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.

Meghalaya had 13 working Public Sector Undertakings (PSUs) (10 companies and three Statutory corporations) and one non-working company, which employed 5,006 employees. During the year 2009-10, one company has been struck off from the Registrar of Companies on 06.07.2010 and has been dissolved. The working PSUs registered a turnover of ₹ 440.72 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 3.53 per cent of State Gross Domestic Product indicating a moderate role played by State PSUs in the economy. However, the State PSUs incurred an overall loss of ₹ 5.51 crore in the aggregate for 2009-10 as per their latest finalised accounts.

Investments in PSUs

As on 31 March 2010, of the total investment in State PSUs, 99.94 per cent was in working PSUs and the remaining 0.06 per cent in one non-working PSU. This total investment consisted of 33.64 per cent towards capital and 66.36 per cent in long-term loans. The investment has grown by over 55 per cent from ₹ 847.81 crore in 2004-05 to ₹ 1314.36 crore in 2009-10.

Performance of PSUs

During the year 2009-10, out of 13 working PSUs, four PSUs earned profit of ₹ 9.94 crore and nine PSUs incurred loss of ₹ 15.45 crore. The major contributors to profit were Meghalaya State Electricity Board (₹ 9.83 crore) and Meghalaya Government Construction Corporation Limited (₹ 0.06 crore). Losses were incurred by Mawmluh Cherra Cements Limited (₹ 9.39 crore), Meghalaya Electronics Development Corporation Limited (₹ 1.40 crore) and Meghalaya Transport Corporation (₹ 1.02 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 ₹ 17.17 crore and infructuous investment of ₹ 1.40 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. Seven working companies forwarded eight audited accounts during the year 2009-10. Of these, five accounts of five companies were selected for supplementary audit and three accounts were issued non review certificate. Out of eight accounts finalised by working

companies during October 2009 to September 2010, the Statutory auditors had given unqualified certificates for two accounts and qualified certificates for six accounts. There were four instances of non-compliance with Accounting Standards. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Similarly, two working statutory corporations forwarded their two accounts during the year 2009-10. 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.

Arrears in accounts

Thirteen working PSUs had arrears of 64 accounts as of September 2010. The arrears need to be cleared by setting targets for PSUs and outsourcing the work relating to preparation of accounts. There was one non-working company. 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 of ₹ 440.72 crore for 2009-10 as per their latest finalised accounts as of September 2010. This turnover was equal to 3.53 *per cent*[1] of State Gross Domestic Product (GDP) for 2009-10. The State PSUs incurred an overall loss of ₹ 5.51 crore in the aggregate for 2009-10 as per their latest finalised accounts. They had employed 5,006 employees as of 31 March 2010.

As on 31 March 2010, there were 14 PSUs as per details given below. Of these, no company was listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs[2]	Total
Government Companies[3]	10	1	11
Statutory Corporations	3	-	3
Total	**13**	**1**	**14**

During the year 2009-10, one company[4] has been struck off from the Registrar of Companies on 06.07.2010 and has been dissolved.

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

[1] State GDP for 2009-10 = ₹ 12,502 crore. ₹ 440.72/12,502 x 100 = 3.53 *per cent*
[2] Non-working PSUs are those which have ceased to carry on their operations.
[3] Includes one 619-B Company (non-working) namely, Meghalaya Phyto Chemicals Limited.
[4] Meghalaya Watches Limited

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 three Statutory corporations, CAG is the sole auditor for Meghalaya State Electricity Board and 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 2010, the investment (capital and long-term loans) in 14 PSUs (including one 619-B company) was ₹ 1314.36 crore as per details given below.

