
| (iii) Capital Reserves                                        | 2.70           | 2.70           | 2.99           | 2.98           | 3.06                  |
| <b>Total</b>                                                  | <b>251.56</b>  | <b>388.92</b>  | <b>592.44</b>  | <b>906.50</b>  | <b>1126.32</b>        |
| <b>Borrowings (Loan Funds)</b>                                |                |                |                |                |                       |
| Secured and Unsecured                                         | 650.92         | 743.17         | 836.67         | 1011.81        | 1179.04               |
| Payment due on Capital Liabilities                            | 343.16         | 383.88         | 428.14         | 585.28         | 597.43                |
| Current Liabilities & Provisions                              | 186.90         | 257.23         | 315.88         | 359.66         | 460.93                |
| <b>Total</b>                                                  | <b>1634.54</b> | <b>1975.20</b> | <b>2375.13</b> | <b>3065.25</b> | <b>3565.72</b>        |
| <b>B. Assets</b>                                              |                |                |                |                |                       |
| Gross Block                                                   | 500.81         | 525.18         | 549.67         | 607.51         | 614.55                |
| Less: Depreciation                                            | 235.08         | 249.22         | 264.83         | 295.00         | 322.13                |
| Net Fixed Assets                                              | 265.73         | 275.96         | 284.84         | 312.51         | 292.42                |
| Capital works-in-progress                                     | 486.88         | 736.83         | 1013.42        | 1330.81        | 1654.92               |
| Investments                                                   | 48.26          | 66.37          | 80.21          | 226.26         | 214.78                |
| Assets not-in-use, deferred cost & intangible assets          | 22.03          | 19.41          | 22.82          | 31.52          | 34.46                 |
| Current Assets, Loans and Advances                            | 407.86         | 474.19         | 581.23         | 715.12         | 828.73                |
| Accumulated losses                                            | 403.78         | 402.44         | 392.61         | 449.03         | 540.41                |
| <b>Total</b>                                                  | <b>1634.54</b> | <b>1975.20</b> | <b>2375.13</b> | <b>3065.25</b> | <b>3565.72</b>        |
| Net Worth <sup>11</sup>                                       | (201.78)       | (200.44)       | (190.61)       | (247.03)       | (338.41)              |

Source: data furnished by MeECL

It may be seen from the above that

- the accumulated losses of the MeECL which increased by 33.84 *per cent* during the performance audit period, from ₹ 403.78 crore in 2006-07 to ₹ 540.41 crore in 2010-11 and had fully wiped out the paid up capital (₹ 202 crore);
- at the end of 2006-07, MeECL had the negative networth of (-) ₹ 201.78 crore, which further deteriorated during the performance audit period and reached to (-) ₹ 338.41 crore in 2010-11;
- during the performance audit period (2006-11), there was significant inflow of capital funds (₹ 1,108.90 crore) by way of increase in the grants/subsidies towards capital expenditure (₹ 854.63 crore) and payment due on capital liabilities (₹ 254.27 crore). However, major portion of capital funds remained blocked without any return in capital work in progress which increased (239.90 *per cent*)

<sup>10</sup> Figures for 2010-11 are provisional.<sup>11</sup> Net Worth = Paid up Capital + Free Reserves & Surplus - Accumulated losses.

from ₹ 486.88 crore in 2006-07 to ₹ 1654.92 crore in 2010-11 mainly due to inordinate delays in completion of its Hydro electric projects<sup>12</sup>.

- Secured and Unsecured Loans increased from ₹ 650.92 crore in 2006-07 to ₹ 1179.04 crore in 2010-11 mainly due to funds borrowed through issue of bonds and loan availed from Finance Corporations/Banks, State Government, Centrally Sponsored Schemes for ongoing projects *etc.*; and
- Current Liabilities & Provisions which was ₹ 186.90 crore in 2006-07 increased by 146.62 *per cent* to ₹ 460.93 crore in 2010-11 mainly on account of purchase of power.

The particulars of cost of electricity *vis-à-vis* revenue realisation per unit there from are indicated below:

Table 4.2.2

| Sl. No.    | Description                                                        | 2006-07       | 2007-08        | 2008-09        | 2009-10       | 2010-11        |
|------------|--------------------------------------------------------------------|---------------|----------------|----------------|---------------|----------------|
| <b>1</b>   | <b>Income (₹ in crore)</b>                                         |               |                |                |               |                |
| (i)        | Revenue from Sale of Power                                         | 233.17        | 318.15         | 392.51         | 415.74        | 380.17         |
| (ii)       | Revenue subsidy & grants <sup>13</sup>                             | 24.15         | 32.80          | 11.70          | 12.31         | 12.63          |
| (iii)      | Other income                                                       | 30.69         | 32.29          | 39.78          | 58.50         | 79.94          |
|            | <b>Total Income</b>                                                | <b>288.01</b> | <b>383.24</b>  | <b>443.99</b>  | <b>486.55</b> | <b>472.74</b>  |
| <b>2</b>   | <b>Distribution (in MUs)</b>                                       |               |                |                |               |                |
| (i)        | Own generation                                                     | 389.09        | 663.06         | 552.84         | 534.79        | 507.89         |
| (ii)       | Total power purchased                                              | 929.30        | 924.15         | 968.92         | 947.28        | 1129.14        |
| (iii)      | Net Power available for Sale                                       | 1318.39       | 1587.21        | 1521.76        | 1482.07       | 1637.03        |
| (iv)       | Less: Sub-transmission & distribution losses                       | 485.64        | 529.11         | 477.16         | 503.22        | 532.51         |
|            | <b>Net power sold</b>                                              | <b>832.75</b> | <b>1058.10</b> | <b>1044.60</b> | <b>978.85</b> | <b>1104.52</b> |
| <b>3</b>   | <b>Expenditure on Distribution of Electricity (₹ in crore)</b>     |               |                |                |               |                |
| <b>(a)</b> | <b>Fixed cost</b>                                                  |               |                |                |               |                |
| (i)        | Employees cost                                                     | 82.60         | 95.93          | 104.79         | 114.92        | 135.32         |
| (ii)       | Administrative and General expenses                                | 6.48          | 7.32           | 7.92           | 10.01         | 11.67          |
| (iii)      | Depreciation                                                       | 12.62         | 12.90          | 14.12          | 25.94         | 27.02          |
| (iv)       | Interest and finance charges                                       | 52.62         | 76.24          | 87.57          | 103.41        | 133.78         |
|            | <b>Total fixed cost</b>                                            | <b>154.32</b> | <b>192.39</b>  | <b>214.40</b>  | <b>254.28</b> | <b>307.79</b>  |
| <b>(b)</b> | <b>Variable cost</b>                                               |               |                |                |               |                |
| (i)        | Purchase of Power                                                  | 206.87        | 174.53         | 168.98         | 195.03        | 247.64         |
| (ii)       | Transmission/ Wheeling Charges                                     | 33.86         | 28.67          | 32.66          | 27.60         | 56.00          |
| (iii)      | Repairs & Maintenance                                              | 12.61         | 17.23          | 16.13          | 20.35         | 22.79          |
|            | <b>Total variable cost</b>                                         | <b>253.34</b> | <b>220.43</b>  | <b>217.77</b>  | <b>242.98</b> | <b>326.43</b>  |
| <b>(c)</b> | <b>Total cost 3 (a) + (b)</b>                                      | <b>407.66</b> | <b>412.82</b>  | <b>432.17</b>  | <b>497.26</b> | <b>634.22</b>  |
| 4          | Realisation (₹ per unit) (including revenue subsidy) <sup>14</sup> | 3.09          | 3.32           | 3.87           | 4.37          | 3.56           |
| 5          | Fixed cost (₹ per unit)                                            | 1.85          | 1.82           | 2.05           | 2.60          | 2.79           |
| 6          | Variable cost (₹ per unit) <sup>15</sup>                           | 3.04          | 2.08           | 2.08           | 2.48          | 2.96           |
| 7          | Total cost per unit (in ₹) (5+6)                                   | 4.89          | 3.90           | 4.13           | 5.08          | 5.75           |
| 8          | Contribution (4-6) (₹ per unit)                                    | 0.05          | 1.24           | 1.79           | 1.89          | 0.60           |
| <b>9</b>   | <b>Profit (+)/Loss(-) per unit (in ₹) (4-7)</b>                    | <b>-1.80</b>  | <b>-0.58</b>   | <b>-0.26</b>   | <b>-0.71</b>  | <b>-2.19</b>   |

Source: data furnished by MeECL

<sup>12</sup> As pointed out under Para 4.2.8 to 4.2.8.3 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010 (Government of Meghalaya).

<sup>13</sup> Including subsidy on power purchases (2006-07 & 2007-08)

<sup>14</sup> Realisation per unit includes revenue grants / subsidy.

<sup>15</sup> Variable cost and total cost per unit are worked out excluding Income Tax.

It may be seen from the above that

- the realisation per unit increased from ₹3.09 in 2006-07 to ₹4.37 per unit (2009-10) but reduced to ₹3.56 per unit (2010-11).
- despite revision in tariff on five occasions<sup>16</sup> during 2006-11, the per unit loss increased by ₹0.39 from (-) ₹1.80 (2006-07) to (-) ₹2.19 (2009-10) due to increase in the cost per unit by ₹0.86 during said period.
- employees cost, interest and finance charges and cost of power purchase constituted the major elements of cost in 2010-11 which represented 21.34, 21.09 and 39.05 *per cent* respectively of the total cost. On the other hand, revenue from sale of power and other income constituted the major elements of revenue in 2010-11 which represented 80.42 and 16.91 *per cent* of the total revenue.
- the sub-transmission and distribution (T&D) losses had increased from 485.64 MUs (36.84 *per cent*) in 2006-07 to 532.51 MUs (32.53 *per cent*) in 2010-11, thereby registering a marginal improvement in T&D losses by 4.31 *per cent* in terms of percentage to net power available for sale.
- The State remained largely dependent upon purchase of power which ranged from 70.49 *per cent* (2006-07) to 68.97 *per cent* (2010-11) of net power available for sale.

#### ***Recovery of cost of operations***

During the performance audit period (2006-11), the total cost of operation of MeECL increased by ₹0.86 per unit from ₹4.89 per unit (2006-07) to ₹5.75 per unit (2010-11) mainly due to increase in per unit employee cost from ₹0.99 (2006-07) to ₹1.23 (2010-11) and also per unit increase in interest and finance cost from ₹0.63 per unit (2006-07) to ₹1.21 (2010-11).

The MeECL was not able to recover its cost of operations during any of the year covered in performance audit. It may be seen from the working results (**Table 4.2.2**) that there remained a revenue gap of ₹150.34 crore<sup>17</sup> in 2006-07 (even after including subsidies & grants), which increased to ₹241.42 crore in 2010-11. The steep increase in revenue gap needs immediate attention of the State Government for necessary remedial action.

#### **4.2.6 Audit Findings**

We explained the audit objectives to the MeECL during an Entry Conference held on 22 February 2011. Subsequently, audit findings were reported to the MeECL and the State Government in September 2011 and also discussed in the 'Exit Conference' held on 29 September 2011. The Exit Conference was attended by Director (Finance), Director (Distribution) and Chief Engineer (Distribution) along with other officers of the MeECL and by Additional Chief Secretary of the State Government. The views

<sup>16</sup> Tariff was revised in January 2008, October 2008, December 2009, February 2010 and September 2010.

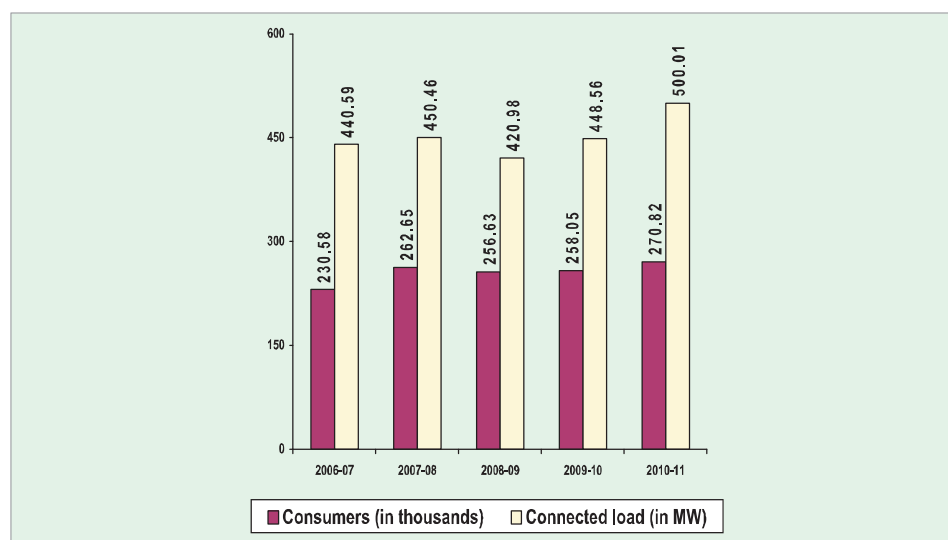
<sup>17</sup> Total cost – (Revenue from sale of power + Revenue from subsidy + Grants).

expressed by the representatives of MeECL and the State Government in the Exit Conference have been duly considered while finalising this Performance audit. The audit findings are discussed in subsequent paragraphs.

#### 4.2.7 Distribution Network Planning

The MeECL is required to prepare long term/annual plan for creation of infrastructural facilities for efficient distribution of electricity so as to cover maximum population in the State. Besides, the upkeep of the existing network, additions in distribution network were also to be planned keeping in view the demand/ connected load, anticipated new connections and growth in demand based on Electric Power Survey carried out by Central Electricity Authority (CEA) from time to time. Considering these physical parameters, capital investment plans were required to be submitted to the State Government/ Meghalaya State Electricity Regulatory Commission (MSERC). The major components of the outlay should include normal development and system improvement besides rural electrification and strengthening of IT enabled systems.

The particulars of consumers and their connected load during the performance audit period are given in the bar chart below:



Source: data furnished by MeECL

It may be seen from the above that during the performance audit period, the number of consumers had increased from 230.58 thousand (2006-07) to 270.82 thousand (2010-11) by 17.45 per cent and connected load had also increased from 440.59 MW (2006-07) to 500.86 MW (2010-11) by 13.68 per cent.

The system improvement and rural electrification schemes have been dealt with separately, under subsequent paragraphs. We observed that MeECL did not plan/set target for addition in the distribution network based on the anticipated growth in

demand/connected load during any of the five years covered in performance audit. The particulars of distribution network existing at the beginning of preceding five years from 2006-07 to 2010-11, additions made during each year and overall position of distribution network at the close of each year are given below:

Table 4.2.3

| Sl. No.    | Description                                        | 2006-07              | 2007-08  | 2008-09  | 2009-10  | 2010-11  |
|------------|----------------------------------------------------|----------------------|----------|----------|----------|----------|
| <b>(A)</b> | <b>No. of Substations (of various categories)</b>  |                      |          |          |          |          |
| i          | At the beginning of the year                       | 4630                 | 5154     | 5434     | 5774     | 6204     |
| ii         | Additions made during the year                     | 524                  | 280      | 340      | 430      | 345      |
| iii        | At the end of the year                             | 5154                 | 5434     | 5774     | 6204     | 6549     |
| iv         | Shortage in addition (ii - iii)                    | -                    | -        | -        | -        | -        |
| <b>(B)</b> | <b>HT Lines (in CKM)</b>                           |                      |          |          |          |          |
| i          | At the beginning of the year                       | 10061.40             | 10273.30 | 10687.51 | 11761.81 | 11902.90 |
| ii         | Additions made during the year                     | 211.90               | 414.21   | 1074.30  | 141.09   | 640.08   |
| iii        | At the end of the year                             | 10273.30             | 10687.51 | 11761.81 | 11902.90 | 12542.98 |
| iv         | Shortage in addition (ii - iii)                    | -                    | -        | -        | -        | -        |
| <b>(C)</b> | <b>LT Lines (in CKM)</b>                           |                      |          |          |          |          |
| i          | At the beginning of the year                       | 7812.17              | 8153.80  | 8725.30  | 9513.66  | 10863.77 |
| ii         | Additions made during the year                     | 341.63               | 571.50   | 788.36   | 1350.11  | 125.71   |
| iii        | At the end of the year                             | 8153.80              | 8725.30  | 9513.66  | 10863.77 | 10989.48 |
| iv         | Shortage in addition (ii - iii)                    | -                    | -        | -        | -        | -        |
| <b>(D)</b> | <b>Transformers Capacity (in MVA)<sup>18</sup></b> |                      |          |          |          |          |
| i          | At the beginning of the year                       | 306.05 <sup>19</sup> | 306.05   | 327.86   | 394.50   | 435.39   |
| ii         | Additions made during the year                     | -                    | 21.81    | 66.64    | 40.89    | 5.92     |
| iii        | At the end of the year                             | 306.05               | 327.86   | 394.50   | 435.39   | 441.31   |
| iv         | Shortage in addition (ii - iii)                    | -                    | -        | -        | -        | -        |

Source: MeECL

In this regard, we further observed the following:

- As per the guidelines for reduction of transmission and distribution losses issued by CEA in February 2001, as part of long term measures, the preparation of long term plans on regular basis for phased strengthening and improvement of the distribution systems along with associated transmission system was to be adopted. However, the MeECL did not have any capital investment plan or capacity addition plan to upgrade its distribution network.
- The addition made during the performance audit period by way of substations (1919 number), HT lines (2481.58 CKM), LT lines (3177.31 CKM) and transformation capacity (135.26 MVA) was mainly due to the implementation of Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY), a centrally sponsored scheme.
- As compared to the growth of connected load of 440.59 MW (equivalent to 550.74 MVA at 0.80 Power Factor) in 2006-07 to 500.01 MW (equivalent to 625.07 MVA at 0.80 Power Factor) in 2010-11 (13.49 *per cent*) as depicted in the graph at pre-page, the increase in transformer capacity was from 306.05 MVA to 441.31 MVA (44.20 *per cent*). The available transformer capacity (441.31 MVA) in the State as on 31 March 2011 was insufficient to meet the requirement of the

<sup>18</sup> Represents the transformation capacity of 33/11 KV transformers only.

<sup>19</sup> As figures are not available, capacity as at the end of 2006-07 have been adopted.

connected load (500.01 MVA) as on that date. Thus, the increase in distribution capacity could not match the pace of growth in consumer demand. This led to overloading of network and consequential rotational cuts in distribution of electricity.

The MeECL replied (October 2011) that proposals for strengthening the sub-transmission and distribution network in the state at a cost of ₹ 321 crore and ₹ 75 crore had been submitted to Government of India and North Eastern Council respectively. The Government also endorsed (November 2011) the views of the MeECL.

The reply is misleading as these are merely investment proposals prepared without taking into account the anticipated future growth in demand and corresponding requirement of system augmentation. The MeECL should introduce a system of preparation and monitoring of long term plan for phased strengthening and improvement of the distribution systems along with associated transmission system.

#### **4.2.8 Rural Electrification**

The National Electricity Policy (NEP) states that the key objective of development of the power sector is to supply electricity to all areas including rural areas for which the GOI and the State Governments would jointly endeavour to achieve this objective. Accordingly, the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in April 2005, which aimed at providing access to electricity for all households in five years for which the Government provides 90 *per cent* capital subsidy.

Besides, the GOI notified the Rural Electrification Policy (REP) in August 2006. The REP *inter-alia* aims at providing access to electricity for all households by 2009 and Minimum lifeline consumption of one Unit per household per day as a merit good by the year 2012. The other Rural Electrification (RE) schemes *viz.*, Accelerated Electrification of one lakh villages and one crore household and Minimum Needs Programme were merged into RGGVY. The features of the erstwhile 'Kutir Jyoti Programme' were also suitably integrated into this scheme.

