

Part I

Chapter I

Functioning of Power Sector Undertakings

Introduction

1.1 The Power Sector Companies play an important role in the economy of the State. Apart from providing critical infrastructure required for development of the State's economy, the sector also adds significantly to the Gross Domestic Product (GDP) of the State. A ratio of Power Sector undertakings' turnover to Gross State Domestic Product (GSDP) shows the extent of activities of PSUs in the State economy. **Table 1.1** provides the details of turnover of the Power Sector Undertakings and GSDP of Kerala for a period of five years ended March 2019:

**Table 1.1: Details of turnover of Power Sector Undertakings
vis-à-vis GSDP of Kerala**

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Turnover	5,063	5,316	10,976	12,383	12,384
GSDP	5,12,564	5,61,994	6,16,357	6,86,764	7,74,995
Percentage of Turnover of State PSUs (Power Sector) to GSDP	0.99	0.95	1.78	1.80	1.60

(Source: Compiled based on turnover figures of PSUs and GSDP figures as per State Finance Report of GoK)

The turnover of Power Sector Undertakings has recorded continuous increase over the previous years. The increase in turnover ranged between 0.01 *per cent* and 106.47 *per cent* during the period 2014-19, whereas the increase in GSDP of Kerala ranged between 9.64 *per cent* and 12.85 *per cent* during the same period. The turnover of Power Sector Undertakings recorded compounded annual growth of 25.05 *per cent* during the last five years which was higher than the compounded annual growth of 10.88 *per cent* of the GSDP. This resulted in increase in share of turnover of these Power Sector Undertakings to the GSDP from 0.99 *per cent* in 2014-15 to 1.80 *per cent* in 2017-18. During 2018-19, the share of turnover to GSDP decreased to 1.60 *per cent* as there was no substantial increase in turnover of these PSUs.

Formation of Power Sector Undertakings

1.2 Kerala State Electricity Board (KSEB) was constituted (March 1957) for carrying out the business of Generation, Transmission and Distribution of electricity in the State of Kerala. KSEB continued as Transmission utility and Distribution

licensee till 24 September 2008. In pursuance of the provisions of Section 131 and 133 of the Electricity Act, 2003, Government of Kerala vested (September 2008) all the functions, properties, interests, rights, obligations and liabilities of KSEB with the State Government till the same were re-vested in a corporate entity through the Kerala Electricity First Transfer Scheme. The Kerala Electricity Second Transfer Scheme (Re-vesting) 2013 was notified on 31 October 2013. Through this notification all the assets, liabilities, rights and obligations of erstwhile KSEB vested into State Government by first transfer scheme of September 2008 were re-vested to the successor entity, *i.e.*, Kerala State Electricity Board Limited (KSEBL). The KSEBL was incorporated under the Companies Act, 1956 on 14 January 2011 and started operations as independent company with effect from 1 November 2013. The KSEBL functions through three strategic business units; one each for Generation, Transmission and Distribution. The KSEBL has two joint ventures³ and two associate companies⁴ in which there was total investment of ₹20.49 crore.

The State Government incorporated Kerala State Power and Infrastructure Finance Corporation Limited in March 1998. Kerala Industrial Infrastructure Development Corporation, a Statutory Corporation, incorporated another Power Sector company, *i.e.*, KINESCO Power and Utilities Private Limited in 2008. As on 31 March 2019, equity capital of these two PSUs was ₹26.65 crore and ₹0.32 crore respectively. Thus, there were three Power Sector companies in the State as on 31 March 2019.

Disinvestment, restructuring and privatisation of Power Sector Undertakings

1.3 In the State PSUs (Power Sector), there was no disinvestment, restructuring and privatisation by the State Government during the year 2018-19.

Investment in Power Sector Undertakings

1.4 The activity-wise summary of investment in the Power Sector Undertakings as on 31 March 2019 is given in **Table 1.2**:

Table 1.2: Activity-wise investment in Power Sector Undertakings

Activity	Number of government undertakings	Investment (₹ in crore)		
		Equity	Long term loans	Total
Generation of Power	1	3,499.05	14,525.15	18,024.20
Transmission of Power				
Distribution of Power				
Others ⁵	2	26.97	8.56	35.53
Total	3	3,526.02	14,533.71	18,059.73

(Source: Compiled based on information received from PSUs)

³ Baitarani West Coal Company Limited and Kerala Fibre Optic Network Limited.

⁴ Renewable Power Corporation of Kerala Limited and Kerala State Power and Infrastructure Finance Corporation Limited.

⁵ Kerala State Power and Infrastructure Finance Corporation Limited and KINESCO Power and Utilities Private Limited.