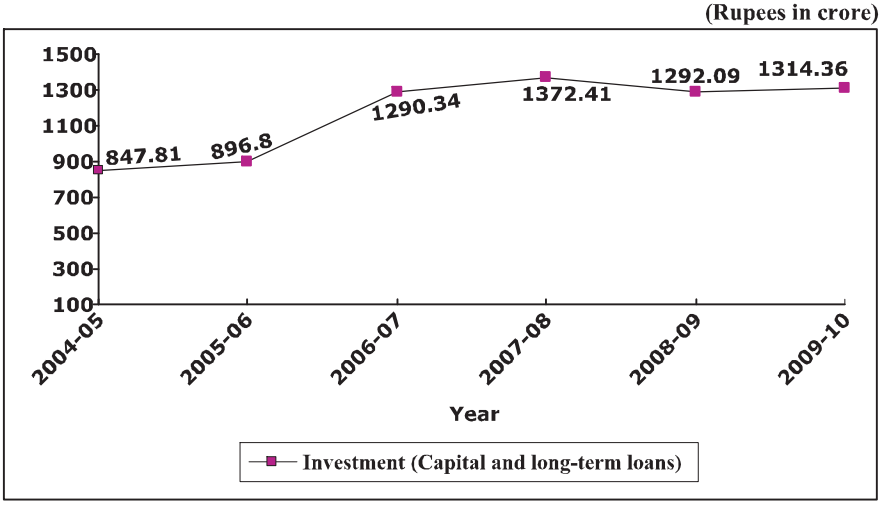
(Rupees in crore)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	160.47	35.52	195.99	280.95	836.67	1117.62	1313.61
Non-working PSUs	0.75	-	0.75	-	-	-	0.75
Total	**161.22**	**35.52**	**196.74**	**280.95**	**836.67**	**1117.62**	**1314.36**

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

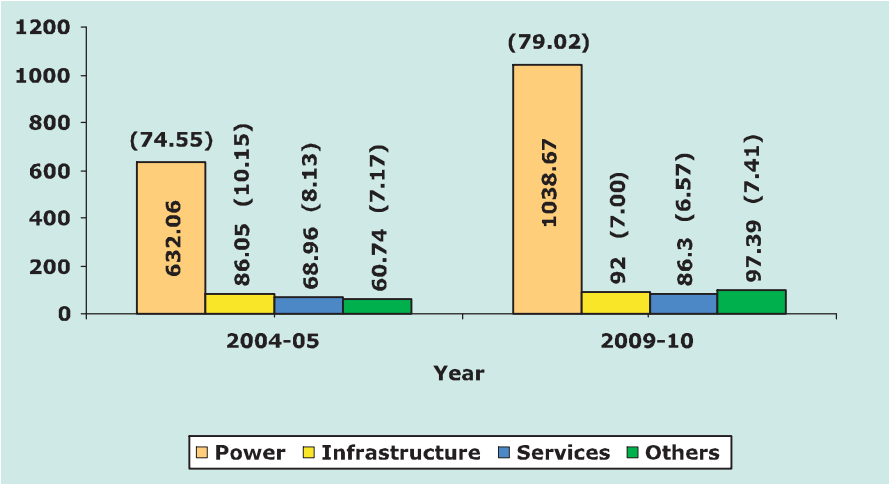
As on 31 March 2010, of the total investment in State PSUs, 99.94 *per cent* was in working PSUs and the remaining 0.06 *per cent* in one non-working PSU. This total investment consisted of 33.64 *per cent* towards capital and 66.36 *per cent* in long-term loans. The investment has grown by over 55 *per cent* from ₹ 847.81 crore in 2004-05 to ₹ 1314.36 crore in 2009-10 as shown in the graph below:

(Rupees in crore)



The investment in various important sectors and percentage thereof at the end of 31 March 2005 and 31 March 2010 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 74.55 *per cent* in 2004-05 to 79.02 *per cent* in 2009-10.

(Rupees in crore)



(Figures in brackets show the percentage of total investment)

4.1.4 Budgetary outgo, grants/subsidies, guarantees and loans

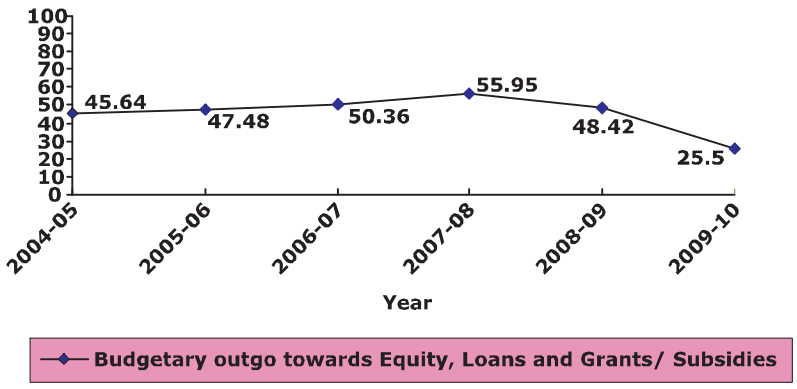
The details regarding budgetary outgo towards equity, loans, grants/ subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Appendix 4.3.** The summarised details are given below for three years ended 2009-10.