According to new definition of village electrification as notified by GOI on 05 February, 2004, a village would be declared electrified if:

- i) Basic infrastructure such as distribution transformer and distribution lines are provided in the inhabited locality as well as the dalit basti/hamlet where it exists.
- ii) Electricity is provided to public places like schools, panchayat offices, health centres, dispensaries, community centres, *etc.* and
- iii) The number of households electrified should be at least 10 *per cent* of the total number of households in the village.

Our observations on implementation of RGGVY by MeECL are discussed below:

#### 4.2.8.1 Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

The RGGVY scheme was implemented by the MeECL from 2007-08 through its five RE divisions viz., Shillong, Jowai, Nongstoin, Tura and William Nagar. For the purposes of this performance audit, two divisions (Tura and Jowai divisions) which cover West and South Garo hills and Jaintia hills districts, were covered.

As on 31 March 2006, out of total 6026 villages in the State (as per 2001 Census), 3568 villages (59.21 *per cent*), were electrified. Under RGGVY, out of the total 6026 villages (including villages already electrified), the MeECL targeted to electrify/intensify<sup>20</sup> total 5388 villages by January 2012<sup>21</sup> in lines with National Electricity Policy (NEP). The year-wise target *vis-à-vis* achievement of electrification/intensification of villages under RGGVY scheme during 2007-11 is shown in the table below:

**Table 4.2.4**

| Year         | Villages electrified/ intensified in the beginning of the year | Villages targeted for electrification / intensification during the year | Villages carried forward from previous year for electrification / intensification during the year | Total villages targeted for electrification/ intensification during the year | No. of villages electrified /intensified during the year | Percentage of achievement against target during the year |
|--------------|----------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| (1)          | (2)                                                            | (3)                                                                     | (4)                                                                                               | (5)=(3)+(4)                                                                  | (6)                                                      | (7)=(6)/(5) x 100                                        |
| 2007-08      | 0                                                              | 930                                                                     | 0                                                                                                 | 930                                                                          | 0                                                        | 0.00                                                     |
| 2008-09      | 0                                                              | 19                                                                      | 930                                                                                               | 949                                                                          | 207                                                      | 21.81                                                    |
| 2009-10      | 207                                                            | 834                                                                     | 742                                                                                               | 1576                                                                         | 729                                                      | 46.26                                                    |
| 2010-11      | 936                                                            | 366                                                                     | 847                                                                                               | 1213                                                                         | 265                                                      | 21.85                                                    |
| <b>Total</b> |                                                                | <b>2149</b>                                                             |                                                                                                   |                                                                              | <b>1201</b>                                              | <b>55.89</b>                                             |

Source: data furnished by MeECL

It could be seen from the above table that only 55.89 *per cent* of targeted villages were electrified/intensified during the period 2007-11. We observed that MeECL targeted to cover total 2,149 villages for electrification/intensification during 2007-11 against overall number of 5388 villages to be covered under RGGVY upto January 2012, thereby leaving the balance 3239 villages for covering between April 2011 and January 2012. This indicates that the planning of MeECL was deficient and prepared on adhoc basis without rationally linking with the overall schedule of implementing RGGVY in the State. Further, MeECL failed to achieve the lower target (2,149 villages) for 2007-11. As such, there is a distant possibility that the MeECL will be able to provide access to electricity for all households and minimum lifeline consumption of one unit per household per day by the year 2012 as envisaged under NEP.

<sup>20</sup> Intensification includes creating of additional infrastructure such as construction of 11 KV and LT line, installation of DTs in already electrified villages for improved electrical coverage.

<sup>21</sup> The MeECL in its reply (October 2011) stated that the works would be completed in March 2012.

The MeECL replied (October 2011) that it was difficult to fully factor the geographical and climatic constraints at the time of preparation of DPR. The Government also endorsed (November 2011) the views of the MeECL.

The reply is not acceptable as the MeECL should have prepared the DPRs after appropriately addressing all possible constraints involved in implementation of the projects and ignoring these factors at planning stage is indicative of deficient planning by MeECL.

#### 4.2.8.2 Funds received under RGGVY

The funds received under RGGVY by the MeECL and expenditure incurred there against during the period 2007-08 to 2010-11 is shown in the table below:

Table 4.2.5

| (₹ in crore) |                 |                                |                       |                |                                              |                                      |                                       |
|--------------|-----------------|--------------------------------|-----------------------|----------------|----------------------------------------------|--------------------------------------|---------------------------------------|
| Year         | Opening Balance | Funds received during the year | Total funds available | Funds Utilised | Percentage of utilisation to available funds | Unspent funds at the end of the year | Percentage of unspent funds available |
| 2007-08      | 0.00            | 19.93                          | 19.93                 | 8.50           | 42.65                                        | 11.43                                | 57.35                                 |
| 2008-09      | 11.43           | 12.20                          | 23.63                 | 17.04          | 72.11                                        | 6.59                                 | 27.89                                 |
| 2009-10      | 6.59            | 129.39                         | 135.98                | 19.98          | 14.69                                        | 116.00                               | 85.31                                 |
| 2010-11      | 116.00          | 87.08                          | 203.08                | 79.28          | 39.04                                        | 123.80                               | 60.96                                 |
| <b>Total</b> |                 | <b>248.60</b>                  |                       | <b>124.80</b>  |                                              |                                      |                                       |

Source: data furnished by MeECL

It may be seen from the above that

- as at the end of 2010-11, out of total funds (₹ 248.60 crore) received under RGGVY, funds to the extent of 50.20 *per cent* could be utilised thereby leaving an unspent balance of ₹ 123.80 crore as on 31 March 2011.
- though percentage of utilisation of funds to the funds available increased from 42.65 *per cent* in 2007-08 to 72.11 *per cent* in 2008-09, it came down to 14.69 *per cent* in 2009-10 and 39.04 *per cent* in 2010-11; and
- the year-wise percentage of funds utilised to total funds available remained below 45 *per cent* during four years period from 2007-08 to 2010-11 except during 2008-09.

#### 4.2.8.3 Electrification / Intensification of villages under RGGVY

The MeECL submitted (December 2005) seven DPRs (₹ 264.45 crore) for the rural electrification work under RGGVY scheme for all seven districts of the State to the Rural Electrification Corporation Limited<sup>22</sup> (REC). The REC, initially, approved ₹ 46.08 crore (September/November 2006) for Ri-Bhoi and Jaintia Hills and finally approved (March 2008) ₹ 290.49 crore for all the seven districts. However, on account of poor response of bidders and also high quotations received, the project cost

<sup>22</sup> Nodal agency to coordinate and achieve the goal of electrification of villages and finance the projects under RGGVY.

was revised to ₹ 376.06 crore<sup>23</sup> (August 2008 / December 2009) and ₹ 442.74 crore<sup>24</sup> (March 2010 / January 2011) for the projects for all the seven districts. The district-wise project cost approval/revisions, details of work orders/its amendments and time taken in award of work are shown below:

Table 4.2.6

| District            | Project cost approval          | Project cost*<br>Revised/Date |                            | Work awarded**             |                            | Time taken in<br>award of work<br>(months) |
|---------------------|--------------------------------|-------------------------------|----------------------------|----------------------------|----------------------------|--------------------------------------------|
|                     | Amount (₹ in crore)<br>/(Date) | Amount<br>(₹ in crore)        | Date                       | Amount (₹<br>in crore)     | Date                       |                                            |
| Jaintia Hills       | 26.19<br>(21.11.2006)          | 30.22<br>(35.32)              | 29.08.2008<br>(08.03.2010) | 29.01<br>(30.39)           | 16.07.2007<br>(09.06.2010) | 7                                          |
| Ri-Bhoi             | 19.89<br>(26.09.2006)          | 20.85<br>(21.04)              | 29.08.2008<br>(08.03.2010) | 19.74<br>(19.91)           | 28.09.2007<br>(09.06.2010) | 12                                         |
| East Khasi<br>Hills | 16.62<br>(06.03.2008)          | 16.62<br>(20.39)              | 06.03.2008<br>(08.03.2010) | 16.94<br>(19.35)           | 09.06.2008<br>(09.06.2010) | 3                                          |
| South Garo<br>Hills | 49.74<br>(11.03.2008)          | 73.73<br>(87.77)              | 07.12.2009<br>(18.01.2011) | 68.35<br>(81.39)           | 06.01.2010<br>(07.02.2011) | 21                                         |
| West Garo<br>Hills  | 81.43<br>(11.03.2008)          | 107.32<br>(128.32)            | 07.12.2009<br>(18.01.2011) | 100.03<br>(119.43)         | 06.01.2010<br>(07.02.2011) | 21                                         |
| East Garo<br>Hills  | 61.95<br>(11.03.2008)          | 82.15<br>(95.69)              | 07.12.2009<br>(18.01.2011) | 76.31<br>(88.83)           | 06.01.2010<br>(07.02.2011) | 21                                         |
| West Khasi<br>Hills | 34.67<br>(11.03.2008)          | 45.17<br>(54.21)              | 07.12.2009<br>(18.01.2011) | 42.11<br>(50.43)           | 06.01.2010<br>(07.02.2011) | 21                                         |
| <b>Total</b>        | <b>290.49</b>                  | <b>376.06<br/>(442.74)</b>    |                            | <b>352.49<br/>(409.73)</b> |                            |                                            |

\*Amount / date in bracket represent second revision of project cost. Source : MeECL

\*\* Amount / date in bracket represent amendment to work orders.

It may be seen from the above that:

- the MeECL issued first work order for the implementation of RGGVY scheme in July 2007 for Jaintia Hills district and thereafter in respect of other districts work orders were issued during September 2007 to January 2010; and
- the award of work for implementation of RGGVY was abnormally delayed in five out of seven districts by 12 months (one district) and 21 months (four districts) from the date of project cost approval. The MeECL stated (August 2011) that the taking up of the works in case of South, West and East Garo Hills and West Khasi Hills districts, there was delay in sanctioning of funds by the REC.

Our further observations on execution of RGGVY in three<sup>25</sup> out of seven districts test checked are discussed below:

As per the work orders, works were to be completed by March 2011<sup>26</sup> and January 2012 for Jaintia Hills and South and West Garo Hills respectively. In case of Jaintia Hills, as on 31 March 2011, overall progress in terms of funds utilisation was to the

<sup>23</sup> Based on the lowest cost quoted for all the seven districts.

<sup>24</sup> Based on the survey for all the seven districts.

<sup>25</sup> Jaintia Hills, South Garo Hills and West Garo Hills districts.

<sup>26</sup> As per the amended orders, works were scheduled for completion within 24 months i.e. in March 2011 (Jaintia Hills District).

extent of 86.17 *per cent*<sup>27</sup>. However, in case of South and West Garo Hills, survey works, scheduled for completion by July 2010 were completed in February 2011 and erection works were started only in March 2011. However, the MeECL had released (March 2011) payments to the tune of ₹ 41.71 crore (20.77 *per cent* of total contract value of ₹ 200.82 crore) to the contractors.

#### ***4.2.8.4 Excess procurement of materials***

Under RGGVY project, the MeECL issued work orders for West and South Garo Hills (January 2010) and Jaintia Hills (July 2007) for construction works on village electrification and for providing service connection to 14,029 BPL households as notified (August 2008) by the State Government. Based on the surveys carried out by the contractors for assessing the actual requirement as per the terms of the orders, the scope of work in three districts was reduced to only 12,074 BPL households.

Owing to this change in the scope of work, amendments to the work orders were issued between June 2010 (Jaintia Hills) and February 2011 (West and South Garo Hills). Before issue of said amendments, however, in case of Jaintia Hills district, the materials as provided in the original work orders were procured and issued to the contractors.

As per clause 5.1 (c) of the RGGVY guidelines, there should be a clear identification of beneficiaries and stake holder analysis should be undertaken including consultation with stake holders at the time of project formulation. However, in the state of Meghalaya, the actual survey was done by the contractor during implementation of project. We are of the view that the survey should have been conducted initially during the time of project formulation and the requirements should have been assessed and clearly indicated in the DPR itself. On account of the failure on the part of the MeECL to conduct the actual survey at the time of project formulation itself or at least before awarding the tenders, in respect of Jaintia Hills district, the above stated materials valuing ₹ 1.06 crore were procured and issued in excess of requirement for erection work and were lying with the contractors (March 2011). In West and South Garo Hills districts the contractors had commenced the supply of materials from March 2011 only.

The MeECL accepted (October 2011) that the excess material, lying with the contractors in respect of Jaintia Hills district was being processed for adjustment in the closure proposal. The Government also endorsed (November 2011) the views of the MeECL.

#### ***4.2.8.5 Exclusion of villages under the RGGVY scheme***

During scrutiny of records relating to coverage of villages under RGGVY, we noticed that out of the 456 villages<sup>28</sup> excluded from RGGVY in the State, 384 villages were

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<sup>27</sup> Payments to the tune of ₹ 26.29 crore up to February 2011 was released against the total work order value of ₹ 30.39 crore.

<sup>28</sup> Out of 6026 villages, as per Census 2001 and information as furnished by the MeECL.

not included as these villages were to be taken up under other schemes viz., MNREDA<sup>29</sup> (155)<sup>30</sup> or under border dispute (28)<sup>31</sup> or uninhabited (201)<sup>32</sup>. However, reasons for the exclusion of the balance 72 villages<sup>33</sup> were not on record.

In case of 37 villages (South and West Garo Hills districts) the exclusion of which was noticed in audit, the MeECL admitted (May 2011) that it was due to oversight. Thus, inhabitants of at least 37 villages were deprived of the benefits under RGGVY thereby defeating the National Electricity Plan (NEP) of providing electricity to all.

#### 4.2.8.6 Provision of excess capacity of distribution transformer (DTRs)

The scope of work for construction works on village electrification under RGGVY for West and South Garo Hills and Jaintia Hills included provision for DTRs of different capacities ranging from 5 KVA to 25 KVA. The MeECL issued total six work orders for electrification/intensification of total 2535 villages relating to three selected districts, which included installation of DTRs having different capacities. Out of three work orders pertaining to 1123 villages of which, work details relating to 70 villages were test checked. We observed that the capacity of DTRs (25 KVA) provided for these 70 villages was in excess of actual connected load of all the households (BPL and APL) by 82.86 per cent to 870.32 per cent as detailed below:

**Table 4.2.7**

| Name of the District | Number of villages with provision of 25 KVA DTs reviewed in audit | Number of villages test checked | Total number of households as per census 2001 | Number of BPL household as per census 2001 | Connected load (KWH) <sup>34</sup> for BPL | Connected load (KWH) <sup>35</sup> for APL | Total connected load (KWH) required (VI + VII) | Number of DTRs of 25 KVA capacity | DTR capacity (KWH) <sup>36</sup> | Excess capacity available (KWH) (X - VIII) | Percentage of excess capacity to actual connected load |
|----------------------|-------------------------------------------------------------------|---------------------------------|-----------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------------------|------------------------------------------------|-----------------------------------|----------------------------------|--------------------------------------------|--------------------------------------------------------|
| I                    | II                                                                | III                             | IV                                            | V                                          | VI                                         | VII                                        | VIII                                           | IX                                | X                                | XI                                         | XII                                                    |
| Jaintia Hills        | 428                                                               | 32                              | 1756                                          | 164                                        | 9.84                                       | 585.29                                     | 595.13                                         | 37                                | 1088.24                          | 493.11                                     | 82.86                                                  |
| West Garo Hills      | 426                                                               | 2                               | 107                                           | 14                                         | 0.84                                       | 34.19                                      | 35.03                                          | 3                                 | 88.24                            | 53.21                                      | 151.90                                                 |
| South Garo Hills     | 269                                                               | 26                              | 370                                           | 186                                        | 11.16                                      | 67.65                                      | 78.81                                          | 26                                | 764.71                           | 685.90                                     | 870.32                                                 |

Source: data furnished by MeECL

<sup>29</sup> Schemes by Meghalaya Non Conventional and Rural Energy Development Agency.

<sup>30</sup> 31 villages in Jaintia Hills, 19 villages in Ri Bhoi, 45 in East Khasi Hills, 18 in East Garo Hills and 42 in West Khasi Hills districts.

<sup>31</sup> Ri Bhoi district.

<sup>32</sup> 32 villages in Jaintia Hills, 19 villages in Ri Bhoi, 42 in East Khasi Hills, 10 in South Garo Hills, 64 in West Garo Hills, 17 in East Garo Hills and 17 in West Khasi Hills districts.

<sup>33</sup> 4 villages in Jaintia Hills, 3 villages in Ri Bhoi, 7 in East Khasi Hills, 1 in South Garo Hills, 7 in West Garo Hills, 3 in East Garo Hills and 47 in West Khasi Hills districts.

<sup>34</sup> Connected load (KWH) = 60 Watt/BPL household/1000 i.e. 0.06 KWH as per REC requirement, total connected load in the village = 0.06 KWH \* number of BPL households

<sup>35</sup> Connected load (KWH) for APL as per REC calculation = 0.3125 KVA per house hold which works out to 0.367647 KWH

<sup>36</sup> DT Capacity (KWH) = number of DTs \* 25 KVA/0.85 power factor as per MeECL.

The MeECL stated (October 2011) that after necessary scrutiny, rectification/corrective measures would be explored in this regard. The Government also endorsed (November 2011) the views of the MeECL.

#### **4.2.8.7 Huge variation in rate of materials**

Mention was made in para 7.3.13 of the Report of the CAG for the year 2007-08 (Government of Meghalaya) that additional expenditure of ₹ 5.23 crore was incurred on procurement of materials for Jaintia Hills District under RGGVY at rates more than the rates finalised for Ri-Bhoi district as proper evaluation was not made by the MeECL.

During the period under performance audit, it was seen that in case of West Garo Hills and South Garo Hills, there was no improvement in the procedure for procurement of materials. With a view to have smooth and speedy implementation of work under RGGVY, total procurement of materials was divided into five packages (three for West Garo Hills and two for South Garo Hills). Accordingly, tenders were invited (April 2008 to October 2008) separately for the above packages and bids were received in June 2008 for West Garo Hills and in November 2008 for South Garo Hills. The MeECL awarded (January 2010) work for all five packages to five contractors<sup>37</sup> and the component of the contract price included ex works value<sup>38</sup> and freight and insurance. Our scrutiny revealed that the ex-works prices finalised for these two districts in respect of various materials (conductor, steel tubular poles, transformers *etc.*) varied from 1.10 *per cent* to 220.00 *per cent* of lowest price of materials amongst these five contracts. Compared to the lowest prices of materials, the MeECL had incurred additional expenditure of ₹ 5.58 crore on the procurement of major items so far (March 2011) under these contracts. The variation in the materials was due to the fact that the tenders were floated separately for each package and the rates quoted for the same type of materials varied in each case. The MeECL did not analyse and compare the cost of the materials to take note of such wide variation in individual items under each package. This clearly indicated that the proper evaluation of tenders was not made.

The MeECL replied (October 2011) that the RGGVY project was a turnkey project and contracts were finalised on whole package and not on individual item basis. The Government also endorsed (November 2011) the views of the MeECL.

The reply is not acceptable as in the light of wide variation in individual items, proper bid evaluation would have enabled the management to correctly ascertain the reasonability of the price of whole package. Further, keeping in view the variation in estimated and actual quantity of work and consequent payment on individual item basis, determination of rate of individual item is significant for proper control over the cost of the project.

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<sup>37</sup> At a value of ₹ 29.25 crore, ₹ 28.97 crore, ₹ 26.19 crore, ₹ 30.36 crore and ₹ 19.81 crore.

<sup>38</sup> Including taxes.