As on 31 March 2019, the total investment (equity and long term loans) in these Power Sector Undertakings was ₹18,059.73 crore. The investment consisted of 19.52 per cent towards equity and 80.48 per cent in long term loans.

The Government of Kerala did not advance any long term loan to the Power Sector PSUs. The entire long term loan of ₹14,533.71 crore was availed by the Power Sector PSUs from banks and financial institutions.

Budgetary Support to Power Sector Undertakings

1.5 The Government of Kerala (GoK) provides financial support to Power Sector Undertakings in various forms through the annual budget. The summarised details of budgetary outgo towards equity, loans, grants/ subsidies, loans written off and loans converted into equity during the year in respect of Power Sector Undertakings for the last three years ended March 2019 are given in **Table 1.3**:

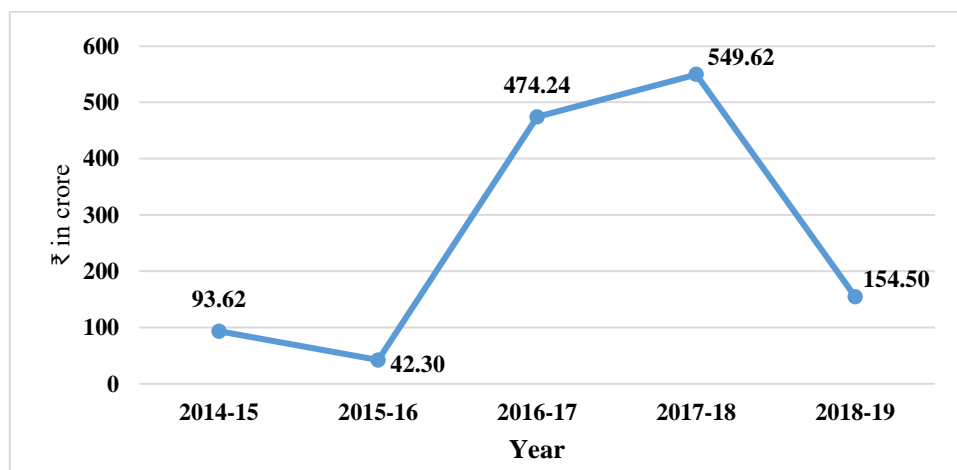
Table 1.3: Details regarding budgetary support to Power Sector Undertakings from 2016-17 to 2018-19

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)	No. of PSUs	Amount (₹ in crore)
1	Equity Capital outgo from budget	-	-	-	-	-	-
2	Loans given from budget	1	17.98	1	44.22	-	-
3	Grants/Subsidy given	1	456.26	1	505.40	1	154.50
4	Total outgo (1+2+3)	-	474.24	-	549.62	-	154.50
5	Loans written off and interest waived	-	-	-	-	-	-
6	Guarantees issued	-	-	-	-	-	-
7	Guarantee commitment	-	-	-	-	-	-

(Source: Compiled based on information received from PSUs)

The details regarding budgetary outgo towards equity, loans and grants/ subsidies for the last five years ending March 2019 are given in **Chart 1.1**:

Chart 1.1: Budgetary outgo towards equity, loans and grants/ subsidies



The budgetary assistance received by these PSUs ranged between ₹42.30 crore and ₹549.62 crore during the period 2014-15 to 2018-19. The budgetary assistance of ₹154.50 crore received by KSEBL during 2018-19 was in the form of grants. The Ministry of Power (MoP), Government of India also launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY Scheme) for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). The provisions of UDAY Scheme and the status of implementation of the scheme by KSEBL are discussed further under *Paragraph No. 1.18* of this Chapter.

GoK provides guarantee under the Kerala Ceiling on Government Guarantee Act, 2003 for PSUs, subject to the limits prescribed by the Constitution of India, for which guarantee commission is being charged. The Government would charge a minimum of 0.75 per cent as guarantee commission, which shall not be waived under any circumstances. There was no guarantee commitment for the period from 2016-17 to 2018-19. As of March 2019, guarantee commission of ₹0.02 crore was payable by one PSU (Kerala State Electricity Board Limited) for guarantee availed in previous years.