(Rupees in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	5	10.38	5	18.20	4	16.45
2.	Loans given from budget	1	8.43	1	11.04	-	-
3.	Grants/Subsidy received	6	37.14	6	19.18	5	9.05
4.	**Total Outgo[5] (1+2+3)**	**12**	**55.95**		**48.42**	**7**	**25.50**
5.	Loans converted into equity	-	-	-	-	-	-
6.	Guarantees issued	-	-	1	150.49	1	116.88
7.	Guarantee Commitment	3	501.23	3	607.24	3	653.33

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

(Rupees in crore)



The budgetary outgo at ₹ 25.50 crore in 2009-10 was an all time low in the six years ending 2009-10 which decreased from a peak of ₹ 55.95 crore in 2007-08.

The guarantee commitment by the State Government against the borrowings of State PSUs was also showing an increasing trend. Guarantees for ₹ 501.23 crore (three PSUs) were outstanding as at the end of 2007-08 which increased to ₹ 653.33 crore (three PSUs) at the end of 2009-10. Fresh guarantees for ₹ 116.88 crore were issued by the State Government during 2009-10 to one PSU.

[5] Depicts actual number of PSUs which received Equity, loans, grants/subsidies out of budget

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 2010 is stated below:

(Rupees in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	223.42	427.73	(-) 204.31
Loans	[6]	165.98	-
Guarantees	653.33	653.33	-

Audit observed that the differences occurred in Equity in respect of 10 PSUs and some of the differences were pending reconciliation since a long period. Though the Principal Secretary, Finance Department, Government of Meghalaya as well as the PSUs concerned were apprised by Audit about the differences stressing upon the need for reconciliation, no significant progress was noticed. 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 PSU turnover and State GDP for the period 2004-05 to 2009-10.

(Rupees in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Turnover[7]	279.18	300.64	278.18	365.47	386.20	440.72
State GDP	6526	7208	8522	9625	10874	12502
Percentage of Turnover to State GDP	4.28	4.17	3.26	3.80	3.55	3.53

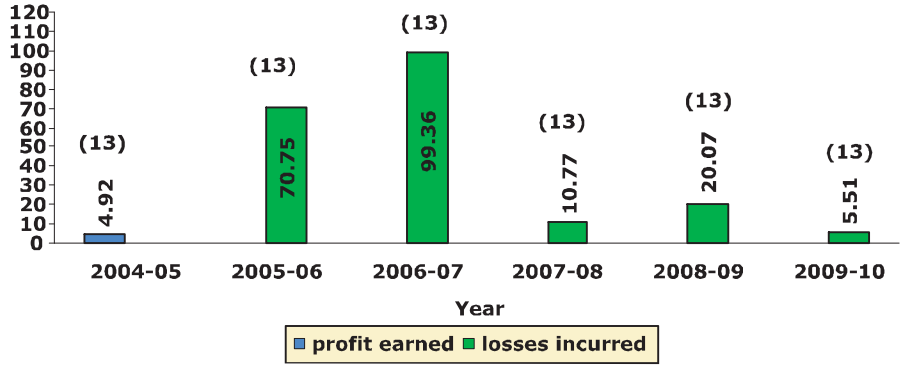
It can be seen from the above that during six years period ending 2009-10, the percentage of turnover to State GDP had declined from 4.28 *per cent* (2004-05) to 3.53 *per cent* (2009-10) indicating that the turnover of PSUs did not increase proportionately with the rise in the State's GDP.

Profit earned/losses incurred by State working PSUs during 2004-05 to 2009-10 are given below in a bar chart.

[6] 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.