#### 4.2.8.8 Survey on works under taken under RGGVY scheme

To gather consumer feedback and input on the use of infrastructure created under RGGVY Scheme, we conducted (May/June 2011) a beneficiary Survey in thirteen villages<sup>39</sup> (selected on random basis) of Jaintia Hills and Ri-Bhoi Districts where works under RGGVY were nearing completion. The survey revealed the following:

- Out of 13 villages, in 12 villages (where response was received) with 2532 households, only 1513 households (60 *per cent*) were having electrical connections.
- 11 villages, out of 13 villages, faced frequent load shedding and in case of six villages, the time for such load shedding was not fixed.
- in case of six out of 13 villages, quality of power supply was poor as inhabitants faced voltage fluctuation problems.
- in case of seven out of 13 villages where clear responses were received, the availability of power in a month ranged from 20 to 27 days, whereas power availability in day time was only five to seven hours in three villages, eight to nine hours in two villages and more than 11 hours only in two villages.

From the above it is evident that the State of Meghalaya has a long way to go to fulfill the objectives of NEP *viz.*, access to electricity to all rural house holds and supply of quality power.

#### 4.2.9 Restructured Accelerated Power Development and Reforms Programme

The Government of India (GOI) approved the Accelerated Power Development and Reforms Programme (APDRP) to leverage the reforms in power sector through the State Governments. This scheme was implemented by the power sector companies through the State Government with the objective of up-gradation of sub-transmission and distribution system including energy accounting and metering, for which financial support was provided by GOI.

In order to carry on the reforms further, the GOI launched the Restructured Accelerated Power Development and Reforms Programme (R-APDRP) in July 2008 as a Central Sector Scheme for XI Plan. The R-APDRP scheme comprises Part A and B. Part A was dedicated to establishment of IT enabled system for achieving reliable and verifiable baseline data system in all towns besides installation of SCADA<sup>40</sup>/Distribution Management System. For this, 100 *per cent* loan is provided, and was convertible into grant on completion and verification of same by Third Party independent evaluating agencies. The Part B of the scheme deals with strengthening of regular sub-transmission & distribution system and up-gradation projects. The focus in this part was on reduction of AT&C losses on sustainable basis. For Meghalaya, being a special category State, the GOI was to provide financial

<sup>39</sup> Jaintia Hills District six villages (Thadmyrnri, Ialong, Jarain, Sankhat, Saipung and Narwan ) and Ri-Bhoi district seven villages (Umdiker, Nongrah, Kyrdemkulai, Lumsohoieng, Lalumpam, Nalapara and Sarikushi).

<sup>40</sup> Supervisory Control And Data Acquisition – It generally refers to industrial control systems: computer systems that monitor and control industrial, infrastructure, or facility-based processes.

assistance to the extent of 90 *per cent* of the project cost in the form of loan. The entire loan of GOI was to be converted into grant in five tranches depending on extent of maintaining AT&C loss level at 15 *per cent* for five years.

#### **Implementation of R-APDRP**

The present progress of implementation of R-APDRP in the State of Meghalaya was not appreciating. We observed that against the total cost of ₹ 43.85 crore projected (March 2010) under Detailed Project Reports (DPRs) for implementation of IT infrastructure in nine project towns, the R-APDRP Steering Committee (March 2010) approved the costs to the extent of ₹ 33.97 crore. As against this, an amount of ₹ 10.19 crore only was received (February 2011) by MeECL. We noticed that MeECL could not award the contract for appointment of Implementing Agency (June 2011) as the court case filed by one of the bidders was pending (June 2011) in Guwahati High Court. At present, the MeECL had proposed to procure consumer meters under R-APDRP project at a cost of ₹ 28.44 lakh. The entire funds (₹ 10.19 crore) received by MeECL remained unutilised (July 2011).

Thus, the R-APDRP scheme introduced (July 2008) in the State with the prime objective of strengthening the distribution system and reducing high Aggregate Technical & Commercial (AT&C) losses in the State was pending for implementation even after lapse of more than three years of its launching in July 2008.

As regards implementation of APDRP (previous scheme of GOI), we observed that as per clause 3 of guidelines for implementation of R-APDRP (Part-A) and also as per the directions (December 2008) of GOI (Ministry of Power), the MeECL was required to furnish the completion certificates for all the works executed under APDRP and short close the balance ongoing projects before 20 February 2009 so as to complete all closing formalities (including release of funds) of the scheme by March 2009. We, however, observed that the works under APDRP were continuing (March 2011) and the scheme funds (₹ 9.61 crore out of ₹ 195.14 crore) were lying unspent with MeECL. The issues relating to implementation of the APDRP Scheme, however, have already been covered under the performance audit appeared in the Audit Report (Civil), 2006-07, Government of Meghalaya.

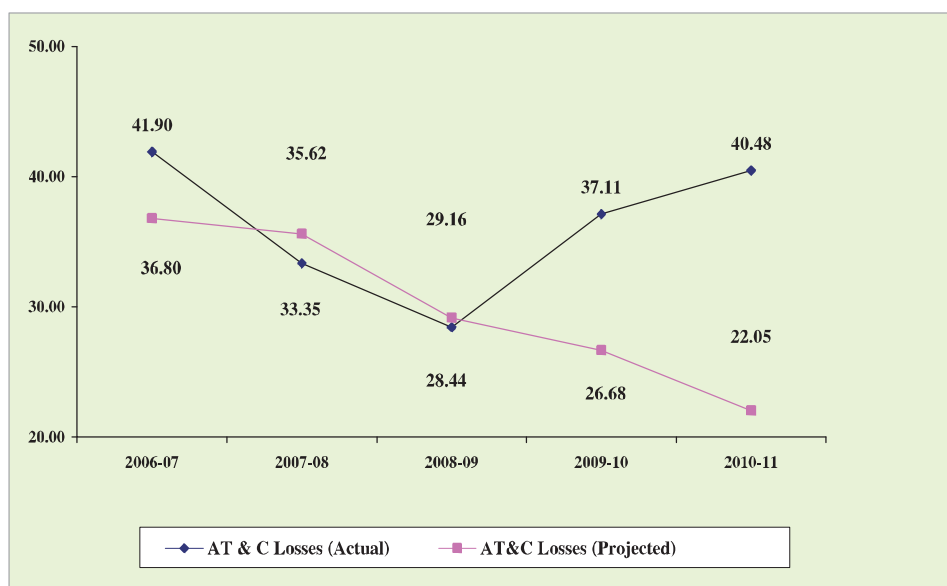
#### **4.2.10 Aggregate Technical & Commercial Losses**

One of the prime objectives of APDRP as well as R-APDRP scheme was to strengthen the distribution system with the focus on reduction of Aggregate Technical & Commercial (AT&C) losses on sustainable basis. As stated above, the R-APDRP scheme was not implemented in the state of Meghalaya so far. The graph below, however, depicts the actual<sup>41</sup> vis-à-vis the projected<sup>42</sup> AT&C losses for the performance audit period:

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<sup>41</sup> Actual figures for the years 2006-11 are as per MeECL annual accounts except for 2010-11 which was furnished by the MeECL.

<sup>42</sup> Road Map for reducing AT&C losses under the 11<sup>th</sup> Five Year Plan (2006-12) prepared by MeECL as per guidelines of the Ministry of Power, Government of India.



It may be seen from the above graph that

- compared to the actual reduction of AT&C losses by 1.42 *per cent* from 41.90 (2006-07) to 40.48 (2010-11), the projection for reduction of AT&C losses by 14.75 *per cent* (36.80 in 2006-07 to 22.05 in 2010-11) during the years 2006-07 to 2010-11 was unrealistic.
- the AT&C loss of 41.90 *per cent* for the year 2006-07 had reduced to all time low in five years period at 28.44 *per cent* in 2008-09 on account of release of ₹ 50 crore as one time settlement by Government of Meghalaya during 2008-09 against the outstanding dues of various Government Departments. AT&C losses steeply increased thereafter and reached again almost at the level of 2006-07 within two years at 40.48 *per cent* in 2010-11.
- on account of the failure to reduce the AT&C losses, the Meghalaya State Electricity Regulatory Commission (MSERC), on truing up the Annual Accounts of the MeECL, had imposed (February 2011) penalty amounting to ₹ 5.81 crore for 2007-08 and ₹ 19.49 crore for 2008-09.

The reasons for such high AT&C losses were attributed (November 2010)<sup>43</sup> by the MeECL to poor billing and collection efficiency, long and overloaded transmission/sub-transmission/distribution lines, un-metered connection, stopped/defective meters, theft/pilferage of energy. The results of our examination on these aspects are discussed in succeeding paragraphs.

**4.2.10.1** A review of Revenue Division-wise AT&C losses during the performance audit period revealed the following position:

<sup>43</sup> The reasons for high AT&C losses have been mentioned in the Tariff Petition for 2011-12.

Table 4.2.8

| Sl. No | Name of Revenue Division       | AT&C Losses (per cent) |              |                           |              |              |
|--------|--------------------------------|------------------------|--------------|---------------------------|--------------|--------------|
|        |                                | 2006-07                | 2007-08      | 2008-09                   | 2009-10      | 2010-11      |
| 1.     | Shillong                       | 24.74                  | 23.30        | 23.45                     | 21.21        | 24.44        |
| 2.     | Jowai                          | 58.37                  | 30.78        | 34.84                     | 23.39        | 41.34        |
| 3.     | Western, Umiam                 | 32.34                  | 23.80        | 33.52                     | 35.24        | 30.19        |
| 4.     | Central, Shillong              | 62.20                  | 55.13        | 58.39                     | 64.63        | 59.21        |
| 5.     | West Garo Hills, Tura          | 37.98                  | 59.79        | 46.10                     | 73.37        | 81.37        |
| 6.     | East Garo Hills, William Nagar | 86.68                  | 82.48        | 74.41                     | 80.58        | 86.92        |
|        | <b>Total</b>                   | <b>41.90</b>           | <b>33.35</b> | <b>39.40</b>              | <b>37.11</b> | <b>40.48</b> |
|        | <b>Net</b>                     | <b>41.90</b>           | <b>33.35</b> | <b>28.44<sup>44</sup></b> | <b>37.11</b> | <b>40.48</b> |

Source: MeECL

From the table above, it may be noticed that during 2006-11, in three (serial no. 4 to 6 above) out of six revenue divisions, the AT&C losses were abnormally high ranging between 37.98 *per cent* (West Garo Hills in 2006-07) and 86.92 *per cent* (East Garo Hills in 2010-11). The AT&C losses in remaining three divisions were comparatively low ranging between 21.21 *per cent* (Shillong in 2009-10) and 58.37 *per cent* (Jowai in 2006-07).

We noticed that out of total twenty six sub-divisions under six revenue divisions of the MeECL, the AT&C losses during 2010-11 were lowest (24.44 *per cent*) in case of Shillong Revenue Division which was mainly due to highest billing efficiency of 75.66 *per cent* and collection efficiency of 99.87 *per cent* in Shillong Sub-Division. On the other hand, the highest AT&C losses of 86.92 *per cent* (2010-11) of East Garo Hills was caused mainly due to the lowest billing efficiency of 18.02 *per cent* and collection efficiency of 45.25 *per cent* of its Dalu Revenue Sub-Division.

The MeECL replied (October 2011) that the AT&C losses had been a major cause of concern and accordingly it had undertaken extensive disconnection drive against defaulters, metering of consumers, inspection for theft and unauthorised connections to contain the AT&C losses. The Government also endorsed (November 2011) the views of the MeECL.

However, the seriousness of the concern shown in the replies of the MeECL and Government was not reflected from the increasing trend of AT&C losses particularly after 2008-09.

#### 4.2.11 Consumer metering

Attainment of 100 *per cent* metering was one of the objectives of the R-APDRP scheme. The works of metering of unmetered consumers and replacement of defective and stopped meters under R-APDRP are yet to be taken up. The year-wise status of consumer metering for the performance audit period from 2006-07 to 2010-11 is as follows:

<sup>44</sup> AT&C losses came down to 28.44 *per cent* due to One Time Settlement (OTS) of ₹ 50 crore settled with the State Government against all previous outstandings of MeECL recoverable from Government departments.

Table 4.2.9

|    |                                                    | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11<br>(provisional) |
|----|----------------------------------------------------|---------|---------|---------|---------|--------------------------|
| 1. | Total number of consumers (at the end of the year) | 230577  | 262650  | 256627  | 258049  | 270818                   |
| 2. | Total number of metered consumers                  | 70497   | 85050   | 151463  | 159534  | 170635                   |
| 3. | Total number of unmetered consumers                | 160080  | 177600  | 105164  | 98515   | 100183                   |
| 4. | Total number of defective meters                   | 40547   | 37893   | 30335   | 28710   | 21492                    |

Source: ARR petition for 2010-11 submitted (November 2010) by the MeECL to Meghalaya State Electricity Regulatory Commission.

It may be seen from the above table that

- during 2006-07 to 2010-11, against the growth of consumers by 17.45 *per cent*, percentage of metered consumers had increased from 30.57 *per cent* to 63.01 *per cent*. Despite this, MeECL is still far behind the objective of attaining 100 *per cent* metering by 36.99 *per cent*; and
- the percentage of defective meters to the total metered consumers had improved from 57.52 *per cent* (2006-07) to 12.60 *per cent* (2010-11).

The MeECL stated (October 2011) that efforts were being made to procure meters for replacing the defective meters and metering of all consumers under Special Central Assistance (SCA) and R-APDRP by the year 2013. The Government also endorsed (November 2011) the views of the MeECL.

#### 4.2.12 Operational efficiency

The operational performance of the distribution aspect of the MeECL is judged on the basis of availability of adequate power for distribution, adequacy and reliability of distribution network, minimising line losses, detection of theft of electricity, *etc.* These aspects have been discussed below:

##### 4.2.12.1 Purchase of Power

Meghalaya was power surplus till 1989-90. The situation since then however, has seen a radical reversal. During the five year period 2006-07 to 2010-11, 35 *per cent* of power available for sale was internally generated and balance 65 *per cent* was met from State's share of free supply from Central Government power utilities and power purchased from outside the State.

The demand for energy was increasing year after year in the State. The MeECL however, failed to complete projects (167.5 MW – delay ranging from 13 to 96 month) and add capacity to its generation of power. During the last 19 years, addition (October 2009) to generation capacity was only 1.5 MW.

Assessment of future demand and requirement of power is calculated on the basis of past consumption trends, present requirement, load growth trends and T&D losses and

its trend. MSERC<sup>45</sup> approves the sources of purchase of power and the purchase cost based on the estimates made in the Annual Revenue Requirement (ARR) by the MeECL.

The details of demand of power assessed for the State based on the 17<sup>th</sup> Electric Power Survey (EPS) conducted by CEA, purchase of power approved by MSERC and actual power purchased during the period 2006-07 to 2010-11 in respect of the State as a whole were as under:

**Table 4.2.10**

|         |                        |                              |                        |                |                       |                          | (in MUs)                                              |
|---------|------------------------|------------------------------|------------------------|----------------|-----------------------|--------------------------|-------------------------------------------------------|
| Year    | Demand assessed in EPS | Purchases approved by MSERC* | Actual Power purchased | Own generation | Total power available | Power Deficit/ (Surplus) | Excess(+)/ Shortfall (-) in purchase against approved |
| (1)     | (2)                    | (3)                          | (4)                    | (5)            | (6)                   | (7)=(2 - 6)              | (8) = (3 - 4)                                         |
| 2006-07 | 1393                   | NA                           | 929.30                 | 389.09         | 1318.39               | 74.61                    | NA                                                    |
| 2007-08 | 1513                   | NA                           | 924.15                 | 663.06         | 1587.21               | (74.21)                  | NA                                                    |
| 2008-09 | 1644                   | 1043.43                      | 968.92                 | 552.84         | 1521.76               | 122.24                   | (-)74.51                                              |
| 2009-10 | 1786                   | NA                           | 947.28                 | 534.79         | 1482.07               | 303.93                   | NA                                                    |
| 2010-11 | 1941                   | 976.01                       | 1129.14                | 507.89         | 1637.03               | 303.97                   | (+)153.13                                             |

\*Approval by MSERC for 2007-08 (₹ 146.87 crore) and for 2009-10 (₹ 223.74 crore) was available only in financial terms.

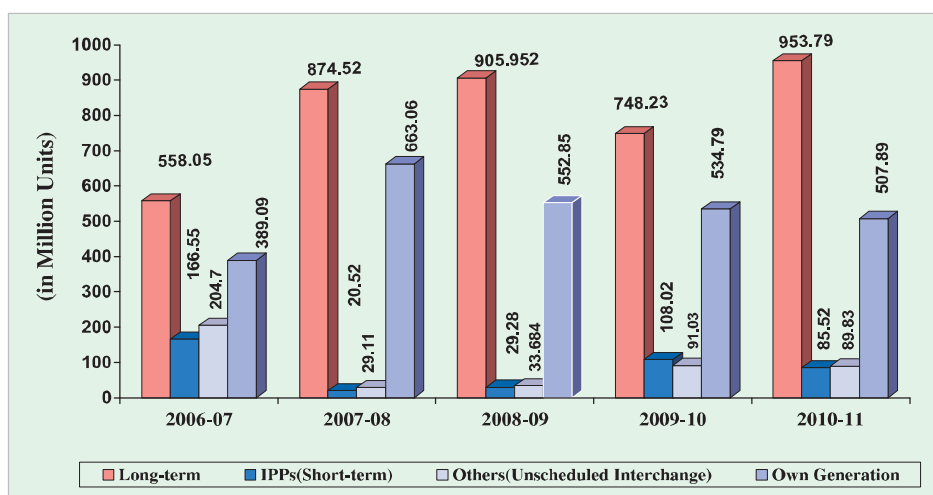
\*\*NA-Not available Source: data furnished by MeECL and Tariff order of the MSERC.

It may be seen from the table that

- the assessed demand for the MeECL had increased by 548 MUs (39.34 per cent) from 1393 MUs in 2006-07 to 1941 MUs in 2010-11. As against this, increase in own generation was only 118.80 MUs (30.53 per cent) which was not commensurate with the increase in the assessed demand during the said period;
- the state remained largely dependent upon purchase of power though it had slightly decreased from 70.49 per cent (2006-07) to 68.98 per cent (2010-11) of total power available;
- during 2008-09 and 2010-11, the power purchases approved by MSERC were not sufficient enough to meet the growing power demand of the state; and
- there had been continuous power deficits as compared to the assessed demand as per the Electric Power Survey during the period 2006-07 to 2010-11 except for 2007-08. Further, the quantum of power deficits was increasing over the said years.

For the above purchases, the MeECL entered into long term and short term power purchase agreements with various agencies viz., State Generation Companies, Central PSUs, IPPs, etc. besides unscheduled interchange (U.I) purchases on need basis. The break-up of the total power purchased under these categories was as follows:

<sup>45</sup> After formation of MSERC in May 2004, first approval was given by MSERC for tariff for 2007-08.



Source: MeECL

It may be seen from the above graph that

- the own generation of the State was insufficient to meet the demand and the State was largely dependent on outside purchases in all five years covered under performance audit.
- during the above mentioned period, long term power purchases continues to be the major source of power for the MeECL for meeting the needs of its consumers; and
- Though the dependence on short term power purchases and unscheduled interchange (U.I) had reduced in 2007-08 and 2008-09 it had again increased during 2009-11 which is not an optimal situation.

The source-wise purchase of power during performance audit period is given in the **Appendix 4.7**. Long term sources of power continued to be the cheapest source of power when compared with short term power purchases and Unscheduled Interchange<sup>46</sup> (UI). The average rate per unit for long term power purchase ranged from ₹ 1.85 (2008-09) to ₹2.38 (2010-11) during the period 2006-07 to 2010-11. As against this, the average per unit rate of short term purchases and U.I ranged between ₹ 2.36 and ₹ 3.97 (except during 2008-09 and 2010-11) and ₹ 2.24 and ₹ 6.35 during the performance audit period (2006-11). Thus, it is quite evident that the MeECL loses substantial amount of money whenever it meets energy requirements through short term purchases and UI purchases.