Reconciliation with Finance Accounts of Government of Kerala

1.6 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 Government of Kerala. In case the figures do not agree, the PSUs concerned and the Finance Department should carry out reconciliation of the differences. The position in this regard as on 31 March 2019 is stated in **Table 1.4**:

Table 1.4: Equity, loans and guarantees outstanding as per Finance Accounts vis-à-vis records of State PSUs (Power Sector)

(₹ in crore)

Sl. No.	Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
1	Equity	40.39	3,514.88	3,474.49
2	Loans	2,714.92	0.00	2,714.92
3	Guarantees	0.00	0.00	0.00

(Source: Compiled based on information received from PSUs and Finance Accounts)

The differences between the figures are due to the difference in figures pertaining to KSEBL and persisting since many years. The issue of reconciliation of differences was also taken up with the PSUs/ Departments from time to time. **We, therefore, recommend that the State Government and the PSUs should reconcile the differences in a time-bound manner.**

Submission of accounts by Power Sector Undertakings

1.7 Timeliness in preparation of accounts by Power Sector Undertakings

There were three Power Sector Undertakings under the audit purview of CAG as on 31 March 2019. Accounts for the year 2018-19 were not submitted by any PSU by 30 September 2019 as per the statutory requirement. One PSU (KINESCO Power and Utilities Private Limited) submitted one accounts (2017-18) by 30 September 2019. Details of arrears in submission of accounts of Power Sector Undertakings as on 30 September of each financial year for the last five years ended 31 March 2019 are given in Table 1.5:

Table 1.5: Position relating to submission of accounts by the working State PSUs (Power Sector)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	Number of working PSUs	3	3	3	3	3
2	Number of accounts finalised during the year	2	3	3	4	1
3	Number of accounts in arrears	2	2	2	1	3
4	Number of working PSUs with arrears in accounts	1	1	2	1	3
5	Extent of arrears (in years)	Up to 2	Up to 2	Up to 1	Up to 1	Up to 1

(Source: Compiled based on accounts of PSUs received during the period October 2018 to September 2019)

Delay in submission of accounts ranged from one to two years during the above period.

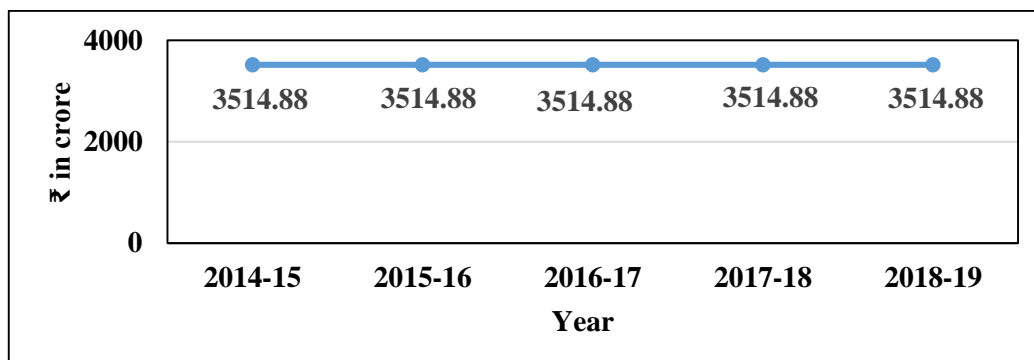
Performance of Power Sector Undertakings

1.8 The financial position and working results of Power Sector undertakings are detailed in *Appendix I* as per their latest finalised accounts⁶ as of 30 September 2019.

The PSUs are expected to yield reasonable return on investment made by the Government in such undertakings. The amount of investment in the Power Sector PSUs as on 31 March 2019 was ₹18,059.73 crore consisting of ₹3,526.02 crore as equity and ₹14,533.71 crore as long term loans. Out of this, the Government of Kerala has investment of ₹3,514.88 crore in the form of equity in two Power Sector undertakings viz., Kerala State Electricity Board Limited and Kerala State Power and Infrastructure Finance Corporation Limited. GoK did not invest any amount in the Power Sector undertakings as long term loans during 2018-19.

The year-wise status of investment of GoK in respect of equity relating to the five-year period from 2014-15 to 2018-19 is shown in the **Chart 1.2** below:

Chart 1.2: Total investment of GoK in Power Sector undertakings



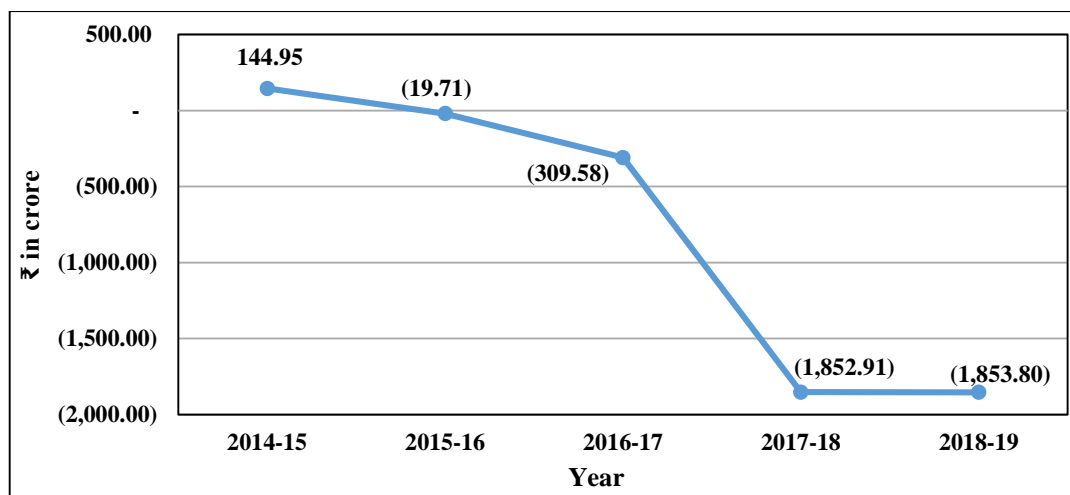
The profitability of a PSU is traditionally assessed through return on investment, return on equity and return on capital employed. Return on investment measures the profit or loss made in a fixed year relating to the amount of money invested in the form of equity and long term loans and is expressed as a percentage of profit to total investment. Return on capital employed is a financial ratio that measures the company’s profitability and the efficiency with which its capital is used and is calculated by dividing company’s earnings before interest and taxes by capital employed. Return on Equity is a measure of performance calculated by dividing net profit after tax by shareholders’ fund.

⁶ The figures from the last available accounts has been considered in this Report for the purpose of arriving at working results.

Return on investment

1.9 Return on investment is the percentage of profit or loss to the total investment. The overall position of profit earned /loss⁷ incurred by the Power Sector Undertakings during 2014-15 to 2018-19 is depicted in the **Chart 1.3** below.

Chart 1.3: Profit earned /loss incurred by Power Sector Undertakings



The loss incurred by these PSUs was ₹1,853.80 crore in 2018-19 against profit of ₹144.95 crore earned in 2014-15. According to the latest finalised accounts of these three PSUs, Kerala State Power and Infrastructure Finance Corporation Limited (₹5.97 crore) and KINESCO Power and Utilities Private Limited (₹0.65 crore) earned profit while Kerala State Electricity Board Limited incurred substantial loss (₹1,860.42 crore) (*Appendix 1*).

Position of Power Sector Undertakings which earned profit/ incurred loss during 2014-15 to 2018-19 is given in **Table 1.6**:

Table 1.6: Power Sector Undertakings which earned profit/ incurred loss

Financial Year	Total PSUs in Power Sector	Number of PSUs which earned profit during the year	Number of PSUs which incurred loss during the year	Number of PSUs which had marginal profit/ loss during the year
2014-15	3	2	1	0
2015-16	3	2	1	0
2016-17	3	2	1	0
2017-18	3	2	1	0
2018-19	3	2	1	0

Return on the basis of historical cost of investment

1.10 Out of three Power Sector Undertakings of the State, the State Government infused funds in the form of equity, loans and grants/ subsidies

⁷ Figures are as per the latest finalised accounts up to 30 September 2019.

amounting to ₹3,514.88 crore (as on 31 March 2019) in two Power Sector Undertakings only. The remaining equity of ₹11.14 crore was contributed by two PSUs⁸.

The return on investment from the three PSUs has been calculated on the investment made by the Government of Kerala and others in the PSUs in the form of equity and loans. In the case of loans, only interest free loans are considered as investment since the government does not receive any interest on such loans and are therefore of the nature of equity investment by government except to the extent that the loans are liable to be repaid as per terms and conditions of repayment. Further, the funds made available in the form of the grants/ subsidy have not been reckoned as investment since they do not qualify to be considered as investment.

The investment in these three Power Sector Undertakings has been arrived at by considering the equity (initial equity plus the equity infused during the later years).

The investment as on 31 March 2019 in these three Power Sector PSUs was ₹3,526.02 crore consisting of equity. Thus, considering the equity of ₹3,526.02 crore as investment in these three Power Sector undertakings, the investment on the basis of historical cost at the end of 2018-19 stood at ₹3,526.02 crore.