[7] Turnover as per the latest finalised accounts as of 30 September 2010.

(Rupees in crore)



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

During 2005-10, the State working PSUs incurred losses every year except during 2004-05. The overall losses incurred by working PSUs were an all time high during 2006-07 (₹ 99.36 crore) and stood at ₹ 5.51 crore during 2009-10 thus showing improvement. During the year 2009-10, out of 13[8] working PSUs, four PSUs earned profit of ₹ 9.94 crore and nine PSUs incurred loss of ₹ 15.45 crore. The major contributors to profit were Meghalaya State Electricity Board (₹ 9.83 crore) and Meghalaya Government Construction Corporation Limited (₹ 0.06 crore). Losses were incurred by Mawmluh Cherra Cements Limited (₹ 9.39 crore), Meghalaya Electronics Development Corporation Limited (₹ 1.40 crore) and Meghalaya Transport Corporation (₹ 1.02 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 show that the State PSUs incurred losses to the tune of ₹ 17.17 crore and infructuous investment of ₹ 1.40 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rupees in crore)

Particulars	2007-08	2008-09	2009-10	Total
Net Loss	10.77	20.07	5.51	36.35
Controllable losses as per CAG's Audit Report	24.28	1.20	17.17	42.65
Infructuous Investment	5.33	5.26	1.40	11.99

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 can 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.

[8] Including Meghalaya Watches Limited

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

(Rupees in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Return on Capital Employed (*Per cent*)	5.10	-	-	2.93	1.87	2.26
Debt	484.71	512.92	892.37	968.28	864.76	872.19
Turnover[9]	279.18	300.64	278.18	365.47	386.20	440.72
Debt/ Turnover Ratio	1.74:1	1.71:1	3.21:1	2.65:1	2.24:1	1.98:1
Interest Payments	30.09	51.38	32.11	38.08	37.69	43.76
Accumulated Losses	403.34	403.34	508.72	524.13	518.36	515.89

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

The percentage of return on capital employed was all time high at 5.10 *per cent* in 2004-05 which has reduced to 2.26 *per cent* in 2009-10 and was negative during 2005-06 and 2006-07. The accumulated losses showed increasing trend and increased from ₹ 403.34 crore in 2004-05 to ₹ 524.13 crore in 2007-08 and again reduced to ₹ 515.89 crore in 2009-10 thus showing a slight improvement.

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, four PSUs earned an aggregate profit of ₹ 9.94 crore. However, none of the PSUs had declared dividend.

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 2010.

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Number of Working PSUs	13	13	13	13	13[10]
2.	Number of accounts finalized during the year	11	11	13	12	10
3.	Number of accounts in arrears	58	60	60	61	64
4.	Average arrears *per* PSU (3/1)	4.46	4.61	4.61	4.69	4.92
5.	Number of Working PSUs with arrears in accounts	12	12	12	13	13
6.	Extent of arrears	1 to 15 years	1 to 15 years	1 to 15 years	1 to 15 years	1 to 15 years

It can be seen from the above that the quantum of arrears in accounts remained high during all the years and the average stood at more than four accounts per PSU.

[9] Turnover as per the latest finalised accounts as of 30 September 2010.

[10] Including Meghalaya Watches Limited which has been de-registered from the Registrar of the Companies with effect from 06.07.2010

In addition to above, there were also arrears in finalisation of accounts by one non-working PSU since 1984-85.

The State Government had invested ₹ 53.88 crore (Equity: ₹ 45.32 crore, grants: ₹ 8.48 crore and subsidy: ₹ 0.08 crore) in seven PSUs during the years for which accounts have not been finalised as detailed in **Appendix 4.4.** In the absence of accounts and their subsequent audit, it cannot be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also 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 concerned administrative departments and officials of the Government were informed every quarter by Audit, of the arrears in finalisation of accounts, 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.

In view of 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 was one non-working PSU as on 31 March 2010. The PSU had not commenced the liquidation process. The Company was defunct and no accounts after 1984 had been prepared. There was one company[11] which has been struck off from the Registrar of Companies on 06.07.2010 and has been dissolved.

The non-working PSU is required to be closed down as its existence is not going to serve any purpose.