#### 4.2.12.2 Avoidable Payment of Surcharges

The cost of power purchases, outstanding dues there against and surcharges paid due to delay in payment of power purchase bills for the period 2006-07 to 2010-11 are shown below:

<sup>46</sup> Unscheduled Interchange (U.I.) means the difference between the scheduled drawal of power and actual drawal of power.

Table 4.2.11

(₹ in crore)

| Year         | Revenue from sale of power <sup>47</sup> | Power purchase | Outstanding amount against power purchase bills at the end of the year | Surcharges paid |
|--------------|------------------------------------------|----------------|------------------------------------------------------------------------|-----------------|
| 2006-07      | 233.17                                   | 206.87         | 66.17                                                                  | NA              |
| 2007-08      | 318.15                                   | 174.53         | 89.48                                                                  | 3.96            |
| 2008-09      | 392.51                                   | 168.98         | 132.52                                                                 | 12.95           |
| 2009-10      | 415.74                                   | 195.03         | 161.12                                                                 | 7.41            |
| 2010-11      | 380.17                                   | 247.64         | 165.59                                                                 | 7.49            |
| <b>Total</b> | <b>1739.74</b>                           | <b>993.05</b>  | <b>614.88</b>                                                          | <b>31.82</b>    |

Source: data furnished by MeECL

It may be seen from the above:

- the cost of power purchase which constituted 88.72 *per cent* of the MeECL revenue in 2006-07, had come down to 65.13 *per cent* in 2010-11 mainly due to increase in revenue resulting from hike in tariff rates;
- the outstanding amount against power purchase dues had increased from 31.99 *per cent* (3.84 months requirement) in 2006-07 to 66.87 *per cent* (8.02 months requirement) in 2010-11 of the total cost of power purchase; and
- due to delay in release of power purchase bills, the MeECL paid ₹31.82 crore towards surcharges during 2007-08 to 2010-11.

It was observed in audit that increase in outstanding dues and corresponding payments of surcharges was due to the funds constraints being faced by MeECL on account of its failure in fully recovering the cost of operations (discussed in **para 4.2.5, table 4.2.2**) and also poor recovery efficiency of energy bills (discussed in **para 4.2.16**).

#### 4.2.13 Sub-transmission and distribution losses

The distribution system is an important and essential link between the power generation source and the ultimate consumer of electricity. For efficient functioning of the system, it must be ensured that there are minimum losses in sub-transmission and distributing the power. While energy is carried from the generation source to the consumer, some energy is lost in the network. The losses at 33KV stage are termed as sub-transmission losses while those at 11 KV and below are termed as distribution losses. These are based on the difference between energy injected (generated/purchased) into the system and energy billed to consumers. The percentage of losses to available power indicates the effectiveness of distribution system. The losses occur mainly on two counts, *i.e.*, technical and commercial. Technical losses occur due to inherent character of equipment used for transmitting and distributing power and resistance in conductors through which the energy is carried from one place to another. On the other hand, commercial losses occur due to theft of energy, defective meters and drawal of unmetered supply, *etc.*

The table below indicates the energy losses of the MeECL as a whole for last five years ending 2010-11:

<sup>47</sup> Excluding revenue from subsidy/grants

Table 4.2.12

|         |                                               |         |         |         |         | (in MUs) |
|---------|-----------------------------------------------|---------|---------|---------|---------|----------|
| Sl. No. | Particulars                                   | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11  |
| 1.      | Own generation                                | 389.09  | 663.06  | 552.84  | 534.79  | 507.89   |
| 2.      | Energy purchased                              | 929.30  | 924.15  | 968.92  | 947.28  | 1129.14  |
| 3.      | Energy available for sale                     | 1318.39 | 1587.21 | 1521.76 | 1482.07 | 1637.03  |
| 4.      | Energy sold                                   | 832.75  | 1058.10 | 1044.60 | 978.85  | 1104.53  |
| 5.      | Energy losses (3-4)                           | 485.64  | 529.11  | 477.16  | 503.22  | 532.51   |
| 6.      | Percentage of energy losses<br>{(5/3)x100}    | 36.84   | 33.34   | 31.36   | 33.95   | 32.53    |
| 7.      | Percentage of losses allowed by<br>MSERC      | 36.48   | 33.21   | 32.61   | 28.54   | 30.02    |
| 8.      | Excess losses (in MUs)                        | 4.75    | 2.06    | 0.00    | 80.18   | 41.09    |
| 9.      | Average realisation rate per unit<br>(in ₹)   | 3.09    | 3.32    | 3.87    | 4.37    | 3.56     |
| 10.     | Value of excess losses (₹ in crore)<br>(8 x9) | 1.47    | 0.68    | 0.00    | 35.04   | 14.63    |

Source: MeECL

It would be seen from the above table that

- energy loss decreased from 36.84 *per cent* (2006-07) to 31.36 *per cent* in 2008-09 and thereafter increased to 33.95 *per cent* in 2009-10. The energy losses marginally decreased to 32.53 *per cent* in 2010-11;
- aggregate value of energy losses in excess of limit allowed by MSERC amounted to ₹ 51.82 crore<sup>48</sup> during 2006-07 to 2010-11 except for 2008-09;
- As one *per cent* decrease in energy loss could reduce the financial loss of the MeECL of ₹ 5.83 crore<sup>49</sup> annually, reduction in these losses is one of the most significant step towards making the MeECL financially self-sustaining.
- The reasons for such high energy losses were inadequate transformation capacity (discussed in **para 4.2.13.1**), large number of un-metered connections (discussed in **para 4.2.11**) and defective meters (discussed in **para 4.2.15.2**), non installation of capacitor banks (discussed in **para 4.2.13.7**), and theft/pilferage of energy (discussed in **para 4.2.14.3**), etc.

#### 4.2.13.1 Inadequate transformation capacity

Transformer is a static device installed for stepping up or stepping down voltage in transmission and distribution of electricity. The energy received at high voltage (132 KV, 66 KV, 33 KV) from primary transmission sub-stations is converted to lower voltage (11 KV) at 33/11 KV distribution sub-stations to make it usable by the consumers. In order to cater to the entire connected load, the transformation capacity should be adequate. The ideal ratio of transformation capacity to connected load is considered as 1:1. The table below indicates the details of transformation capacity at 33/11 KV sub-stations and connected load of the consumers in the State during the period from 2006-11:

<sup>48</sup> As per sl.10 of table 4.2.12.

<sup>49</sup> One percent of the energy available for sale during the year 2010-11 works out to 16.3703 MUs which multiplied by the cost of realisation @ ₹3.56 per unit for 2010-11 works out to ₹5.83 crore.

**Table 4.2.13**

(in MVA)

| Year    | Transformation capacity | Connected load <sup>50</sup> | Gap in Transformation capacity | Ratio of Transformation capacity to connected load |
|---------|-------------------------|------------------------------|--------------------------------|----------------------------------------------------|
| 2006-07 | 306.05                  | 550.74                       | 244.69                         | 0.56:1                                             |
| 2007-08 | 327.86                  | 563.07                       | 235.21                         | 0.58:1                                             |
| 2008-09 | 394.50                  | 526.22                       | 131.72                         | 0.75:1                                             |
| 2009-10 | 435.39                  | 560.70                       | 125.31                         | 0.78:1                                             |
| 2010-11 | 441.31                  | 625.07                       | 183.76                         | 0.71:1                                             |

Source: MeECL

It could be seen from the table above that the ratio of transformation capacity to total connected load ranged between 0.56:1 (2006-07) and 0.78:1 (2009-10). This represented a wide gap in transformation capacity. Such a high gap of transformation capacity led to overloading of the system resulting in frequent tripping and adverse voltage regulation with consequential higher quantum of energy losses.

#### **4.2.13.2 Non-maintenance of records of Distribution Transformers**

The normal life of Distribution Transformers (DTRs) is considered<sup>51</sup> as 25 years. The MeECL did not maintain the history card for each DTR containing full particulars such as the name of the supplier, capacity, voltage ratio, date of issue, date of installation, date of energisation, date of failure, date of expiry of guarantee period, normal life of DTRs, date of repair and subsequent re-commissioning *etc.* In the absence of history card, performance of DTRs and average working life of DTRs could not be verified.

Test check of records of three out of eleven distribution divisions namely West Garo Hills, Tura, South Garo Hills, William Nagar and East Khasi Hills, Shillong, selected in performance audit, revealed that asset registers, age-wise analysis and registers for load distribution and periodic maintenance for transformers were not maintained. Though the MeECL circulated (September 2009) a manual for maintenance of DTRs, which *inter alia* provided for maintenance of records pertaining to periodicity of inspection, action taken there against and reporting on maintenance of DTRs to higher management for monitoring and control no such records were made available to us for verification.

The MeECL accepted (October 2011) that the history cards were not maintained. However, it was intimated that action was being taken to maintain the records for all 33/11 KV DTRs. The Government also endorsed (November 2011) the views of the MeECL.

#### **4.2.13.3 Performance of Distribution Transformers**

One of the criteria for the implementation of APDRP in the state was to control the failure of the DTRs and to bring down the level of rate of failure to below one *per cent* per annum. The MSERC which was formed in May 2004, had never fixed any

<sup>50</sup> Converted from MW to MVA adopting 0.80 power factor.

<sup>51</sup> As per The Electricity (Supply) Act, 1948.

norms for failure of DTRs. In absence of MSERC norms for DTR failure, the said criteria of one *per cent* fixed in APDRP has been adopted by us for analysis purpose. The status of failure of DTRs as furnished by the MeECL is depicted in the table below:

Table 4.2.14

| Sl. No. | Particulars                                        | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---------|----------------------------------------------------|---------|---------|---------|---------|---------|
| 1.      | Existing DTRs at the close of the year (in number) | 4676    | 5063    | 5444    | 5839    | 6484    |
| 2.      | DTR Failures (in Number)                           | 291     | 273     | 273     | 226     | 265     |
| 3.      | Percentage of failures                             | 6.22    | 5.39    | 5.01    | 3.87    | 4.09    |
| 4.      | Norm allowed in APDRP                              | 1.00    | 1.00    | 1.00    | 1.00    | 1.00    |
| 5.      | Excess failure percentage <sup>52</sup>            | 5.22    | 4.39    | 4.01    | 2.87    | 3.09    |

Source: MeECL

It may be seen from the above table that

- the failures of DTRs ranged between 3.87 *per cent* (2009-10) to 6.22 *per cent* (2006-07) during the performance audit period; and
- though the percentage of DTRs failure had shown decreasing trend up to 2009-10 (3.87 *per cent*) with marginal increase in 2010-11 (4.09 *per cent*), the failure rate with reference to the laid down criteria of APDRP continued to be high.

**4.2.13.4** The data presented in Table 4.2.14 above gives a comparatively satisfactory picture on failure of transformers. The authenticity of said data, however, came under doubt after reviewing the year-wise data of two Work Centres of the MeECL (Sumer and Mendipather) relating to the transformers received for repair and individual data on failure of transformers of three Distribution divisions of the MeECL (*viz.* East Khasi Hills, West Garo Hills and East Garo Hills).

Records available at the Work Centre, Sumer and Mendipather<sup>53</sup> which undertakes the repairing of DTRs revealed the following:

Table 4.2.15

| Year    | Existing DTRs at the close of the year (in number) | Number of Transformers received for repair |                           | Total | Percentage of Transformers received for repair |
|---------|----------------------------------------------------|--------------------------------------------|---------------------------|-------|------------------------------------------------|
|         |                                                    | SUMER                                      | MENDIPATHER <sup>54</sup> |       |                                                |
| 2006-07 | 4676                                               | 332                                        | -                         | 332   | 7.10                                           |
| 2007-08 | 5063                                               | 389                                        | -                         | 389   | 7.68                                           |
| 2008-09 | 5444                                               | 290                                        | -                         | 290   | 5.32                                           |
| 2009-10 | 5839                                               | 231                                        | 157                       | 388   | 6.64                                           |
| 2010-11 | 6484                                               | 231                                        | 122                       | 353   | 5.44                                           |

Source: MeECL

It may therefore be seen from the above table that during each of the five years covered in the performance audit, the actual number of failed DTRs received at the work centres remained much higher than that intimated by the MeECL and presented under **Table 4.2.14**.

<sup>52</sup> Excess failure percentage has been calculated based on one *per cent* failure determined under APDRP.

<sup>53</sup> The information in respect of Mendipather unit (which was not selected in audit) was furnished by Management.

<sup>54</sup> Mendipather work centre started functioning in 2009-10.

- on review of records<sup>55</sup> pertaining to DTRs of three distribution divisions, we further noticed that failure of DTRs was abnormally high ranging from 10.45 per cent to 32.48 per cent particularly during 2010-11 as shown below:

**Table 4.2.16**

| Distribution divisions | Period for which data received                               | Total number of DTRs | DTRs repaired/ sent for repair | Percentage of DTRs repaired/ sent for repair |
|------------------------|--------------------------------------------------------------|----------------------|--------------------------------|----------------------------------------------|
| East Khasi Hills       | April 2010 to March 2011                                     | 775                  | 81                             | 10.45                                        |
| West Garo Hills        | January, March, April, July to September 2010 and March 2011 | 859                  | 279                            | 32.48                                        |
| East Garo Hills        | April 2010 to March 2011                                     | 953                  | 224                            | 23.50                                        |

Source: MeECL

In view of above, the MeECL needs to take urgent action to remedy the system lacuna stated above so as to have proper monitoring, control and reporting of actual status of transformer to improve its performance.

#### 4.2.13.5 Delay in repair of DTRs

The MeECL undertakes repair of damaged transformers both in-house and through outside agencies. As per the Meghalaya State Electricity Regulatory Commission (Standards of Performance) Regulations, 2006, the cases of failure of transformers are to be attended to in 24 hours and 72 hours in respect of town areas and rural areas respectively. However, a review of the records of the Work Centre, Sumer revealed that:

- There was no physical verification of the DTRs stock in hand for repairs by the work centre;
- Fifty six transformers<sup>56</sup> received for repair were lying at the work centre as on June 2011 (as per the job card register maintained at the Work Centre, Sumer) without any inspection/repair for three to five years;
- The year wise data relating to the numbers of DTRs received and repaired at the work centre, Sumer is given below:

**Table 4.2.17**

| Year         | DTRs in hand for repair at the beginning <sup>57</sup> | Number of DTRs received for repair during the year | Total DTRs in hand for repair | Number of DTRs actually repaired | Balance DTRs yet to be repaired | Percentage of DTRs yet to be repaired to total DTRs in hand for repair |
|--------------|--------------------------------------------------------|----------------------------------------------------|-------------------------------|----------------------------------|---------------------------------|------------------------------------------------------------------------|
| 2007-08      | -                                                      | 389                                                | 389                           | 127                              | 262                             | 67.35                                                                  |
| 2008-09      | 262                                                    | 290                                                | 552                           | 140                              | 412                             | 74.64                                                                  |
| 2009-10      | 412                                                    | 231                                                | 643                           | 164                              | 479                             | 74.49                                                                  |
| 2010-11      | 479                                                    | 231                                                | 710                           | 133                              | 577                             | 81.27                                                                  |
| <b>Total</b> |                                                        |                                                    |                               | <b>564</b>                       | <b>577</b>                      |                                                                        |

Source: MeECL

<sup>55</sup> Records to the extent as made available by the MeECL head office, Shillong as per data submitted by the concerned divisions to them.

<sup>56</sup> Fifty transformers (11/0.2 level) of various capacities and six transformers (33/11 KV level) of 1.6 MVA capacity

<sup>57</sup> Complete figures for 2006-07 and opening figures for 2007-08 were not available.

From the above table it could be seen that out of total 1141 DTRs received for repair during 2010-11, Work Centre, Sumer, could repair and dispatch only 564 transformers (49.43 *per cent*) thereby leaving a balance of 577 numbers of unattended DTRs (81.27 *per cent*) which had largely crossed the maximum time limit of 72 hours for return of repaired transformers and the delay was ranging from one month to five years. The shortfall in repairing of transformers was mainly due to shortage of manpower and non availability of materials in time which indicated lack of effective management control in MeECL.

The MeECL attributed (October 2011) the non attendance of the damaged transformers to shortage of manpower. The Government also endorsed (November 2011) the views of the MeECL.

The MeECL thus, needs to take urgent action for proper deployment of its manpower to ensure timely repairing and availability of transformers in the interest of healthy distribution system.

**4.2.13.6** As stated above, there was a huge backlog of repair of transformers while on the other hand the MeECL was making fresh purchases to meet its requirement as shown below:

**Table 4.2.18**

| Particulars                                                | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|------------------------------------------------------------|---------|---------|---------|---------|
| Number of DTRs purchased during the year                   | 320     | 369     | 495     | 185     |
| Number of DTRs lying un-repaired at the Work Centre, Sumer | 262     | 412     | 479     | 577     |
| Percentage of un-repaired DTRs to new purchases            | 81.88   | 111.65  | 96.77   | 311.89  |

From the above table it could be seen that during the period under performance audit,

- during the period 2007-08 to 2010-11, the percentage of unrepaired DTRs to the new purchase of DTRs made was increasing abnormally from 81.88 *per cent* (2007-08) to 311.89 *per cent* (2010-11); and
- out of the total 1369 DTRs purchased during 2007-11, purchases to the extent of 577 DTRs (42 *per cent*) could have been avoided had the Work Centre, Sumer timely cleared the backlog of un repaired DTRs existing as on 31 March 2011.

#### **4.2.13.7 Capacitor Bank**

Capacitor Bank (CB) improves power factor by regulating the current flow and voltage regulation. In the event of voltage falling below normal, the situation can be set right by providing sufficient capacity of CBs to the system as it improves the voltage profile and reduces dissipation of energy to a great extent thereby saving loss of energy. Ideally, CB should be installed at each substation.

The MeECL did not have any plan for installation of CBs. We noticed that out of 112 substations (33/11 KV) as on March 2011, the MeECL had installed (June 2007) CB

(15 MVAR) only at one sub-station at EPIP Rajabagan substation under Byrnihat Distribution Division.

As per the guidelines for reduction of transmission and distribution losses issued (February 2001) by the Central Electricity Authority (CEA), the voltage variations should be within (+/-) 6 per cent. However, no monitoring and reporting on voltage variations on regular basis was seen in place during the audit. In case of two substations (Nangalbibra and Baghmara<sup>58</sup> under East Garo Hills Distribution Division), where data for October 2009 were made available to audit, we noticed that voltage variation was beyond the permissible level as given below:

**Table 4.2.19**

| Sl. No. | Name of Substation | Period                | Norm at 33 KV level considering (+/-) 6 per cent | Actual at 33 KV level | Norm at LT level (230 volts) considering (+/-) 6 per cent | Actual at LT level (230 volts) |
|---------|--------------------|-----------------------|--------------------------------------------------|-----------------------|-----------------------------------------------------------|--------------------------------|
| 1.      | Nangalbibra        | 20 to 31 October 2009 | 31 to 35                                         | 27 to 31              | -                                                         | -                              |
| 2.      | Baghmara           | 27 to 31 October 2009 | -                                                | -                     | 216 to 244                                                | 184 to 215*                    |

Source: voltage regulation report submitted by the concerned Assistant Executive Engineer to East Garo Hills Distribution Division. \*Only on one occasion the voltage crossed 215 and reached 228 volts.

This indicates the need for regular monitoring of voltage at various sub-stations and installation of CBs.

#### **4.2.13.8 Payment of Reactive Power Charges even after installing Capacitor Banks<sup>59</sup>**

As per Clause 6.6 of Indian Electricity Grid Code, in case of low voltage in the grid, the purchaser has to pay Volt Ampere Reactive (VAR) charges to the North Eastern Regional Load Despatch Centre (NERLDC).