The return on investment on historical cost basis for the period 2014-15 to 2018-19 is as given in **Table 1.7**:

Table 1.7: Return on Investment on historical cost basis

Financial year	Funds infused in the form of equity and interest free loans on historic cost basis			Total profit/ loss ⁹ for the year	Return on investment (per cent)
	GoK	Others	Total		
2014-15	3,514.88	11.18	3,526.06	144.95	4.11
2015-16	3,514.88	10.92	3,525.80	-19.71	-0.56
2016-17	3,514.88	10.92	3,525.80	-309.58	-8.78
2017-18	3,514.88	11.14	3,526.02	-1,852.91	-52.55
2018-19	3,514.88	11.14	3,526.02	-1,853.80	-52.57

The return on investment of the Power Sector PSUs ranged between (-)8.78 per cent and 4.11 per cent during 2014-15 to 2016-17. However, it reduced to (-)52.55 per cent in 2017-18 and to (-)52.57 per cent in 2018-19 mainly due to increases in finance cost and administrative expenses of KSEBL.

Erosion of Net worth

1.11 Net worth means the sum total of the paid-up capital and free reserves and surplus minus accumulated losses and deferred revenue expenditure. Essentially, it is a measure of what an entity is worth to the owners. A negative net worth indicates

⁸ Kerala Industrial Infrastructure Development Corporation and Kerala State Electricity Board Limited.

⁹As per their latest finalised accounts of the respective years.

that the entire investment by the owners has been wiped out by accumulated losses and deferred revenue expenditure. The overall accumulated losses of two Power Sector Undertakings¹⁰ were ₹4,933.31 crore as against the capital investment of ₹3,525.70 crore resulting in negative net worth of ₹1,407.61 crore. Of these two Power Sector Undertakings, the net worth was eroded in Kerala State Electricity Board Limited to (-)1,472.08 crore.

Table 1.8 indicates paid up capital, accumulated profit/loss and net worth of two Power Sector Undertakings, where the GoK had invested money, during the period 2014-15 to 2018-19:

Table 1.8: Net worth of two Power Sector Undertakings during 2014-15 to 2018-19

(₹ in crore)

Year	Paid up capital at end of the year	Accumulated profit/loss (-) at the end of year	Deferred revenue expenditure	Net worth
2014-15	1,579.70	2,371.02	0	3,950.72
2015-16	3,525.70	1.24	0	3,526.94
2016-17	3,525.70	-1,581.91	0	1,943.79
2017-18	3,525.70	-4,933.31	0	-1,407.61
2018-19	3,525.70	-4,933.31	0	-1,407.61

The State Government had not made any infusion of equity after 2014-15 in two Power Sector Undertakings. The accumulated profit of these Power Sector Undertakings decreased from ₹2,371.02 crore in 2014-15 to ₹(-)4,933.31 crore in 2018-19 which resulted in the erosion of the net worth from ₹3,950.72 crore in 2014-15 to ₹(-)1,407.61 crore in the year 2018-19.

During 2014-15, 2017-18 and 2018-19, net worth of one PSU¹¹ was negative and one PSU showed positive net worth. For the year 2015-16 and 2016-17, both the PSUs showed positive net worth.

Dividend Payout

1.12 The State Government had formulated (December 1998) a dividend policy under which all PSUs are required to pay a minimum return of 20 *per cent* on the paid up share capital or 30 *per cent* of the allocable surplus, whichever is lower. None of the Power Sector undertakings, which were liable to pay dividend, complied with the State Government policy on dividend payment. Details of dividend payout of Power Sector undertakings during 2014-15 to 2018-19 are given in **Table 1.9**:

¹⁰ Kerala State Power and Infrastructure Finance Corporation Limited and Kerala State Electricity Board Limited.

¹¹ Kerala State Electricity Board Limited.

Table 1.9: Dividend payout of Power Sector Undertakings during 2014-15 to 2018-19

(₹ in crore)

Year	PSUs where equity was infused by GoK		PSUs which earned profit during the year		PSUs which declared/paid dividend during the year		Dividend Payout Ratio (per cent)
	Number of PSUs	Equity infused by GoK	Number of PSUs	Equity infused by GoK	Number of PSUs	Dividend declared/paid by PSUs	
1	2	3	4	5	6	7	8=7/5*100
2014-15	2	3,514.88	1	15.83	0	0.00	0.00
2015-16	2	3,514.88	1	15.83	1	0.53	3.35
2016-17	2	3,514.88	1	15.83	0	0.00	0.00
2017-18	2	3,514.88	1	15.83	0	0.00	0.00
2018-19	2	3,514.88	1	15.83	0	0.00	0.00

There was short payment of dividend to the extent of ₹1.79 crore as one PSU¹² in which GoK infused equity and earned profit, did not declare/pay dividend to GoK.

Return on Equity

1.13 Return on Equity (ROE) is a measure of financial performance to assess how effectively management is using company's assets to create profits and is calculated by dividing net income (*i.e.*, net profit after taxes) by shareholders' fund. It is expressed as a percentage and can be calculated for any company if net income and shareholders' fund are both positive numbers.