[11] Meghalaya Watches Limited

4.1.9 Accounts Comments and Internal Audit

Seven[12] working companies forwarded eight audited accounts to Principal Accountant General during the year 2009-10. Of these, five accounts of five companies were selected for supplementary audit and three accounts were issued non review certificate. 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.

(Rupees in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.59	-	-	-	-
2.	Increase in loss	-	-	1	0.47	-	-
3.	Non-disclosure of material facts	2	12.48	1	1.94	1	0.21
4.	Errors of classification	-	-	-	-	-	-

During the year, the Statutory auditors had given unqualified certificates for two accounts and qualified certificates for six accounts. The compliance of companies with the Accounting Standards remained poor as there were four instances of non-compliance in eight accounts during the year.

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

Mawmluh Cherra Cements Limited (2008-09)

- Secured loans was understated by ₹ 2.78 crore with corresponding overstatement of Liabilities on expansion due to non inclusion of interest accrued and due.
- Provision for Income tax of ₹ 2.25 crore against the actual provision required of ₹ 0.83 crore only for the Assessment years 2006-07 and 2007-08 resulted in overstatement of Current Liabilities and Provisions by ₹ 1.41 crore with corresponding overstatement of Loans and Advances and Loss for the year by ₹ 35,454.

Meghalaya Industrial Development Corporation Limited (2002-03)

- Non provision for loss on investment resulted in overstatement of Investment and Profit by ₹ 0.74 crore being the investment (equity & preference shares) made in private companies by the Corporation. It was explained that the capital bases of these companies were totally eroded due to continuous losses.
- Non-provision for loss resulted in overstatement of Current Assets, Loans and Advances and Profit (each by ₹ 18.99 crore) being the amount of bridging loan

[12] Including Meghalaya Watches Limited

given to the three Subsidiary Companies (Meghalaya Electronics Development Corporation Limited, Meghalaya Watches Limited and Meghalaya Bamboo Chips Limited) that are not recoverable due to continuous losses and erosion of capital base of the Subsidiary Companies.

- Non-provision for advances made to five projects that had been declared as abandoned resulted in overstatement of Current Assets, Loans and Advances and Profit by ₹ 1.48 crore.
- Non adjustment of pending advance for more than 13 years resulted in overstatement of Current Assets, Loans and Advances and Overstatement of Profit by ₹ 1.56 crore.

Similarly, two working statutory corporations forwarded their two accounts to Principal Accountant General during the year 2009-10. 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.

(Rupees in crore)

Sl. No.	Particulars	2007-08		2008-09		2009-10	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	-	-	3	108.09	1	16.12
2.	Increase in loss	2	8.11	3	19.65	1	3.02
3.	Non-disclosure of material facts	-	-	1	4.91	-	-
4.	Errors of classification	1	1.23	1	4.19	-	-

It can be seen from the above that the average impact of comments causing 'decrease in profits' was at ₹ 16.12 crore per account during 2009-10, ₹ 36.03 crore in 2008-09 as against 'nil' in 2007-08. Average money value of the classification errors also increased from ₹ 1.23 crore (2007-08) to ₹ 4.19 crore (2008-09) per audited account.

During the year, the two accounts of two Statutory corporations[13] received qualified certificates.

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

Meghalaya State Electricity Board (2008-09)

- Short provision of Other Current Liabilities and Interest & Finance Charges resulted in overstatement of Profit by ₹ 10.78 crore (Prior Period ₹ 9.22 crore from 1998-99 to 2007-08 and Current year (2008-09) ₹ 1.56 crore).

[13] Meghalaya State Electricity Board and Meghalaya State Warehousing Corporation Limited

- Liabilities for purchase of power did not include ₹ 5.34 crore being the amount payable to NTPC, NEEPCO and NHPC towards purchase of power. This resulted in understatement of expenditure for purchase of power (Prior Period ₹ 8.26 lakh and Current year ₹ 5.26 crore) and overstatement of Profit by ₹ 5.34 crore.

- Non provision for assets not in use resulted in the overstatement of Assets and Profit to the tune of ₹ 37.06 lakh.