The MeECL was drawing power through Kahilipara-Umtru feeder<sup>60</sup>. As the feeder was having low power factor<sup>61</sup>, NERLDC requested (September 2005) the MeECL to install HT Capacitor banks (CBs) to relieve the low power factor problem in Kahilipara. Accordingly, the MeECL placed (April 2006) orders at a cost of ₹ 2.81 crore for procurement of four CBs<sup>62</sup> which were installed at Byrnihat, Norbong and Rajabagan substations during April-June 2007. The MeECL had expected that the installation of CBs would eradicate the payment of VAR charges. We, however, noticed that three CBs were not functioning since August 2007 (two CBs) and May 2008 (one CB) due to damages caused due to fire. It was stated that one CB installed at Byrnihat 33/11 KV SS was not working (June 2011) and request for replacing the voltage relays of the other two failed CBs were sought for (December 2010).

<sup>58</sup> These are grid substations. The data were compared to establish the high incidence of voltage variations

<sup>59</sup> Capacitor bank improves power factor by regulating the current flow and voltage regulation.

<sup>60</sup> Kahilipara of Assam State Electricity Board-Umtru of the MeECL feeder.

<sup>61</sup> Power factor (PF) is the ratio of the real power to apparent power and represents how much real power the electrical equipment utilises.

<sup>62</sup> The four capacitor banks installed include one CB at 33 KV level (mentioned in para 4.2.13.7) and the remaining three at 132 KV level.

However, we did not notice any records indicating effective steps for repairing of these CBs (June 2011).

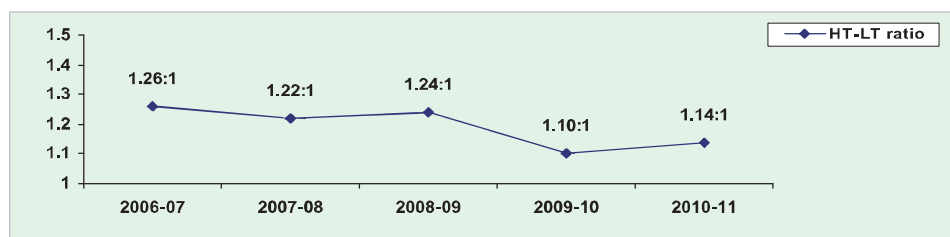
As such, the payment of VAR charges could not be stopped and the MeECL had to incur expenditure of ₹ 0.54 crore<sup>63</sup> during 2007-08 to 2010-11. Further, investment of ₹ 2.81 crore on CBs also remained unfruitful.

#### 4.2.14 Commercial losses

The majority of commercial losses relate to consumer metering and billing besides pilferage of energy. While the metering and billing aspects have been covered under consumer metering (**para 4.2.11**) and billing efficiency (**para 4.2.15**) respectively, the other observations relating to commercial losses are discussed below.

##### 4.2.14.1 Implementation of LT less system

High voltage distribution system is an effective method of reduction of technical losses, prevention of theft, improved voltage profile and better consumer service. The GOI had also stressed (February 2001) the need to adopt LT less system of distribution through replacement of existing LT lines by HT lines to reduce the distribution losses. The HT-LT ratio of the MeECL over the performance audit period is depicted in the graph below:



It may be seen from the above graph that HT/LT ratio had deteriorated from 1.26:1 in 2006-07 to 1.10:1 in 2009-10 and marginally improved to 1.14:1 in 2010-11. The fall in the HT-LT ratio up to 2009-10 was due to construction of LT lines (3051.60 CKM) by more than 1.65 times of HT lines (1841.50 CKM) during 2006-10 contrary to directives of GOI to move towards LT less system.

##### 4.2.14.2 Conversion of LT Conductors into Aerial Bunch Cables

Aerial Bunch Cables prevent illegal tapping of low voltage distribution lines and help in reducing overloading of DTRs and maintain voltage of the supply. We observed that the MeECL had not converted any of the LT conductors into Aerial Bunch Cables during or prior to the performance audit period, which is indicative of lack of adequate effort by MeECL towards strengthening the transmission and distribution system and reducing the distribution losses.

<sup>63</sup> ₹ 0.07 crore, ₹0.04 crore, ₹ 0.10 crore and ₹ 0.33 crore towards VAR charges during 2007-08, 2008-09, 2009-10 and 2010-11 respectively.

**4.2.14.3 High incidence of theft****Performance of Meter Testing and Inspection and Vigilance Sub-divisions**

Substantial commercial losses are caused due to theft of energy by tampering of meters by the consumers and unauthorised tapping/hooking by the non-consumers. As per section 135 of Electricity Act 2003, theft of energy is an offence punishable under the Act. The Meter Testing and Inspection and Vigilance sub-division of the MeECL was entrusted with the work of inspection of illegal consumers, periodical checking of consumer installations, detecting cases of theft.

As per the procedure laid down (May 2007) by the MeECL, the Assistant Executive Engineer (AEE) of each sub-division is authorised to carry out regular inspection as well as surprise inspection of any premises of all categories of consumers based on a work plan to conduct raids by identifying such consumers/areas where large scale theft is suspected. We noticed that no such work plan was prepared by the sub-divisions. The disconnection activities were carried out as and when information was received from other revenue divisions/sub-divisions and not as a regular exercise due to shortage of manpower in MTI sub divisions. Hence, such surprise inspections did not yield the desired results as would be evident from the position of inspections conducted during 2006-07 to 2010-11 which is mentioned below:

**Table 4.2.20**

| Year         | Number of checking | Theft cases | Assessed amount (₹ in lakh) | Amount Realised (₹ in lakh) | Total number of consumers | Percentage of consumers checked |
|--------------|--------------------|-------------|-----------------------------|-----------------------------|---------------------------|---------------------------------|
| 2006-07      | 324                | 74          | 2.34                        | 0.18                        | 230577                    | 0.14                            |
| 2007-08      | 1372               | 782         | 10.80                       | 2.47                        | 262650                    | 0.52                            |
| 2008-09      | 1464               | 675         | 10.26                       | 8.90                        | 256627                    | 0.57                            |
| 2009-10      | 3566               | 1662        | 87.58                       | 38.18                       | 258049                    | 1.38                            |
| 2010-11      | 4913               | 2592        | 62.77                       | 32.98                       | 270818                    | 1.81                            |
| <b>Total</b> | <b>11639</b>       | <b>5785</b> | <b>173.75</b>               | <b>82.71</b>                |                           |                                 |

In this connection, we observed that

- the MeECL did not fix up targets for checking of meters and detection of theft cases during the period under performance audit;
- against the assessed amount of ₹ 1.74 crore, the amount realised was only ₹ 0.83 crore (47.70 per cent) of the assessed amount. Though the number of consumers checked during each year has improved gradually, it remained negligible ranging from 0.14 per cent to 1.81 per cent during 2006-11.

The MeECL replied (October 2011) that the assessment amount was provisional and the achievements were low since the consumers were making appeals to the appellate authority for waiver of penalties. The Government also endorsed (November 2011) the views of the MeECL.

The fact however remains that the MeECL needs to substantially increase its Meter Testing and Investigation (MTI) & Vigilance activities.

**4.2.14.4** Information was called for from all the six MTI and Vigilance subdivisions regarding amount realised by way of fees/penalties and expenditure incurred on their establishment. Only three sub-divisions furnished the information<sup>64</sup> as under:

Table 4.2.21

| Name of the MTI & Vigilance sub-division | Amount realised<br>(₹ in lakh) | Expenditure incurred by<br>the division<br>(₹ in lakh) | Percentage of collection<br>against expenditure |
|------------------------------------------|--------------------------------|--------------------------------------------------------|-------------------------------------------------|
| Central, Shillong                        | 7.80                           | 52.68                                                  | 14.81                                           |
| Jowai                                    | 8.36                           | 44.99                                                  | 18.83                                           |
| Shillong                                 | 54.79                          | 58.73                                                  | 93.29                                           |
| <b>Total</b>                             | <b>70.95</b>                   | <b>156.40</b>                                          | <b>45.36</b>                                    |

Source: MeECL

From the above it could be seen that in respect of three out of six MTI & Vigilance Sub-Divisions the collection against the actual expenditure incurred during the performance audit period was very low except in case of Shillong division. Thus, the Meter Testing and Inspection and Vigilance activities were not commensurate with the number of consumers and the expenditure incurred for maintaining these divisions did not add value to the MeECL's performance.

The MeECL stated (October 2011) that the sub-division had been assigned with other works *viz.*, replacement of defective and installation of new meters, testing of meters etc and its activities of the sub-division were restricted due to the geographical constraints. The Government also endorsed (November 2011) the views of the MeECL.

The MeECL, therefore, should make efforts for restructuring of the MTI and Vigilance Sub-Divisions so that the vigilance activities could be extended to control theft/pilferage of energy in the State for reduction of AT&C losses.

#### 4.2.15 Billing Efficiency

As per the prevalent procedure, the reading of energy consumption of each consumer at the end of the notified billing cycle is to be taken. After obtaining the meter readings, the MeECL issues bills to the consumers for consumption of energy. Sale of energy to metered categories consists of two parts *viz.* metered and assessed units. The assessed units refer to the units billed to consumers in case meter reading is not available due to meter defects, door lock *etc.*

The MeECL is having two billing system *viz.* computerised billing and Bradma billing. The Bradma bill is prepared by meter readers on the spot whereas computerised billing is done centrally from the MeECL, Head Office at Shillong based on the data furnished by the revenue divisions in this regard. The Bradma bill is

<sup>64</sup>MTI and Vigilance sub-divisions namely Umiam, West Garo Hills, Tura, and William Nagar did not furnish the information.

issued generally for those consumers with a connected load less than 5 KW while the computerised bills are issued to consumers with a connected load more than 5 KW.

The efficiency in billing of energy lies in distribution/sale of maximum energy by the MeECL to its consumers and realising the revenue there from in time.

We observed from the commercial data submitted by the field divisions that despite there being evidences of billing on assessment basis against large number of consumers with defective meters, there was no system of compiling the data to segregate the metered sales and assessed sales. In the absence of such a system, the MeECL lacked control mechanism to take action for excessive assessed sales, if any, with reference to the metered sales. We further observed that even MSERC did not prescribe any norm for the assessed sales as a percentage of total metered sales. The MeECL accepted (November 2011) the fact of non existence of such a system but did not indicate to take any corrective measures in this regard.

#### 4.2.15.1 Unbilled Consumers

As per clause 31 of the terms and conditions and supply with schedule of miscellaneous charges (June 1989), the MeECL should bill the consumers within a reasonable time interval. The MeECL is in practice of sending/issuing electricity bills to all consumers on monthly basis. Year wise position of unbilled consumers for the last five years ending 31 March 2011 was not furnished by the MeECL. However, billing data of consumers of eight sub divisions under the selected two out of six revenue divisions (Western Revenue Division, Umiam and East Garo Hills Revenue Division, Williamnagar) were analysed for the year 2009-10 and 2010-11 and position of unbilled consumers revealed as follows:

**Table 4.2.22**

|                                                        | Apr-09       | May-09       | Jun-09       | Jul-09       | Aug-09       | Sep-09       | Oct-09       | Nov-09       | Dec-09       | Jan-10       | Feb-10       | Mar-10       |
|--------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total number of consumers                              | 44138        | 44886        | 44986        | 45244        | 45296        | 50704        | 50405        | 51393        | 51703        | 51621        | 38505        | 51749        |
| Total number of consumers billed during the month      | 40015        | 40576        | 40676        | 41141        | 41013        | 41425        | 45854        | 47820        | 43067        | 43501        | 32560        | 41774        |
| Unbilled consumers                                     | <b>4123</b>  | <b>4310</b>  | <b>4310</b>  | <b>4103</b>  | <b>4283</b>  | <b>9279</b>  | <b>4551</b>  | <b>3573</b>  | <b>8636</b>  | <b>8120</b>  | <b>5945</b>  | <b>9975</b>  |
| Percentage of Unbilled consumers                       | <b>9.34</b>  | <b>9.60</b>  | <b>9.58</b>  | <b>9.07</b>  | <b>9.46</b>  | <b>18.30</b> | <b>9.03</b>  | <b>6.95</b>  | <b>16.70</b> | <b>15.73</b> | <b>15.44</b> | <b>19.28</b> |
|                                                        | Apr-10       | May-10       | Jun-10       | Jul-10       | Aug-10       | Sep-10       | Oct-10       | Nov-10       | Dec-10       | Jan-11       | Feb-11       | Mar-11       |
| Total number of consumers                              | 52946        | 53392        | 54983        | 52178        | 52322        | 54934        | 55710        | 56098        | 56245        | 56256        | 57184        | 58041        |
| Total number of Meter consumer billed during the month | 34268        | 35282        | 38162        | 33796        | 33550        | 34797        | 35437        | 35582        | 31652        | 32625        | 33384        | 35015        |
| Unbilled consumers                                     | <b>18678</b> | <b>18110</b> | <b>16821</b> | <b>18382</b> | <b>18772</b> | <b>20137</b> | <b>20273</b> | <b>20516</b> | <b>24593</b> | <b>23631</b> | <b>23800</b> | <b>23026</b> |
| Percentage of Unbilled consumers                       | <b>35.28</b> | <b>33.92</b> | <b>30.59</b> | <b>35.23</b> | <b>35.88</b> | <b>36.66</b> | <b>36.39</b> | <b>36.57</b> | <b>43.72</b> | <b>42.01</b> | <b>41.62</b> | <b>39.67</b> |

Source: MeECL

We observed that the percentage of consumers which remained unbilled each month to the total consumers had increased from 9.34 *per cent* in April 2009 to 39.67 *per cent* in March 2011 despite the franchisees being engaged by MeECL for billing in rural areas and issue of new connections only with meter.

The main reason for non-billing the consumers on regular basis were acute shortage of meter readers. The MeECL needs to take measures for optimal deployment of its manpower and effective monitoring of the system so that deferment in collection of revenue against unbilled consumers could be reduced.

#### 4.2.15.2 Defective meters

The MeECL had communicated (November 2010) to MSERC that 12.60 *per cent* (April 2010) of its metered consumers were having defective meters (21492). The breakup of the defective meters in respect of two selected revenue out of six revenue divisions for the period 2009-10 and 2010-11 were as given below:

**Table 4.2.23**

| Year    | Western Revenue Division, Umiyam |                   |                  |                                                           | East Garo Hills Revenue Division, Williamnagar |                   |                  |                                                           | Total           |                   |                  |                                                           |
|---------|----------------------------------|-------------------|------------------|-----------------------------------------------------------|------------------------------------------------|-------------------|------------------|-----------------------------------------------------------|-----------------|-------------------|------------------|-----------------------------------------------------------|
|         | Total consumers                  | Metered consumers | Defective meters | Percentage of defective meters to total metered consumers | Total consumers                                | Metered consumers | Defective meters | Percentage of defective meters to total metered consumers | Total consumers | Metered consumers | Defective meters | Percentage of defective meters to total metered consumers |
| 2009-10 | 28022                            | 22517             | 1571             | 6.98                                                      | 23727                                          | 16425             | 9467             | 57.64                                                     | 51749           | 38942             | 11308            | 29.04                                                     |
| 2010-11 | 32964                            | 20560             | 2714             | 13.20                                                     | 25077                                          | 16403             | 11309            | 68.94                                                     | 58041           | 36963             | 14023            | 37.94                                                     |

Source: MeECL

From the above table it could be seen that the percentage of defective meters to total metered consumers in respect of East Garo Hills Revenue Division, Williamnagar was abnormally high at 57.64 *per cent* (2009-10) and 68.94 *per cent* (2010-11) in comparison with the overall percentage of 12.60 *per cent* for the MeECL as a whole as communicated to MSERC. The reasons for the failure of meters were attributed by the MeECL for overload and manufacturing defects. Due to high level of defective meters, the MeECL continued to have higher technical losses as actual consumption was always more than the assessment made.

The MeECL replied (October 2011) that the process of replacing all defective meters had been taken up through the Special Central Assistance Scheme and R-APDRP. The Government also endorsed (November 2011) the views of the MeECL.

#### 4.2.15.3 Loss due to incorrect billing

As per the MeECL tariff Clause 3, in case the maximum demand of EHT/HT consumers recorded in any month is lower than 75 *per cent* of the contract demand, billing demand is to be considered at 75 *per cent* of the contract demand or 80 *per cent* of the highest demand established during the preceding 11 months. Further, any change in contract demand is to be made effective after receipt of certified test report from the consumer and its due acceptance by the MeECL. Scrutiny of bills of consumers under Western Revenue Division for the period April 2009 to March 2011

revealed that two industrial consumers were allowed temporary surrendering of load even though terms of agreement did not contain any such provision and contract demand was to remain unchanged during the validity of the agreement.

In the first case, the consumer (Jaintia Ferro Alloys (JFA)) was having contract demand of 10,350 KVA and should have been billed at least for 7762.5 KVA (i.e 75 *per cent* of contract demand). We noticed that during 2009-10 and 2010-11, JFA was billed based on the actual demand ranging between 4000 KVA (2009-10) and 6350 KVA (2010-11) against the minimum required billing for 7762.5 KVA. As a result, MeECL lost revenue to the extent of ₹ 0.77 crore on this account.

In a similar case, the consumer (Bimla Ispat Alloys limited (BIAL)), against minimum required billing for 5250 KVA (i.e 75 *per cent* of the contract demand of 7000 KVA), during the period from May 2010 to March 2011 bills were raised based on the actual demand ranging between 3216 KVA and 876 KVA which resulted in a revenue loss of ₹ 0.23 crore<sup>65</sup>.

Thus, on account of incorrect billing, the division had lost the revenue to the tune of ₹ 1 crore which also turned out to be an undue favour to these consumers.

#### **4.2.15.4 Non-disconnection of power of consumers running with low power factor**

As per the Electricity Tariff, if the average monthly power factor<sup>66</sup> of the consumers installation falls below 0.85, he shall, for each one *per cent* of shortfall, pay to the MeECL at the rate of ₹ 2 per KVA per month of the maximum demand as compensation charges. The above charges shall be applicable for the power factor within the range of 0.84 to 0.70. If the power factor falls below 0.70, supply to such consumer shall be disconnected without notice.

Scrutiny of the bills of the consumers under Umiam Revenue Sub-Division of Western Revenue Division, Umiam for the period 2009-11 revealed that twenty consumers were allowed to draw power with power factor less than 0.70 (ranging from 0.01 to 0.69). Due to non-disconnection in these cases as specified in the tariff, the MeECL had to supply 5.96 lakh units<sup>67</sup> which went unrecorded due to reactive power from these consumers thereby resulting in loss of revenue to the tune of ₹ 0.23 crore.

In this regard, we observed that in the 5<sup>th</sup> meeting of the Meghalaya State Advisory Committee<sup>68</sup> held in April 2010 it was proposed that calculation of compensation charge for low power factor should be made by billing on KVAH<sup>69</sup> units at the rate

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<sup>65</sup> Amount to be billed based on 75 *per cent* of contract demand (₹ 55,70,250) – Actually billed (₹ 32,34,520)= ₹ 23,35,730

<sup>66</sup> Power factor (PF) is the ratio of the real power to apparent power and represents how much real power the electrical equipment utilises.

<sup>67</sup> [(Required power factor (0.85) – Recorded Power Factor of the consumer) / Recorded Power Factor X 100 X recorded units (KWH)] minus the actual penalty levied

<sup>68</sup> constituted in February 2007 under Section 87 of the Electricity Act 2003

<sup>69</sup> KVAH means Kilovolt Ampere Hours

applicable for KWHR<sup>70</sup> units. The MeECL was, therefore, to ensure that KVAH meters were installed in the premises of all consumers so as to avoid huge revenue losses on this account. No progress, however, was made by the MeECL in this direction (October 2011).