Shareholders' fund of a company is calculated by adding paid up capital and free reserves net of accumulated losses and deferred revenue expenditure and reveals how much would be left for a company's stakeholders if all assets were sold and all debts paid. A positive shareholders' fund reveals that the company has enough assets to cover its liabilities while negative shareholders' fund means that liabilities exceed assets.

Return on Equity has been computed in respect of two Power Sector Undertakings where funds had been infused by the State Government. The details of shareholders' fund and ROE relating to these two Power Sector Undertakings during the period from 2014-15 to 2018-19 are given in **Table 1.10**:

¹² Kerala State Power and Infrastructure Finance Corporation Limited as per their latest finalised accounts 2017-18.

Table 1.10: Return on Equity relating to Power Sector Undertakings where funds were infused by the GoK

Year	Net income/ total earnings for the year ¹³ (₹ in crore)	Shareholders' fund (₹ in crore)	Return on equity (per cent)
2014-15	144.55	3,950.72	3.66
2015-16	-20.38	3,526.94	-
2016-17	-310.25	1,943.79	-
2017-18	-1,854.45	-1,407.61	-
2018-19	-1,854.45	-1,407.61	-

As can be seen from the above table, during the last five years ended March 2019, the net income was positive only during 2014-15 and the shareholders' fund turned negative from 2017-18. Since the net income of these PSUs during 2015-16 to 2018-19 and the shareholders' fund for 2017-18 and 2018-19 were negative, ROE in respect of these PSUs could not be worked out. However, negative shareholders' fund indicates that the liabilities of these PSUs have exceeded the assets.

Return on Capital Employed

1.14 Return on Capital Employed (ROCE) is a ratio that measures a company's profitability and the efficiency with which its capital is employed. ROCE is calculated by dividing a company's earnings before interest and taxes (EBIT) by the capital employed¹⁴. The details of ROCE of Power Sector Undertakings during the period from 2014-15 to 2018-19 are given in **Table 1.11**:

Table 1.11: Return on Capital Employed

Year	EBIT (₹ in crore)	Capital Employed (₹ in crore)	ROCE (per cent)
2014-15	595.77	12,529.09	4.76
2015-16	244.72	6,500.71	3.76
2016-17	545.63	5,713.58	9.55
2017-18	96.67	14,531.98	0.67
2018-19	95.01	14,539.71	0.65

The ROCE of the Power Sector Undertakings ranged between 0.65 *per cent* and 9.55 *per cent* during the period 2014-15 to 2018-19. The substantial decrease of ROCE in 2017-18 and 2018-19 compared to 2016-17 was due to increase in borrowing (₹11,667.98 crore) and loss (₹365.79 crore) of KSEBL.

Analysis of long term loans of the Companies

1.15 The analysis of the long term loans of the companies which had leverage during 2014-15 to 2018-19 was carried out to assess the ability of the companies to service the debt owed by the companies to Government, banks and other financial

¹³ As per the latest finalised annual accounts during respective years.

¹⁴ Capital employed = Paid up share capital+ free reserves and surplus+ long term loans - accumulated losses - deferred revenue expenditure.

institutions. This is assessed through the Interest Coverage Ratio and Debt Turnover Ratio.

Interest Coverage Ratio

1.16 Interest coverage ratio is used to determine the ability of a company to pay interest on outstanding debt and is calculated by dividing a company's earnings before interest and taxes (EBIT) by interest expenses of the same period. The lower the ratio, the lesser the ability of the company to pay interest on debt. An interest coverage ratio of below one indicates that the company was not generating sufficient revenues to meet its expenses on interest. The details of interest coverage ratio in those Power Sector companies which had interest burden during the period from 2014-15 to 2018-19 are given in **Table 1.12**:

Table 1.12: Interest coverage ratio

Year	Interest (₹ in crore)	Earnings before interest and tax (EBIT) (₹ in crore)	Number of companies having interest burden	Number of companies having interest coverage ratio more than 1	Number of companies having interest coverage ratio less than 1
2014-15	450.82	595.77	1	1	0
2015-16	264.43	244.72	2	1	1
2016-17	850.52	545.63	2	1	1
2017-18	1,945.97	96.67	3	2	1
2018-19	1,946.97	95.01	3	2	1

It is observed that the number of Power Sector companies with interest coverage ratio of more than one increased from one company in 2016-17 to two companies in 2017-18 and the same status continued in 2018-19 also.