- Non adjustment of dues against State Government Departments of ₹ 78.54 crore against One Time Settlement of ₹ 50 crore resulted in overstatement of receivables and profit each by ₹ 28.54 crore.

- Non adjustment of dues of ₹ 21.83 crore receivable from various consumers written off by the Board (December 2008) resulted in overstatement of receivables and profit each by ₹ 21.83 crore.

- Non-provision for the amount of delayed payment charges waived in respect of which the Board had approved waiver of 60 *per cent* i.e. ₹ 53.57 crore in 2006-07 resulted in overstatement of sundry debtors and surplus by ₹ 53.57 crore.

Meghalaya Transport Corporation (2002-03, 2003-04 and 2004-05)

- Non provision of liability towards interest and penal interest resulted in understatement of loss by ₹ 2.01 crore.

- Non-provision of liability towards penal interest payable on outstanding PF dues resulted in understatement of loss by ₹ 75.34 lakh.

- Investments includes Fixed/Term Deposits of ₹ 1.62 crore in various banks which should have been classified as Cash balance at Banks as Fixed Deposits instead of investments, resulting in overstatement of investments by ₹ 1.62 crore.

Meghalaya State Warehousing Corporation Limited (2008-09)

- Cash at Bank was overstated by ₹ 1.28 crore due to inclusion of Fixed Deposit made for General Fund Investment and Staff Security Deposit which should have been shown under Investments. This also resulted in understatement of Investment by the same amount.

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 four companies[14] for the year 2008-09 and eight companies[15] for the year 2009-10 are given below.

Sl. No.	Nature of comments made by Statutory Auditors	2008-09		2009-10	
		Number of companies where recommen-dations were made	Reference to serial number of the companies as per Appendix 4.2	Number of companies where recommen-dations 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-9	2	A-2, A-5
2.	Non prescribing of Maximum/ Minimum level of stock	2	A-9, A-10	1	A-1
3.	No ABC analysis adopted to control the inventory	1	A-10	5	A-1, A-2, A-5, A-7, A-9
4.	Inadequate scope of Internal Audit	2	A-7, A-9	3	A-1, A-5, A-7
5.	Absence of proper maintenance of Fixed Asset Register	3	A-7,A-9, A-10	5	A-1, A-2, A-4, A-7, A-10
6.	Inadequate credit policy	1	A-9	1	A-9
7.	Inadequate system of giving discount	1	A-9	1	A-9
8.	Inadequate system for timely recovery of outstanding dues	1	A-9	2	A-4, A-9
9.	No system of obtaining confirmation of balances from debtors	1	A-9	3	A-1, A-6, A-9

4.1.10 Recoveries at the instance of audit

During the course of propriety audit in 2009-10, recoveries of ₹ 3.96 crore were pointed out to the Management of various PSUs, of which, recoveries of ₹ 0.62 crore were admitted by PSUs and recoveries of ₹ 0.51 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.

[14] Sl. No. 2, 7, 9 and 10 in Appendix – 4.2
[15] Sl. No. 1, 2, 4, 5, 6, 7, 9 and 10 in Appendix – 4.2

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	2007-08	2008-09	23 April 2010	The Government has not furnished reasons for non-placement of the SAR.

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 2009-10, no exercise was undertaken by the Government of Meghalaya for the Disinvestment, Privatisation and Restructuring of PSUs.

PERFORMANCE REVIEW

POWER DEPARTMENT

4.2 Meghalaya State Electricity Board (MeSEB)

Executive Summary

In Meghalaya, generation of power was carried out by Meghalaya State Electricity Board (MeSEB) which was incorporated on 21 January 1976 as a wholly owned State Government enterprise. The MeSEB have six hydro generation stations with the installed capacity of 186.70 MW as on 31 March 2010. Myntdu Leshka Hydel Project (MLHEP) (2 x 42 MW + 1 x 42 MW) is expected to be commissioned by October 2011. The performance review of the generation activities of MeSEB for the period from 2005-06 to 2009-10 was conducted to assess whether capacity addition programme taken up/ to be taken up to meet the shortage of power in the State is in line with the National Policy of Power for All by 2012, plan of action is in place for optimization of generation from the existing capacity and the execution of projects were managed economically, effectively and efficiently.