#### 4.2.16 Revenue collection efficiency

As revenue from sale of energy is the main source of income of MeECL, prompt collection of revenue assumes great significance. The table below indicates the balance outstanding at the beginning of the year, revenue assessed during the year, revenue collected and the balance outstanding at the end of the year during last five years ending 31 March 2011:

**Table 4.2.24**

| (₹ in crore) |                                                                 |         |         |         |         |         |
|--------------|-----------------------------------------------------------------|---------|---------|---------|---------|---------|
| Sl. No.      | Particulars                                                     | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| 1.           | Balance outstanding at the beginning of the year                | 199.24  | 201.01  | 209.22  | 252.35  | 329.43  |
| 2.           | Revenue assessed/billed during the year                         | 233.17  | 318.15  | 392.51  | 415.74  | 380.17  |
| 3.           | Total amount due for realisation (1+2)                          | 432.41  | 519.16  | 601.73  | 668.09  | 709.60  |
| 4.           | Amount realised during the year                                 | 225.03  | 303.29  | 324.65  | 315.95  | 278.59  |
| 5.           | Amount written off during the year                              | 6.37    | 6.65    | 24.73   | 22.71   | 13.77   |
| 6.           | Balance outstanding at the end of the year                      | 201.01  | 209.22  | 252.35  | 329.43  | 417.24  |
| 7.           | Percentage of amount realised to total dues (4/3)               | 52.04   | 58.42   | 53.95   | 47.29   | 39.26   |
| 8.           | Arrears in terms of No. of months assessment /billed {6/(2/12)} | 10.34   | 7.89    | 7.71    | 9.51    | 13.17   |

Source: MeECL

We observed from the above details that:

- percentage of amount realised to total dues at the end of the year had decreased from 52.04 (2006-07) to 39.26 (2010-11);
- balance dues outstanding at the end of the year increased from ₹ 201.01 crore in 2006-07 to ₹ 417.24 crore in 2010-11; and
- balance amount outstanding at the end of year in terms of number of months assessment had improved from 10.34 in 2006-07 to 7.71 in 2008-09 but deteriorated thereafter to 9.51 in 2009-10 and 13.17 in 2010-11.

##### 4.2.16.1 Analysis of outstanding dues

The outstanding dues in respect of the two selected revenue divisions (East Garo Hills Revenue Division, Williamnagar and Western Revenue Division, Umiam) out of six revenue divisions for the period 2006-07 to 2010-11 are given below:

**Table 4.2.25**

| (₹ in crore)                                          |                              |         |         |         |         |         |
|-------------------------------------------------------|------------------------------|---------|---------|---------|---------|---------|
| Sl. No.                                               | Name of Revenue Sub-Division | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| <b>East Garo Hills Revenue Division, Williamnagar</b> |                              |         |         |         |         |         |
| (i)                                                   | Bajengdoba Sub-Division      | 0.59    | 0.04    | 0.04    | 0.09    | 0.34    |
| (ii)                                                  | Nangalbibra Sub-Division     | 0.65    | 0.78    | 1.08    | 1.24    | 1.48    |
| (iii)                                                 | Williamnagar Sub-Division    | 1.94    | 3.34    | 2.66    | 4.13    | 5.90    |

<sup>70</sup> KWHR means Kilowatt Hours

| Sl. No.                                | Name of Revenue Sub-Division | 2006-07      | 2007-08      | 2008-09      | 2009-10       | 2010-11       |
|----------------------------------------|------------------------------|--------------|--------------|--------------|---------------|---------------|
| (iv)                                   | Mendhipathar Sub-Division    | 4.91         | 7.61         | 5.38         | 5.60          | 11.63         |
| (v)                                    | Baghmara Sub-Division        | 1.13         | 1.43         | 1.68         | 2.01          | 2.40          |
| <b>Total</b>                           |                              | <b>9.21</b>  | <b>13.20</b> | <b>10.83</b> | <b>13.07</b>  | <b>21.75</b>  |
| <b>Western Revenue Division, Umiam</b> |                              |              |              |              |               |               |
| (i)                                    | Byrnihat Sub-Division        | 7.40         | 13.33        | 41.96        | 100.17        | 125.56        |
| (ii)                                   | Nongpoh Sub-Division         | 1.57         | 3.82         | 7.79         | 4.33          | 6.11          |
| (iii)                                  | Umiam Sub-Division           | 5.58         | 4.37         | 4.44         | 14.15         | 17.93         |
| <b>Total</b>                           |                              | <b>14.55</b> | <b>21.52</b> | <b>54.19</b> | <b>118.65</b> | <b>149.60</b> |
| <b>Grand Total</b>                     |                              | <b>23.76</b> | <b>34.72</b> | <b>65.02</b> | <b>131.72</b> | <b>171.35</b> |

Source: MeECL

From the above table it could be seen that the outstanding revenue for both the divisions were showing an increasing trend particularly for Western Revenue Division, Umiam which was mainly due to low level of collection efficiency of these sub-divisions.

As per tariff clause 19, if a consumer neglects or refuses to pay the electric bills for a period of one month from the due date, the MeECL shall serve a notice of 15 clear days and disconnect the electric supply after expiry of the notice period. Review of outstanding dues of the two Revenue Divisions revealed the following:

- During 2008-09, the Government of Meghalaya released ₹ 50 crore as one time settlement against the outstanding dues of ₹ 80.31 crore pertaining to various Government departments. While releasing the payment to the MeECL, the Government of Meghalaya had categorically instructed (July 2008) that in case of nonpayment of electricity dues in future, necessary action for disconnection of power supply might be taken against the defaulting Government Departments as per Section 56 of the Electricity Act 2003. However, during the performance audit period, in case of Western Revenue Division, Umiam and East Garo Hills Revenue Division, the outstanding dues as on 31 March 2011 pending against the Government departments was to the tune of ₹ 0.73 crore and ₹ 1.07 crore respectively. No action was however, taken by the MeECL for disconnection of power supply in cases of such default. The MeECL in their reply endorsed by the Government stated (June 2011) that implementation of stringent measure was not always feasible. Reply is not acceptable as inaction on part of MeECL in disconnecting the power of defaulting Government Departments was contrary to the Government's instructions which proved to be against the financial interests of MeECL.
- In case of Western Revenue Division, Umiam, 79 permanent disconnected cases with outstanding of ₹ 22.45 crore did not deposit their dues for four to 200 months. The MeECL did not initiate legal action to recover the dues against these consumers except in case of three consumers which were referred to legal cell of MeECL without furnishing complete information on defaulting cases.
- Further, in case of Western Revenue Division, the total number of consumers with an outstanding of more than one lakh and who were not disconnected increased

from 51 consumers during 2006-07 to 77 consumers during 2010-11, which is indicative of inadequate efforts by MeECL in recovering old dues from consumers with high outstandings.

The MeECL stated (October 2011) that regular monitoring on disconnection drive was being now undertaken by the higher authorities to bring down the level of outstanding dues. The Government also endorsed (November 2011) the views of the MeECL.

#### 4.2.17 Financial Management

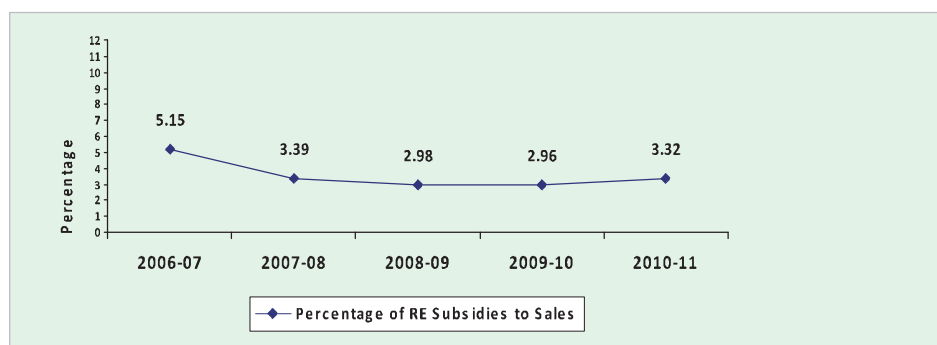
Efficient fund management serves as a tool for decision making, for optimum utilisation of available resources and borrowings at favourable terms at appropriate time. The financial management of the MeECL includes revenue collection, billing, borrowings, grants, transfer of funds, interest recovery/payments, restructuring of loans, security deposits, bank reconciliations and other related transactions. While the revenue and billing have dealt in the preceding paragraphs, the other areas are discussed below:

##### 4.2.17.1 Subsidy Support and Cross Subsidisation

There is an urgent need for ensuring recovery of cost of service from consumers to make the power sector sustainable. The State Government is providing subsidy with a view to ensure supply of power to specific category of consumers at concessional rates of tariff.

##### 4.2.17.2 Subsidy Support

The MeECL was getting subsidies on power purchases<sup>71</sup> and Rural Electrification (RE) subsidy<sup>72</sup> only. The graph below indicates the total of RE subsidy from State Government as a percentage of sales<sup>73</sup> for the last five years ending 31 March 2011.



Source: MeECL

<sup>71</sup> Subsidy on power purchase is sanctioned by the Government of Meghalaya to the MeECL to discharge its commitments of power purchase.

<sup>72</sup> RE subsidy is claimed by the MeECL from the State Government from the year 1976-77 to compensate the operational losses suffered by the MeECL on the implementation of Rural electrification scheme i.e., the cost of rural electrification less the revenue earned from those villages.

<sup>73</sup> There is no tariff subsidisation in the state of Meghalaya.

It is evident from the above that subsidy support from the Government was showing a decreasing trend over the performance audit period except marginal increase of 0.36 *per cent* during 2010-11. The percentage of subsidies to sales decreased from 5.15 *per cent* in 2006-07 to 3.32 *per cent* in 2010-11. Further, against the subsidy claim of ₹ 313.88 crore over the performance audit period<sup>74</sup> on above account, only ₹ 61.13 crore was actually received from the State Government as detailed in the table below:

**Table 4.2.26**

| Particulars                                                     | (₹ in crore) |         |         |         |         |
|-----------------------------------------------------------------|--------------|---------|---------|---------|---------|
|                                                                 | 2006-07      | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| Opening balance                                                 | 137.27       | 155.15  | 180.77  | 201.89  | 218.60  |
| Add: claimed by the MeECL from State Government during the year | 29.88        | 36.42   | 32.82   | 29.02   | 48.47   |
| Less: Received during the year <sup>75</sup>                    | 12.00        | 10.80   | 11.70   | 12.31   | 12.32   |
| Closing balance                                                 | 155.15       | 180.77  | 201.89  | 218.60  | 254.74  |

Source: MeECL

It may be seen from the table above that

- the closing balance of subsidy receivable had increased over the performance audit period indicating that the State Government was not fully reimbursing the subsidy becoming due in each year during 2006-11.
- the outstanding dues from the State Government accumulated from ₹ 155.15 crore in 2006-07 to ₹ 254.74 crore in 2010-11.

The non reimbursement of the subsidy by the State Government was adversely affecting the financial health of the MeECL. Further, as the financial position of the MeECL was not very sound, the same may not get finance from outside agencies also. Therefore, viability of the MeECL was heavily dependent on the Government support. We noticed that there was no commitment to release the outstanding subsidy by the State Government and the reasons for non-release of the subsidy were also not available in the records furnished to audit.

#### 4.2.17.3 Cross subsidisation

Section 61 of Electricity Act 2003 stipulates that the tariff should progressively reflect the average cost of supply (ACOS) of electricity and also reduces cross subsidy in a phased manner as specified by the MSERC. National Electricity Plan (NEP) envisaged that the tariff of all categories of consumer should range within plus or minus 20 *per cent* of the ACOS by the year 2010-11. The position as regards cross-subsidies in various major sectors is shown in **Appendix 4.8**. From the **Appendix**, it may be observed that among the categories of consumers availing maximum benefits of cross subsidies were Domestic (LT) and Agricultural who availed more than 20 *per cent* cross subsidies during all the five years from 2006-11. The highest contributors to cross subsidies by way higher tariff than ACOS were Commercial LT and

<sup>74</sup> Including the opening balance of ₹ 137.27 crore as on 1 April 2006.

<sup>75</sup> Represents RE subsidy only and does not include power purchase subsidy received during the year 2006-07 and 2007-08 at ₹ 12.15 crore and ₹ 22 crore respectively.

Industrial LT from 2006-07 to 2009-10 but availed cross subsidies of more than 20 *per cent* of ACOS in 2010-11. Surprisingly, during 2010-11, only HT others category of consumers was the only contributor towards cross subsidy and all the remaining categories were benefited by more than 20 *per cent* (except others LT, which availed cross subsidy to the extent of 18.16 *per cent* during this year). Thus, target of bringing the tariff of all the category of consumers within plus or minus 20 *per cent* of ACOS by the year 2010-11 as envisaged in the National Tariff Policy was not achieved by MeECL. Hence, there is an urgent need to correct this imbalance by progressively and gradually reducing the existing cross-subsidy levels.

#### 4.2.18 Tariff Fixation

The financial viability of the MeECL depends upon generation of surplus (including fair returns) from the operations to finance their operating needs and future capital expansion programmes by adopting prudent financial practices. Revenue collection is the main source of generation of funds for the MeECL. While other aspects relating to revenue collection have been discussed in preceding paragraphs, the issues relating to tariff are discussed herein under.

The tariff structure of the MeECL is subject to revision approved by the Meghalaya State Electricity Regulatory Commission (MSERC)<sup>76</sup> after the objections, if any, received against Annual Revenue Requirement (ARR) petition to be filed by it within 121 days before the commencement of the respective financial year. The MSERC accepts the application filed by the MeECL with such modifications/conditions as may be deemed just and appropriate and after considering all suggestions and objections from public and other stakeholders. The table below shows the due date of filing ARR, actual date of filing, date of approval of tariff petition and the effective date of the revised tariff:

**Table 4.2.27**

| Year                  | Due date of filing | Actual date of filing | Delay in days | Date of approval | Effective date |
|-----------------------|--------------------|-----------------------|---------------|------------------|----------------|
| 2007-08               | 30/11/2006         | 18/06/2007            | 198           | 17/12/2007       | 01/01/2008     |
| 2008-09               | 30/11/2007         | 31/03/2008            | 120           | 30/09/2008       | 01/10/2008     |
| 2009-10 <sup>77</sup> | 30/11/2008         | 28/11/2008            | -             | 30/11/2009       | 01/12/2009     |
| 2010-11               | 30/11/2009         | 12/02/2010            | 72            | 23/8/2010        | 01/09/2010     |

It may be seen from the above that there had been delay in filing of ARR by the MeECL during 2007-11 except in 2009-10. Delay in filing the ARR was due to delay in approving the ARR by the MSERC. Detailed analysis revealed that the extent of tariff was lower than breakeven levels (in percentage terms) of revenue from sale of power at the present level of operations and efficiency for the last five years ending 31 March 2011 as shown in the table below:

<sup>76</sup> After formation of MSERC in May 2004, first tariff for 2007-08 was approved by the regulatory body.

<sup>77</sup> During 2009-10, the tariff order was issued twice; firstly w.e.f. 01 December 2009 and secondly w.e.f. February 2010.

Table 4.2.28

(₹ in crore)

| Year    | Sales<br>(excluding<br>subsidy) | Variable<br>costs | Fixed<br>costs | Contribution    | Deficit in<br>recovery of<br>fixed costs | Deficit as<br>percentage of<br>sales |
|---------|---------------------------------|-------------------|----------------|-----------------|------------------------------------------|--------------------------------------|
| 1       | 2                               | 3                 | 4              | (5) = (2) – (3) | (6) = (4) – (5)                          | (7) = {(6)/ (2)} X 100               |
| 2006-07 | 233.17                          | 253.34            | 154.32         | -20.17          | -                                        | -                                    |
| 2007-08 | 318.15                          | 220.43            | 192.39         | 97.72           | 94.67                                    | 29.76                                |
| 2008-09 | 392.51                          | 217.77            | 214.40         | 174.74          | 39.66                                    | 10.10                                |
| 2009-10 | 415.74                          | 242.98            | 254.28         | 172.76          | 81.52                                    | 19.61                                |
| 2010-11 | 380.17                          | 326.43            | 307.79         | 53.74           | 254.05                                   | 66.83                                |

Source MeECL

It could be seen from above table that though the percentage of deficit had reduced in 2008-09, it had again increased to 66.83 *per cent* during 2010-11. One of the major aspects which contributed to the deficit was interest and finance charges. The MeECL had also to pay surcharge of ₹ 31.82 crore due to its failure to make timely payments for purchase of power (discussed in **para 4.2.12.2**). The necessary controls on these aspects would lead to substantial reduction of deficits.

Though it appears that the tariff was on lower side and needed to be revised for recovery of the costs, it may be highlighted here that the cost could be brought down by improving operational efficiency, *viz.*, reduction/control of AT&C losses, conversion of LT lines to HT lines, metering of un-metered connections/ defective meters, improving billing and collection efficiency, *etc.*, which had been discussed separately in the performance audit. Further, reduction of cross subsidisation among various categories of consumers might also help in improving the position as discussed in **para 4.2.17.3**.

#### 4.2.18.1 Disallowance/ penalty in tariff orders

Review of tariff orders issued by MSERC during the period 2007-08 to 2010-11 revealed the instances of expenses being disallowed and imposition of penalty in the final truing orders (February 2011) as discussed below:

- ₹ 0.58 crore during 2007-08 and ₹ 13.94 crore during 2008-09 were disallowed by the MSERC on account of Prior period charges in respect of employees cost which in the opinion of MSERC was controllable in nature. The MeECL would therefore need to take measures for reducing the excessive employee costs so as to avoid such disallowances by MSERC;
- MSERC fixed the penalty to be imposed on the MeECL for its inefficiency and failure to reduce AT&C losses by the mandated level during the years 2007-08 and 2008-09 to the extent of ₹ 5.81 crore and ₹ 19.49 crore respectively; and,
- an amount of ₹ 16.67 crore and ₹ 18.23 crore being interest payable on State Government loans for the years 2007-08 and 2008-09 respectively and an amount of ₹ 1.96 crore (₹ 0.98 crore for each of the years 2007-08 and 2008-09) payable as interest on loans against Central Sponsored Scheme (CSS), were disallowed as the MeECL did not actually pay any amount on this account despite claiming the

said amount in the ARR during 2007-08 and 2008-09. Hence, MSERC did not allow the same to be passed on to the consumers through ARR.

The MeECL replied (October 2011) that it had appealed (April 2011) against the disallowance of prior period charges in respect of employees cost and Income Tax during the years 2007-08 and 2008-09 and the appeal was pending for disposal. The Government also endorsed (November 2011) the views of the MeECL.

#### **4.2.19 Consumer Satisfaction**

One of the key elements of the power sector reforms was to protect the interest of the consumers and to ensure better quality of service to them. The consumers often face problems relating to supply of power such as non-availability of the distribution system for the release of new connections or extension of connected load, frequent tripping on lines and/or transformers and improper metering and billing.

The MeECL was required to introduce consumer friendly actions like introduction of computerised billing, online bill payment, establishment of customer care centers, *etc.* to enhance satisfaction of consumers and reduce the advent of grievances among them. The billing issues have already been discussed in preceding paragraphs. The redressal of grievances is discussed below.

##### **4.2.19.1 Redressal of Grievances**

The MSERC specified the mode and time frame for redressal of grievance in MSERC (Redressal of Grievances) Regulations 2007 in pursuance of the Electricity Act 2003. The MSERC had also issued the Standards of Performance for the MeECL which prescribed the time limit for rendering services to the consumers and compensation payable for not adhering to the same. The nature of services contained in the Standards *inter alia* include line breakdowns, distribution transformer failures, period of load shedding/scheduled outages, voltage variations, meter complaints, installation of new meters/connections or shifting thereof, *etc.*

In line with the above, the MeECL constituted a Forum (June 2008) for redressal of grievances of consumers-

- which shall examine and consider all complaints that it receives and pass orders for the MeECL to remedy the fault or defect within such time as it may decide;
- which shall have powers to call for information from the MeECL or any other person concerned and to hear him; and
- The complaint shall be disposed of within a maximum period of 15 days and the MeECL shall be informed of the decision taken.