Debt-Turnover Ratio

1.17 The Debt Turnover Ratio of the three Power Sector Undertakings are as given in **Table 1.13**:

Table 1.13: Debt Turnover ratio relating to the Power Sector undertakings

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Debt from Government/ banks and financial institutions	3,699.35	1,855.85	6,426.77	15,943.82	14,533.71
Turnover	5,063.49	5,315.94	10,975.78	12,382.68	12,383.93
Debt-Turnover Ratio	0.73:1	0.35:1	0.59:1	1.29:1	1.17:1

(Source: Compiled based on information received from PSUs)

During the last five years, the turnover of the three Power Sector Undertakings recorded compounded annual growth of 25.05 *per cent* while the compounded annual growth of debt was 40.78 *per cent* due to which the Debt-Turnover ratio degraded from 0.73 in 2014-15 to 1.17 in 2018-19.

Assistance under Ujwal DISCOM Assurance Yojana (UDAY)

1.18 The Ministry of Power (MoP), Government of India launched (20 November 2015) Ujwal DISCOM Assurance Yojana (UDAY Scheme) for operational and financial turnaround of State owned Power Distribution Companies (DISCOMs). As per the provisions of UDAY Scheme, the participating States were required to undertake the following measures for operational and financial turnaround of DISCOMs.

Scheme for improving operational efficiency

1.18.1 The participating States were required to undertake various targeted activities such as compulsory feeder and distribution transformer (DT) metering, smart metering, Demand Side Management (DSM) which includes energy efficient LED bulbs, agricultural pumps, comprehensive Information, Education and Communication (IEC) campaign to check power theft, *etc.* The outcomes of the operational improvements would be measured through indicators *viz.*, reduction of Aggregate Technical & Commercial (AT&C) loss to 15 *per cent* in 2018-19 as per loss reduction trajectory finalised by MoP and States, reduction in gap between average cost of supply (ACS) and average revenue realised (ARR) to zero by 2018-19.

Scheme for financial turnaround

1.18.2 The participating States were required to take over 75 *per cent* of DISCOMs debt over two years, *i.e.*, 50 *per cent* in 2015-16 and 25 *per cent* in 2016-17.

UDAY Scheme in Kerala

A tripartite Memorandum of Understanding (MoU) amongst Ministry of Power, Government of India, Government of Kerala (GoK) and Kerala State Electricity Board Limited (KSEBL) in order to achieve higher operational efficiency was entered into on 2 March 2017. The measures to be taken by KSEBL included activities for improving operational efficiency, undertaking tariff measures such as quarterly tariff revision, timely filing of tariff petition and timely preparation of annual accounts. The MoU envisaged reduction in AT&C losses of its electricity distribution business to 11 *per cent* by 2018-19. The MoU did not envisage takeover of any debt by GoK.

Implementation of the UDAY Scheme

1.18.3 The status of implementation of the UDAY Scheme is detailed below:

Achievement of operational parameters

The achievements *vis-à-vis* targets under UDAY Scheme regarding different operational parameters are given in **Table 1.14**:

Table 1.14: Parameter-wise achievements *vis-à-vis* targets of operational performance up to 30 September 2019

Parameter of UDAY Scheme	Target under UDAY Scheme	Progress under UDAY Scheme	Achievement (in per cent)
Feeder metering (in No.)			
Urban	268	271	100
Rural	358	439	100
Metering at Distribution Transformers (in No.)			
Urban	14,999	9,182	61.22
Rural	32,751	22,793	69.59
Rural Feeder Audit (in No.)	1,053	1,053	100
Electricity in unconnected households (in lakh No.)	2.4	6.59	100
Smart metering (in No.)			
Above 200 units/ month	7,45,000	0	0
Above 500 units/ month	1,36,000	0	0
Distribution of LED UJALA (in lakh Nos.)	135	108.50	80.37
AT&C losses (in per cent)	11	8.94	0
ACS-ARR Gap (₹ per unit)	0	0.11	0
Net income or profit/(loss) including subsidy (₹ in crore)	148.36	(290.01)	0

(Source: KSEBL progress reports/ State Health Card under UDAY Scheme)

Comments on Accounts of Power Sector Undertakings

1.19 Only one Power Sector Undertaking¹⁵ forwarded its one audited accounts for the year 2017-18 to the Accountant General during the period from 1 October 2018 to 30 September 2019. This account was not selected for supplementary audit and the Statutory Auditor issued unqualified audit report. The details of aggregate money value of the comments of Statutory Auditors and the CAG for the accounts of 2016-17 to 2018-19 are given in **Table 1.15**:

¹⁵ KINESCO Power and Utilities Private Limited.