The Forum had eight sittings up to the last quarter ended 31 March 2010 and both the two cases received were disposed of. Though one grievance was received in the first quarter ended 30 June 2010, the forum did not meet thereafter. Meanwhile, the tenure of the Forum which was three years had expired in June 2011 and the MeECL was yet to reconstitute the Forum.

Further the MeECL was receiving complaints from the consumers directly. It was seen that during January 2010 to December 2010, total 33471 complaints were received and settled mainly on account of the following:

**Table 4.2.29**

|    | Nature of complaints   | Town area    | Rural Area   | Total        |
|----|------------------------|--------------|--------------|--------------|
| 1. | Fuse breakdowns        | 13073        | 14467        | 27540        |
| 2. | Supply line breakdowns | 1456         | 2963         | 4419         |
| 3. | Transformer failures   | 52           | 277          | 329          |
| 4. | Metering defects       | 38           | 70           | 108          |
| 5. | Billing defects        | 279          | 796          | 1075         |
|    | <b>Total</b>           | <b>14898</b> | <b>18573</b> | <b>33471</b> |

Source: MSERC

Though the information on the complaints received from the consumers were sought for from the MeECL as a whole, the information were received only from three divisions viz., Western Revenue Division, Umiam, Jowai Revenue Division and Shillong Revenue Division. As per the information furnished by the Shillong Revenue Division, the number of complaints received was nil during 2006-11. However, in respect of Jowai Revenue Division and Western revenue Division, the following position emerged:

**Table 4.2.30**

|         |                                                                    | (in number) |         |         |         |         |
|---------|--------------------------------------------------------------------|-------------|---------|---------|---------|---------|
| Sl. No. | Particulars                                                        | 2006-07     | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| 1.      | Total complaints received <sup>78</sup>                            | 1596        | 8632    | 7873    | 5606    | 4926    |
| 2.      | Complaints redressed within time                                   | 1516        | 8567    | 7831    | 5568    | 4896    |
| 3.      | Complaints redressed beyond time                                   | 80          | 65      | 42      | 38      | 30      |
| 4.      | Pending complaints                                                 | 0           | 0       | 0       | 0       | 0       |
| 5.      | Percentage of complaints redressed beyond time to total complaints | 5.00        | 0.75    | 0.53    | 0.68    | 0.61    |
| 6.      | Compensation paid to Consumers                                     | 0           | 0       | 0       | 0       | 0       |

We observed from the above that all complaints received were disposed of during the respective years and percentage of complaints redressed within time had also improved over the years. However, compared to 2006-07, the number of complaints had increased sharply by 441 *per cent* in 2007-08 and reduced gradually thereafter.

Further, we also noted that in a public hearing held (April 2010) on Electricity tariff petition of the MeECL for the year 2010-11, grievances like bills not served regularly and billings in excess of the actual consumption were raised and it was also pointed out that on number of occasions representations were made to the MeECL but nothing was done for disposal of the grievances.

<sup>78</sup> As per the information furnished by the Western Revenue Division, the number of complaints received was nil. Hence the data was compiled only for Jowai Revenue Division and Shillong Revenue Division.

#### 4.2.19.2 Delay in execution of deposit works/service connections

The MeECL extends the service connection to the prospective consumers directly or through deposit works wherever required and the consumer bears the cost of additional infrastructure. As per Regulation 6 of MSERC (Standards of Performance) Regulation 2006, new service connection (without deposit work) is to be provided to the consumers within a period seven (town areas)/14 (rural areas) days and for new service connection (with deposit work) within a period of 30 (town areas)/60 days (rural areas). A review of records of completion of deposit works and providing service connection revealed that

- delay in issuing materials leads to delay in completion of deposit work and in extending the service connection to the consumers. It was noticed that out of 56 requisitions received from various divisions for deposit works by Central Stores, Shillong during the period June 2009 to March 2010, in 39 cases, there had been delays in issuing materials ranging from one to fifteen months.
- the position<sup>79</sup> of 134 deposit works (31 May 2011) relating to West Garo Hills Distribution Division (89), East Garo Hills Distribution Division (42) and East Khasi Hills Distribution Division (3) were reviewed in audit and the following was noticed:
  - 31 deposit works<sup>80</sup> (₹ 0.95 crore) under West and East Garo Hills Distribution Division were completed after delay ranging from 3 to 21 months;
  - 19 deposit works (₹ 1.57 crore) under West Garo Hills Distribution Division where payment<sup>81</sup> were not received, works were yet to be started; and
  - of the balance 84 deposit works (₹ 6.35 crore) where payment against the bills were already received during May 2008 to March 2011, 75 deposit works<sup>82</sup> were yet to be taken up even after delay of 1 to 34 months and 9 deposit works<sup>83</sup> were under execution even after delay of period ranging from 7 to 14 months.
- In case of 66 consumers under Phulbari Sub-Division (East Garo Hills Distribution Division) who had applied for service connections during May 2008 to March 2010, there were delays ranging from 15 days to 185 days in extending service connection to these consumers.

<sup>79</sup> As per the monthly status report prepared by distribution divisions

<sup>80</sup> Under West Garo Hills Distribution Division (30) and under East Garo Hills Distribution Division (1)

<sup>81</sup> In case of 30 deposit work (₹ 1.52 crore) bills were served and in one case (₹ 0.05 crore) bills was yet to be served.

<sup>82</sup> 36 deposit works under West Garo Hills Distribution Division with a delay ranging from 1 to 15 months and 36 deposit works under East Garo Hills Distribution Division with a delay ranging from 1 to 34 months and 3 deposit works under East Khasi Hills Distribution Division with a delay ranging from 12 to 24 month.

<sup>83</sup> 4 numbers of Deposit works under West Garo Hills Distribution Division with a delay ranging from 7 to 14 months and five numbers of Deposit works under East Garo Hills Distribution Division.

The MeECL attributed (October 2011) the delay in completion of deposit work to right of way problem, demand of compensation by land owners/public, belated receipt of documents from the applicants, non response of applicants for joint survey, delay in approval for charging lines/substation by the Government department and geographical/climatic constraints in transportation of materials to site. The Government also endorsed (November 2011) the views of the MeECL.

In view of large number of deposit work being inordinately delayed causing much discomfiture to the consumers, the MeECL urgently need to take system improvement measures in association with the concerned department of the State Government, MSERC and consumers.

#### **4.2.20 Energy Conservation**

Recognising the fact that efficient use of energy and its conservation is the least-cost option to mitigate the gap between demand and supply, the GOI enacted the Energy Conservation Act, 2001. The conservation of energy being a multi-faceted activity, the Act provides both promotional and regulatory roles on the part of various organisations. The promotional role includes awareness campaigns, education and training, demonstration projects, R&D and feasibility studies. The regulatory role includes framing rules for mandatory audits for large energy consumers, devising norms of energy consumption for various sectors, implementation of standards and provision of fiscal and financial incentives.

It was noticed that the MeECL had taken the following measures in its promotional role to conserve energy:

- through public awareness campaigns via talks on electronic media, radio, design and distribution of book marks with energy conservation tips,
- annual observance of Energy Conservation Day on 14 December through design and display of advertisements in local newspaper, printing of banners and display at prominent areas of capital and district headquarters,
- design of conservation video clips in local languages and display on cable TV,
- participation in Government fair,
- displaying energy conservation themes and coordination activities in schools organised by TERI<sup>84</sup> on behalf of BEE<sup>85</sup>.

As a part of conservation measures in the MeECL, a guideline was issued in 2007 to all sub-divisions/estate officers to exercise energy conservation measures such as phase-wise replacement of inefficient lighting systems with energy efficient, ones such as CFLs and energy saving sodium/mercury vapor street lighting systems.

Though the directive was issued, no furtherance of the same was noticed in the records made available to audit. The MeECL was yet to consider and implement the following vigorously in the areas of energy conservation:

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<sup>84</sup> The Energy and Resource Institute (TERI) establishment by Tata Energy Resource Institute.

<sup>85</sup> Bureau of Energy Efficiency.

- financial incentives for energy conservation measures;
- incentives for encouraging reduction of T&D losses; and
- awareness campaigns for energy conservation on Demand Side.

#### **4.2.21 Energy Audit**

A concept of comprehensive energy audit was put in place with the objective to identifying the areas of energy losses and take steps to reduce the same through system improvements besides accurately accounting for the units purchased/sold and losses at each level. The main objectives of energy audit are better and more accurate monitoring of the consumption of electricity by consumers, elimination of wastages, reduction of downtime of equipment and massive savings in operational costs and increase in revenue, *etc.*

During the year 2006-07, the MeECL had proposed energy audit for which NIT<sup>86</sup> (November 2006) was called for and expenditure to the tune of ₹ 5.34 lakh was incurred on account of consultancy charges. However, the work was not awarded even after floating tender on the ground of non-availability of funds. Thereafter, the MeECL was yet to take up the energy audit.

The MeECL replied (October 2011) that it would take up the energy audit after the commissioning of R-APDRP (project-A). The Government also endorsed (November 2011) the views of the MeECL.

#### **4.2.22 Monitoring by top Management**

The MeECL plays an important role in the State economy. For such a large organisation to succeed in operating economically, efficiently and effectively, there has to be a Management Information System (MIS) for monitoring by top management.

Mention was made in para 4.2 of the Audit Report of the CAG - Government of Meghalaya for the year 2009-10 that it had no MIS in place, although it had appointed a consultancy firm for preparing the DPR to implement Enterprise Resource Planning (ERP) solutions. In June 2011, the State Government admitted that MIS for monitoring of operations and projects did not exist and MIS in MeECL covered areas in respect of payroll accounting revenue and commercial, personnel data, and energy injection. Audit observed that there was however, no system for reporting this information to Board of Directors.

The Department also stated that with a view to implement ERP solutions, the MeECL had engaged M/s Price Waterhouse Coopers for preparing the DPR for IT roadmap.

In course of this performance audit, it was observed that the information required was to be called for and collected from various divisions/offices of the MeECL. The time taken to furnish the information indicated that the same were not readily available with the concerned divisions/offices and additional efforts had to be put in by all

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<sup>86</sup> Notice inviting tender.

concerned in this regard. Further, in the absence of any centralised information system, the accuracy of the information could not be ensured as the same data furnished by different divisions/offices were not the same. There were instances when complete information could not be furnished by the MeECL. Proper monitoring and control by the top management was also lacking in so far as targets for important areas of its operations like capacity addition plan to upgrade its distribution network in the State, targets for vigilance activity *etc.*, were not fixed to evaluate the performance for timely action and improvement.

The MeECL replied (October 2011) that in view of resource constraints, it was exploring alternative arrangement for funding of the implementation of ERP solution. The Government also endorsed (November 2011) the views of the MeECL.

The fact therefore remains that the MeECL, the biggest<sup>87</sup> public sector undertaking in the State continues to lack a proper MIS.

#### **4.2.23 Conclusion**

- **The distribution reforms as envisaged under National Electricity Policy / Plans were not fully achieved by MeECL. The increase in the distribution capacity was not commensurate with the pace of growth in demand leading to network overloading with resultant frequent tripping of system and adverse voltage regulation;**
- **Implementation of centrally sponsored schemes (R-APDRP, RGGVY) by MeECL was not efficient and effective. In RGGVY, several deficiencies like, under utilisation of scheme funds, delayed completion of works, provision of excess capacity of transformers, high variation in the rates of material, *etc.* were noticed which had adverse effects on implementation of scheme. The R-APDRP meant to strengthen the distribution system and reduce AT&C losses was yet to be taken up for implementation even after lapse of more than three years of its launching in July 2008;**
- **AT&C losses of MeECL continued to be high, it had increased sharply during 2009-11 and reached at 40.48 *per cent* (2010-11) as against the R-APDRP target of 15 *per cent* and also the target of 22.05 *per cent* set by MeECL for 2010-11. The main reasons for high AT&C losses were poor billing and collection efficiency, over loading of transmission/distribution network, large number of un-metered connections and stopped/defective meters and theft / pilferage of energy, *etc.*;**
- **MeECL failed to complete the power projects in time thereby increasing the dependency on outside purchase of power for meeting the demand and consequential increase in the cost of power purchased. At present level of operations, the cost of operation continued to be very high leading to**

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<sup>87</sup> In terms of capital employed, turnover, employees etc.

continuous deficit in recovery of fixed costs and consequential dependence on borrowings;

- deficiencies in the billing system, such as non billing of consumers on regular basis, incorrect billing, non-disconnection of power of consumers running with low power factor, *etc.*, were noticed. The collection activities of MeECL also had several shortcomings like, mounting arrears against electricity dues, huge recoveries pending against permanent disconnected consumers, non-disconnection of supply of defaulting consumers and consumer with heavy arrears, *etc.*;
- The MeECL had not taken effective measures for energy audit and energy accounting to identify areas of energy losses and take steps to reduce the same through system improvements;
- The MeECL did not have a proper MIS in place for effective control over its operations by top management.

#### **4.2.24 Recommendations**

- MeECL should focus on strengthening and augmentation of the transmission and distribution network commensurate with the connected load of the consumers;
- MeECL should ensure implementing the GOI schemes meant for rural electrification and system augmentation within the time schedule fixed, so as to achieve the envisaged objectives of the schemes;
- MeECL should strive to achieve the norms of AT&C losses by strengthening the efficiency of distribution system through evolving effective system of billing and revenue collection, adequate maintenance system, proper management of DTRs, metering of all consumers, expeditious replacement of defective / stopped meters, *etc.*
- MeECL need to expedite completing the long pending power projects for reducing dependence on outside purchases of power. Corrective measures such as, prompt disconnection of defaulting consumers, timely recovery of dues *etc.*, also need to be taken;
- The guidelines of MSERC regarding redressal of consumer grievances should be adhered to by the MeECL.
- MeECL should conduct energy audits so as to monitor and control the energy loss;
- MeECL should devise and put an appropriate MIS in place so as to have effective control over operations by the top management.

## AUDIT OF TRANSACTIONS

### POWER DEPARTMENT

#### MEGHALAYA ENERGY CORPORATION LIMITED

#### 4.3 Avoidable expenditure and loss of property

**The erstwhile Meghalaya State Electricity Board failed to safeguard its assets and to ensure encroachment free clear site before award of Hydro project work, which delayed completion of the project besides avoidable payment of idle charges of ₹ 2 crore.**

The erstwhile Meghalaya State Electricity Board (MeSEB)<sup>1</sup> prepared (June 2005) a detailed project report (DPR) for construction of the 2 x 20MW New Umtru Hydro Electric Project (NUHEP) at a cost of ₹ 226.40 crore scheduled to be completed by July 2010. The DPR envisaged that fresh acquisition of land was not required as already land acquired for the existing Umtru Project would meet the needs of the NUHEP. The DPR however, mentioned that drilling work at the surge shaft site could not be carried out because of objections by an unauthorised occupant (encroacher) of the land at this location. We noticed that consequent on the MeSEB issuing (April 2000) an eviction notice to the encroacher, the latter had obtained (May 2000) an injunction from the court followed by an order (March 2007) to maintain the *status quo*.

However, ignoring the fact of non-availability of clear site for the project, MeSEB awarded (December 2007) the civil works for the NUHEP to M/s ITD Cementation Limited (contractor) at a cost of ₹ 80.46 crore and scheduled for completion by June 2010. The contractor commenced work (March 2008) but had to suspend (1 June 2008) the same due to non-availability of encroachment free clear site for construction.

With a view to avoid further delay in providing clear site to contractor and consequential payment of idle charges to the contractor on account of long time required for settling the dispute in court, the erstwhile MeSEB approved (25 June 2008) an out of court settlement with the encroacher. Under the settlement, out of the total area of 36.56 acre illegally occupied, the encroacher handed over (July 2008) 13.46 acre of land required for the project work to the MeSEB. The MeSEB also agreed (July 2008) not to disturb the remaining 23.10 acre on which the encroacher had established a plantation.

Subsequently, in response to MeSEB's request (July 2008) for resuming the work, the contractor refused to do so unless his compensation claims (May 2008/August 2008) of ₹ 20.99 crore towards idling of plant, machineries and labour, *etc.* for the delay period are settled. In December 2008, the contractor submitted another compensation

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<sup>1</sup> Meghalaya State Electricity Board (MeSEB) was corporatised as the Meghalaya Energy Corporation Limited (MeECL) in April 2010.

claim of ₹ 4.41 crore as idle charges for the period 01 August 2008 to 30 November 2008. The MeSEB released (December 2008) *ad hoc* payment of ₹ 2 crore to the contractor pending final settlement of his claims following which the contractor restarted the work.

In September 2009, MeSEB set up a committee to examine the contractor's claims. Though the said committee had recommended for payment of ₹ 3.53 crore against the contractor's total compensation claims of ₹ 25.40 crore, a final decision in the matter was pending (May 2011). Meanwhile, civil work of NUHEP to the extent of 72.66 *per cent* were reported to have been completed.

Thus, the MeSEB's failure to ensure the availability of encroachment free site for the project, which is a prerequisite of any construction/infrastructure project had resulted in:

- extension in the scheduled date of completion of the NUHEP project from July 2010 to December 2012, which may cause corresponding escalation in the initial project cost of ₹ 226.40 crore for the time overrun involved;
- payment of ₹ 2 crore as compensation to the contractor with the prospects of paying at least another ₹ 1.53 crore; and,
- surrender of 23.10 acre of the MeSEB's land valued<sup>2</sup> at ₹ 28.05 lakh in favour of the encroacher by way of *de facto* regularization of said land. Besides, the encroachment on MeSEB's land, which lingered on from April 2000 to June 2008 had an adverse reflection on the MeSEB's ability on safeguarding and monitoring of its assets.

In paragraphs 4.3 and 4.4 of the Audit Report 2008-09, Government of Meghalaya, similar cases of MeSEB's failure to secure project sites before issuing work orders/supply orders for equipment were pointed out which resulted in extra expenditure of ₹ 37.48 lakh and an idle expenditure of ₹ 5.26 crore. The persistence of similar lapse was therefore, disturbing and adversely reflects on MeSEB's ability to safeguard and monitor its assets.

The Government, while accepting the facts, stated (November 2011) that the decision to award the work order was taken with a view to complete the project early as the State was facing acute shortage of power and also in anticipation that the Hon'ble court would withdraw the Injunction order. It was also stated that value of the land area sacrificed was meager compared to the probable generation loss on account of further delay in completing the project. Regarding the previous audit observations referred to in the para, it was stated that there is no repeat of lapse as the cause to delay in previous cases were quite dissimilar one from the other.

The reply is not acceptable as the availability of encroachment free clear site is a prerequisite for timely completion of any project. By not ensuring this, the project was not only delayed but the MeSEB had to bear avoidable loss towards payment of idle

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<sup>2</sup> by the Deputy Commissioner, Ri-Bhoi District, Nongpoh in June 2010.

charges to the contractor. As regards the cases referred to from our previous Report, it is pertinent to mention that there is no dissimilarity in cases referred to by us as on both occasions, MeSEB ignored the ongoing disputes over project sites before taking up the project works causing huge losses besides delaying the projects.

The Management should, therefore, take appropriate measures to safeguard its assets by strengthening the monitoring and internal control system and ensure that before implementation of any project, availability of the required land is ensured.