Table 1.15: Impact of audit comments on Working Companies (Power Sector)

Sl. No.	Particulars	2016-17		2017-18		2018-19	
		Number of accounts	Amount (₹ in crore)	Number of accounts	Amount (₹ in crore)	Number of accounts	Amount (₹ in crore)
1	Decrease in profit	-	-	-	-	-	-
2	Increase in loss	2	453.44	2	194.43	-	-
3	Increase in profit	-	-	-	-	-	-
4	Decrease in loss	-	-	-	-	-	-
5	Non-disclosure of material facts	-	-	1	5,774.85	-	-
6	Errors of classification	2	639.00	2	285.75	-	-

Compliance to the Accounting Standards by the Power Sector Undertakings was poor as the Statutory Auditors and the CAG pointed out 21 and 19 instances of non-compliance to the Accounting Standards in 2016-17 and 2017-18 respectively. As the Power Sector Undertakings had not forwarded their accounts for the year 2018-19, the level of compliance to the Accounting Standards could not be commented upon.

Performance Audit Report and Compliance Audit Paragraphs

1.20 For Part-I of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2019, one Performance Audit on Operational Performance of Major Hydro Electric Projects and two Compliance Audit Paragraphs relating to Kerala State Electricity Board Limited were issued to the Secretary, Department of Power, GoK with request to furnish replies within four weeks. Replies to the Performance Audit and one Compliance Audit Paragraph were yet to be received. An exit conference was held with the Department and Performance Audit Report and Compliance Audit Paragraphs were discussed. The total financial impact of the Performance Audit Report (₹423.19 crore) and of the Compliance Audit Paragraphs (₹2.08 crore) is ₹425.27 crore.

Follow up action on Audit Reports

Replies outstanding

1.21 The Reports of the CAG represent the culmination of the process of audit scrutiny. It is, therefore, necessary that they elicit appropriate and timely response from the executive. The Finance Department, Government of Kerala issued directions to all Administrative Departments in 2017 to furnish Explanatory Notes to Performance Audit/Compliance Audits/ Paragraphs included in the Audit Reports of the CAG within a period of two months of their presentation to the Legislature for speedy settlement of audit observations. The status of Explanatory Notes not received as of March 2020 is given in **Table 1.16**:

Table 1.16: Explanatory Notes not received (as of March 2020)

Year of the Audit Report (PSUs)	Date of placement of Audit Report in the State Legislature	Total Performance Audits (PAs) and Paragraphs in the Audit Report		Number of PAs/ Paragraphs for which explanatory notes were not received	
		PAs	Paragraphs	PAs	Paragraphs
2014-15	28/06/2016	2	3	0	0
2015-16	23/05/2017	1	1	0	1 ¹⁶
2016-17	19/06/2018	0	0	0	0
Total		3	4	0	1

From the above, it could be seen that out of three Performance Audits and four Paragraphs, Explanatory Notes to one Paragraph in respect of Power Department, which were commented upon, were awaited (March 2020).

Discussion of Audit Reports by Committee on Public Undertakings (CoPU)

1.22 The status of discussion of Performance Audits and Compliance Audits/ Paragraphs that appeared in Audit Report (PSUs) by CoPU as of March 2020 is shown in **Table 1.17**:

Table 1.17: Performance Audits/ Paragraphs appeared in Audit Reports vis-à-vis discussed as of March 2020

Period of Audit Report	Number of Performance Audits/ Paragraphs			
	Appeared in Audit Report		Discussed	
	PAs	Paragraphs	PAs	Paragraphs
2014-15	2	3	1	0
2015-16	1	1	0	0
2016-17	0	0	0	0
Total	3	4	1	0

Compliance to Reports of Committee on Public Undertakings

1.23 Action Taken Notes (ATNs) to 50 Paragraphs in eight Reports of the CoPU presented to the State Legislature between February 2011 and November 2019 have not been received (March 2020) as indicated in **Table 1.18**:

¹⁶ Sub Para (2) and (3) of Para 3.3.

Table 1.18: Compliance to CoPU Report

Year of the CoPU Report	Total number of CoPU Reports	Total number of recommendations in the CoPU Reports	No. of recommendations where ATNs not received
2008-11	1	14	1
2016-19	3	23	6
2019-21	4	43	43
Total	8	80	50

These Reports of CoPU contained recommendations in respect of Paragraphs pertaining to Power Department, which appeared in the Report of CAG of India for the year 1998-99 to 2013-14. The pace of receipt of ATNs from GoK to CoPU was not encouraging.

It is recommended that the Government may ensure:

- (a) sending of replies/ Explanatory Notes to Paragraphs/ Performance Audits and ATNs on the recommendations of CoPU as per the prescribed time schedule; and**
- (b) revamping of the system of response by GoK to audit observations.**