## COMMERCE AND INDUSTRIES DEPARTMENT

### MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

#### 4.4 Undue delay in recovery action

**The Company unduly delayed recovery action against outstanding loan, which resulted in loss of ₹ 62.43 lakh.**

The Meghalaya Industrial Development Corporation Limited (Company) sanctioned (April 2000) ₹ 80 lakh<sup>3</sup> loan to M/s N.R. Roller Flour Mills Company Pvt. Ltd. (borrower) for establishing a flour mill at Khanapara in Ri-Bhoi District. The Company refinanced the entire loan from the Small Industries Development Bank of India (SIDBI) and released the money to the borrower between May 2000 and January 2001.<sup>4</sup>

Scrutiny of records of the Company revealed that although the loan was repayable in 18 half-yearly installments commencing from May 2002, the borrower defaulted in repayment from the beginning when the cheque of ₹ 5 lakh issued (March 2003) by the borrower bounced. The only repayment received against the loan was ₹ 0.50 lakh in cash in October 2003/February 2004 towards payment of interest. The Company, however, out of the total Government subsidy of ₹ 72.93 lakh released to the borrower up to March 2004 to be routed through the Company recovered another ₹ 62.93 lakh (₹ 23.97 lakh towards principal and ₹ 38.96 lakh towards interest) and passed (March 2004) on the balance subsidy amount of ₹ 10 lakh to the borrower.

In March 2006, the borrower, with balance outstanding of ₹ 73.62 lakh<sup>5</sup>, proposed for settlement of loan under One Time Settlement (OTS). The Company accepted (March 2006) the proposal for ₹ 57.45 lakh on condition that the amount should be repaid in three monthly equal installments. The borrower, however, failed to pay off the dues, agreed under OTS. In August 2007, the borrower again approached the Company for settlement of the loan at the amount agreed to (March 2006) under the OTS and

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<sup>3</sup> with interest at the rate 15.50 per cent per annum.

<sup>4</sup> May 2000-₹ 15 lakh; June 2000- ₹ 34.02 lakh; September 2000 –₹ 5 lakh; October 2000 – ₹ 10 lakh ; January 2001 – ₹ 15.98 lakh.

<sup>5</sup> Principal: ₹ 56.03 lakh; interest: ₹ 17.59 lakh.

issued four post dated cheques for ₹ 57.45 lakh<sup>6</sup>. The Company refused the offer but nevertheless retained the cheques which, however, all bounced when presented to the bank for payment.

The Company issued (December 2007/January 2008) notices to the borrower demanding payments for the amounts of the cheques within seven days, without any fruitful results. On realising that the promoters and directors of the borrowing firm were absconding, Company lodged (March 2008) FIR with the police for recovery of the dues, which served no purpose. The Company filed (November 2009) a suit before the Debt Recovery Tribunal (DRT), Guwahati for a certificate of recovery against the borrower an order for attachment and sale of the mortgaged properties, which was still pending (July 2011).

In this connection, we observed the following:

- the loan given to the borrower was refinanced by the Company from SIDBI. While the Company repaid SIDBI ₹ 125.86 lakh (₹ 80 lakh principal and ₹ 45.86 lakh interest), it could recover only ₹ 63.43 lakh<sup>7</sup> thereby incurring a loss of ₹ 62.43 lakh;
- after dishonour (March 2003) of the first cheque given by the borrower, the Company should have straightway initiated action under the provisions of the Negotiable Instruments Act, 1881<sup>8</sup> - By not initiating the desirable action, Company encouraged the borrower in deluding the Company by giving it another four cheques in August 2007 which proved to be useless;
- against the amount allowable under OTS<sup>9</sup> of ₹ 64.83 lakh (principal ₹ 56.03 lakh and interest ₹ 8.80 lakh), the Company imprudently offered (March 2006) to accept ₹ 57.45 lakh thereby waiving excess interest of ₹ 7.37 lakh and also extended OTS without fixing validity period of OTS offer.
- the borrower's abysmal repayment record should have been a sufficient pointer for the Company to initiate legal action much before November 2009, when it finally did;
- though as per legal advice obtained (November 2008) in the matter, the Company was suggested to take action under section 29 of the State Financial Corporation

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<sup>6</sup> Cheques dated 25 September 2007 for ₹ 17.45 lakh; 25 October 2007 for ₹ 10 lakh; 25 November 2007 for ₹ 15 lakh; 24 December 2007 for ₹ 15 lakh.

<sup>7</sup> ₹ 0.50 lakh paid by the debtor towards interest + ₹ 62.93 lakh recovered by the MIDC from the subsidy.

<sup>8</sup> Dishonour of a cheque for insufficiency of funds, *etc.* is an offence under Section 138 of the Negotiable Instruments Act, 1881 and punishable with imprisonment or with fine up to twice the amount of the cheque, or with both, provided that the holder of the cheque makes a demand for the payment of the said amount of money by giving a notice to the drawer of the cheque within 30 days of the receipt of information regarding return of the cheque from the bank. If the drawer of such cheque fails to make payment within 15 days of the receipt of the said notice under Section 142 of the Act, a complaint under Section 138 is required to be made within one month from the date of expiry of notice issued to the drawer of the cheque, i.e. 15 days from of the receipt of notice by the drawer.

<sup>9</sup> As per the OTS scheme, borrower was required to pay full principal amount plus 50 *per cent* of interest accumulated payable as 25 *per cent* down payment and the balance amount within 12 months. In case the borrower fails to clear the balance amount within 12 months then the offer will be revoked and full interest will become payable.

(SFC) Act, 1951<sup>10</sup> for speedy recovery of dues – it ignored the same and instead, decided to file a suit before the Debt Recovery Tribunal, Guwahati, after one year in November 2009; and,

- in October 2010, theft of machinery and other items occurred in the flour mill's premises– such incidents may recur in future also and by the time the case is finally decided, the Company may be left with very little assets to cover its dues.

The Government/Management replied (July 2011) that before taking the action under Negotiable Instruments Act, efforts were made to resolve the issue with the borrower. On realizing that main promoters/directors of the borrower company were absconding, FIR was filed and a suit in the DRT was also filed for recovery of loan outstanding. As regards not taking action under section 29 of the SFC Act, it was stated that recovering the dues by selling the assets of defaulter was difficult in absence of buyers and may result in further expenditure on upkeep of said assets.

The reply is not acceptable as the Company had weakened the opportunity of recovering the dues by delaying the legal action against the defaulters. Regarding Company's plea of difficulties in selling the assets of defaulters, it is pertinent to mention that as per its own experience, in case of two units, which were seized under section 29 of the SFC Act in last decade, both the defaulters, at their own had come forward for negotiation with the Company.

Thus, the Company incurred a loss of ₹ 62.43 lakh due to unduly delayed action against defaulting borrower for recovery of the dues. The Company needs to identify the chronic loan default cases and initiate appropriate legal course of action for prompt recovery of unpaid dues.

#### **4.5 Ineffective management of industrial parks**

**Ineffective management of industrial parks resulted in rental arrears accumulating to ₹ 3.01 crore and land not being optimally used for intended purposes.**

To provide infrastructural facilities to prospective industrial units in Meghalaya, the State Government (SG) set up two industrial parks (IP) viz., Umiam Industrial Area (UIA), Barapani in March 1976 and Export Promotion Industrial Park (EPIP), Byrnihat in March 2001 covering an area of 209 acre and 259.35 acre respectively. Plots in the IPs were allotted and leased out to entrepreneurs by the SG for periods from 25 to 30 years against annual lease rent payable in advance at the rate of ₹ 5 or ₹ 20 per square metre<sup>11</sup> (sqm.).

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<sup>10</sup> The Act empowers the Company to take over management or possession or both so as to sell the flour mill (Section 29), apply to the District Judge for sale of the mortgaged property and enforcing the liability of the surety (Section 31) and to make an application to the State Government for recovery of dues as arrears of land revenue under the Revenue Recovery Act (Section 32).

<sup>11</sup> for developed land and undeveloped land at ₹ 20 per sqm and ₹ 5 per sqm respectively.

The Meghalaya Industrial Development Corporation Limited (Company) was entrusted with maintaining and developing these IPs and authorised to collect the lease rent from industrial units in the IPs.

As per the allotment conditions, the allottees (industrial units) of land were required to take in the IPs steps for arranging the finances and procure machineries within the stipulated period failing which the allotment would lapse automatically. The lease deed to be executed between the industrial unit and the SG shall *inter alia*, include the following conditions in this regard:

- lease rent was to be paid yearly in advance and in the event of arrears, interest at the rate of 12 *per cent* per annum would be charged and the arrears recovered as arrears of land revenue; and,
- if the industrial unit failed to comply with the terms and conditions, the lease would be automatically terminated.

Our scrutiny (July/August 2011) of records relating to the two IPs<sup>12</sup> with reference to the above requirements revealed the following:

- As against total 123 units who were allotted plots in the two IPs as on 30 June 2011 lease deeds were executed by only 91 units<sup>13</sup>. The remaining 32 units<sup>14</sup> had not executed the lease deeds as required.
- Out of the 91 units who had executed leases, 45 units<sup>15</sup> had not paid their lease rents dues of ₹ 2.54 crore<sup>16</sup> as on 30 June 2011 for periods ranging from one to 12 years. Further, 15<sup>17</sup> of the said 45 defaulter units were either non-functional or had not gone through with their projects.
- Of the 32 units who did not execute lease deeds, Company raised rental bills against five units only<sup>18</sup> of which the rent outstanding in respect of three<sup>19</sup> units was ₹ 0.09 crore up to June 2011. Calculated at the minimum rental of ₹ 5 per sqm., rent for periods ranging from more than 2 to 18 years amounting to ₹ 37.62 lakh<sup>20</sup> was realisable from these 27 units up to June 2011 for which bills were not raised. Further, 20<sup>21</sup> of these 27 units were either non-functional or had not gone through with their projects.

<sup>12</sup> 47 acre of land which added to EPIP, Byrnihat in May 2011 was excluded from the purview of the audit examination.

<sup>13</sup> (UIA -46; EPIP – 45)

<sup>14</sup> (UIA -29; EPIP – 3)

<sup>15</sup> (UIA - 27; EPIP – 18)

<sup>16</sup> (UIA – ₹ 0.70 crore; EPIP – ₹ 1.84 crore )

<sup>17</sup> (UIA – 7 ; EPIP – 8)

<sup>18</sup> (UIA -4; EPIP – 1) based on the advice of the department.

<sup>19</sup> (UIA-2 and EPIP-1)

<sup>20</sup> rent of ₹37.62 lakh calculated @ ₹ 5 per sqm per annum including interest @12 *per cent* for 27 units 79310.90 sqm (UIA-25 with 71264.90 sqm and EPIP-2 with 8046 sqm.) for the period from the date of allotment up to June 2011.

<sup>21</sup> (UIA – 18; EPIP – 2)

➤ The 46 units<sup>22</sup> out of total 123 units were either non-functional<sup>23</sup> or had not gone through with their projects<sup>24</sup>. Of these 46 units, 39 units<sup>25</sup> were occupying land in the IPs for more than 2 to 24 years<sup>26</sup>. Though occupation of the land by these units was a violation of the terms of allotment, the Company did not take steps to repossess their plots despite the fact that there were 19 units<sup>27</sup>/allottees in IPs (since May 2000 to June 2010) who were awaiting possession of plots due to scarcity of land. We further noticed that three of the non-functional units were allotted second plots<sup>28</sup> by the SG in the IPs between August 2007 and July 2010.

We further observed that Company failed to effectively guard the land in IPs against unauthorised encroachments. In the UIA there were 65 families who had illegally occupied a portion of the IP. Although the Company had first reported the matter to the Deputy Commissioner (DC) of Ri Bhoi district in November 2009, it was only in March 2011 that the DC issued eviction notices to the families. As of October 2011, the encroachers were yet to vacate.

Thus, the ineffectual management of the Company in IPs resulted in unauthorised encroachments and accumulation of rental arrears to ₹ 3.01 crore<sup>29</sup>. Further, Company's reluctance to take action against non-functional allottees of IPs resulted in these units occupying land which could otherwise have been allotted to other units awaiting allotments. The Company's failure on these counts frustrated the SG's objective of promoting industrialisation in the State.

The Government stated (November 2011) that appropriate action would be taken for execution of lease deeds and raising of annual lease bills in respect of all the units. It was further stated that against the unpaid rental dues of ₹ 2.54 crore of 44 units, an amount of ₹ 0.27 crore has already been recovered and appropriate action is being taken against the defaulters and also against the non-functional allottee units, wherever necessary.

The reply is not tenable as with desired level of coordination between the Company and the Directorate of Industries and Commerce, the lease deeds could have been executed in time with all the allottees and the accumulation of rental arrears could have been avoided.

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<sup>22</sup> (UIA-30;EPIP-16) including 8 units (UIA-3;EPIP-5) where rent had been paid and 3 units (UIA-2;EPIP-1) where lease deed not signed but bill raised by MIDC.

<sup>23</sup> (UIA -2; EPIP – 8).

<sup>24</sup> (UIA - 28; EPIP – 8).

<sup>25</sup> (UIA - 24; EPIP – 15).

<sup>26</sup> Plots in the IPs were allotted to these 39 units between September 1987 to June 2008.

<sup>27</sup> (UIA - 15; EPIP – 5).

<sup>28</sup> (UIA -1; EPIP –2).

<sup>29</sup> ₹ 2.54 crore + ₹ 0.09 crore + ₹ 0.38 crore = ₹ 3.01 crore.

## MEGHALAYA ELECTRONICS DEVELOPMENT CORPORATION LIMITED

### 4.6 Delay in settlement of voluntary retirement claims

**The indecisive and dithering approach of the State Government in providing the necessary funds to the Company resulted in loss of ₹ 3.74 crore to State exchequer on account of increased VRS liability**

The Meghalaya Electronics Development Corporation Limited (Company) was incorporated in March 1986 as a wholly owned subsidiary of the Meghalaya Industrial Development Corporation (MIDC), and was incurring losses persistently since 1989-90. To rehabilitate the Company, the management implemented (June 2003) a Voluntary Retirement Scheme (VRS). Out of 59 employees, 42 proceeded (December 2005) on VRS and were also paid (December 2005) retirement dues aggregating ₹ 2.32 crore. In December 2005, the Company also closed all production activity.

Scrutiny of records of the Company revealed that the remaining 17 employees opted for VRS in December 2006 and the retirement dues payable to them as of December 2006 stood at ₹ 1.63 crore<sup>30</sup>. In February 2007, the Company informed the State Government (SG) that ₹ 1.24<sup>31</sup> crore was required to implement the VRS for these employees. The SG did not respond to this request. Subsequently on the directions (July 2008) of the holding Company, the Company informed (July 2008) the SG of its revised requirement of ₹ 2.17 crore to implement the VRS. In the absence of any response to this intimation also, the Company was left with no other option but to periodically update the SG for funds requirements of ₹ 2.46 crore (March 2009) and ₹ 2.71 crore (October 2009) for implementing the VRS.

In October 2009, though the SG conveyed its approval to the Company's proposal (March 2009) for ₹ 2.46 crore to grant VRS to the 17 employees but released (October 2009) only ₹ 1.12 crore which was utilised for the given purpose.

Consequent on the implementation of the recommendations of the State's Fourth Pay Commission in January 2007, the SG directed (July 2010) the Company to submit its revised fund requirement for final settlement of VRS. Accordingly, the Company submitted (August 2010) proposal for ₹ 4.41 crore which was revised (March 2011) to ₹ 5.05 crore and ₹ 5.37 crore (July 2011). We observed that SG did not release any additional funds except ₹ 1.34 crore (March 2011) being the balance amount against ₹ 2.46 crore sanctioned in October 2009 which was also disbursed to the said 17 employees in April 2011. Consequently as of April 2011, 16 employees<sup>32</sup> were still employed with the Company despite all of them having opted for VRS in December 2006. Meanwhile, the Company also had to pay ₹ 74.62 lakh towards salaries and allowances of said employees for the period February 2007 to March 2010.

<sup>30</sup> For 17 employees after taking into accounts of the impact of 3<sup>rd</sup> Meghalaya Pay Commission.

<sup>31</sup> In September 2006, the management was considering implementation of new projects. As such, fund requirement for 13 employees who were not to be absorbed for these projects were considered.

<sup>32</sup> one out of the 17 employees had meanwhile retired on superannuation on 01 September 2009.

Thus, due to indecisive and dithering approach of the SG in providing the necessary funds to the Company, the implementation of VRS was abnormally delayed causing avoidable loss of ₹ 3.74 crore<sup>33</sup> to state exchequer on account of increased VRS claim besides incurring avoidable expenditure of ₹ 74.62 lakh on salaries and allowances of the employees.

The Government accepted (July 2011) that the cost of implementing the VRS had gone up due to non-availability of funds for disbursement of the VRS amount to the said employees.

Given this situation, the expenditure on VRS is bound to go up further unless steps are taken by the SG, to bring about a final settlement to this matter at the earliest.

## MAWMLUH CHERRA CEMENTS LIMITED

### 4.7 Extra expenditure on electricity charges

**Inordinate delay in restricting the contract demand and connected load as per actual requirement resulted in extra expenditure of ₹ 44.08 lakh towards high demand charges.**

Under the tariff structure of the Meghalaya State Electricity Board (MeSEB), monthly billing demand for a 'High Tension Industrial Power' (HTIP) consumer is to be assessed and billed on the higher of the following: (i) maximum demand established during the month, or (ii) 80 *per cent* of the highest demand established during the preceding 11 months, or (iii) 75 *per cent* of the contracted demand, or (iv) 50 KW/60 KVA.

The Mawmluh Cherra Cements Limited (Company) had entered (April 1996) into an agreement with the erstwhile Meghalaya State Electricity Board<sup>34</sup> (MeSEB) for HTIP power supply with a contracted demand of 8000 KVA from March 1998. This was reduced to 7000 KVA from June 2001 after being pointed out in paragraph 8.4 of the Report of the CAG for the year 2000-01, Government of Meghalaya, the non-reduction in contract demand to 7000 KVA based on the actual drawal of power by the Company during April 1998 to May 2001.

Under Audit Report (Civil), 2006-07, Government of Meghalaya (paragraph 7.5), the issue of not reducing the contract demand by the Company from 7000 KVA to 6000 KVA based on actual drawal of power was again raised pointing out extra expenditure of ₹ 47.22 lakh on account of higher demand charges. In response, the Company had expressed (February 2008) its inability in reducing the contract demand to 6000 KVA quoting electricity supply conditions of MeSEB, which did not permit reducing the contract demand below 80 *per cent* of the connected load.

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<sup>33</sup> Difference between the VRS liability for 17 employees as assessed in December 2006 (₹ 1.63 crore) and as revised (₹ 5.37 crore) as on July 2011.

<sup>34</sup> Corporatised as Meghalaya Energy Corporation Limited in April 2010.

We observed that the plea of the Company was not relevant and out of the context as our contention put forth in the paragraphs under reference of our previous Audit Reports related to reduction in the contract demand with corresponding reduction in the connected load of the Company based on the review of the actual drawal/requirement of power so as to avoid the avoidable expenditure on demand charges on this account.

We noticed that against the contract demand of 7000 KVA during 2006-10, actual drawal of power by the Company during July 2007 to August 2010 ranged between 4887 KVA (May 2009) and 1548 KVA (July 2009/ January 2010) only. The main reason for low drawal of power by the Company was drastic reduction in the capacity utilisation of its manufacturing unit from 35.76 *per cent* (2006-07) to 21.40 *per cent* (2009-10).

We further noticed that the Company finally reduced its contract demand from 7000 KVA to 6000 KVA with effect from October 2010 in lines with the suggestions made by us.

Thus, the delayed action of the Company in reducing the contract demand and the connected load based on the actual requirement of power had resulted in extra expenditure of ₹ 44.08 lakh on demand charges for the period from January 2006 to September 2010.

In reply (October 2011), the Government had noted the observation to avoid losses in future.

Shillong  
The

  
(A.W.K. LANGSTIEH)  
Principal Accountant General (Audit)  
Meghalaya

Countersigned

New Delhi  
The

  
(VINOD RAI)  
Comptroller and Auditor General of India