Financial Management and Working Result

The accumulated losses of MeSEB increased from ₹309.81 crore in 2005-06 to ₹449.03 crore (provisional) in 2009-10. This is mainly due to increase in interest and finance charges from ₹42.10 crore to ₹103.41 crore during 2005-10. Further, the MeSEB sustained loss of ₹30.31 crore on account of one time settlement of outstanding government dues. However, the loss of the MeSEB has decreased from ₹1.55 per unit (2005-06) mainly due to four revisions in power tariff during the review period.

Planning

As at the end of 2009-10, the per capita availability in Meghalaya was 178 units whereas based on projected population of the State, the total energy requirement of domestic users would be 3000 MU by 2012 if the objective of the NEP is to be achieved. However, MeSEB could add only 1.5 MW capacity during 2005-10. Even assuming that all the new power projects (167.50 MW) in the State currently under execution become operational in the next few years, these would result in an additional generation of 880.38 MU. The shortfall in meeting demand ranged from 74.56 per cent (2609.63 MU) to 80.69 per cent (4090.14 MU) and unmet energy demand was escalating year-on-year and had increased by 56.73 per cent in 2009-10 as compared to 2005-06. The State Government as of August 2010, has entered into Memorandum of Agreement (MOA) with private parties to develop 1916 MW of power generation capacity in the State out of which it would be entitled to 12 per cent of free power generated by these projects. Given the protracted process leading up to the actual ground-breaking of a new power project (as with the case of the MLHEP), as all projects have not progressed beyond the MOA stage and the absence of any mention of specific completion/commissioning dates of the projects in the MOAs, the benefits to be reaped by the State as well as the resultant anticipated improvement in the power supply position is an open ended question.

Operational Performance

The PLF of MeSEB ranged between 29 per cent to 40.87 per cent during review period which was less than the CERC norms of 60 per cent. It was observed that capacity of 78.34 per cent to 89.27 per cent remained unutilized during 2005-10. MeSEB did not draw preventive

maintenance schedules in advance for its generation stations and these were undertaken on a need basis.

Time Overrun

The conceptualisation of the MHLEP to actual commencement of the project took almost 30 years. The project has undergone two cost revisions and cost of the project has gone up by 102 per cent which puts a question mark on the economic viability of the project. Indian Institute of Technology (IIT), Guwahati in its report (January 2008) opined that the tendered quantities of materials were estimated hurriedly by the MeSEB. The projects had been delayed for more than six years.

Environmental Issues

MSPCB had certified the water quality of Umiam Reservoir as 'D'. As 185.20 MW, out of the MeSEB's total installed capacity (186.70 MW), is wholly dependent on the water of the reservoir, the situation, if left unchecked, has serious implications on the MeSEB's long term operation and viability.

Monitoring by top management

MeSEB did not have proper MIS in place for exercising effective control over its activities by top management. A rigorous MIS is an essential prerequisite for a successful commercial organisation.

Conclusion and recommendations

MeSEB could not keep pace with growing demand of power in the State due to inadequate planning for setting of the new projects as per their requirement. The unit-wise deployment of manpower was not in accordance with the prescribed CEA norms. MeSEB did not plan for preventive repair and maintenance schedule which adversely affected the performance of generation stations. Further, MeSEB failed in vigorous pursuance of its outstanding electricity dues and subsidy claims. The top management did not take corrective measures to enhance the operational performance of the plants. The review contains nine recommendations which include effective planning for capacity addition, enhancing operational performance, rationalizing its manpower allocation, minimizing forced outages and enhancing the use of its vast hydro and thermal potentials.

4.2.1 Introduction

The availability of reliable and quality power at competitive rates is very crucial to sustain growth of the economy. It has also been recognized as a basic human need and an essential requirement of modern day life. The Electricity Act, 2003 provides a framework conducive to development of the power sector, promote transparency and competition and protect the interest of consumers in India. In compliance with Section 3 of the *ibid* Act, the Government of India (GOI) formulated the National Electricity Policy (NEP) in February 2005 in consultation with State Governments and the Central Electricity Authority (CEA) for development of the power sector based on optimal utilisation of coal, gas, nuclear material, hydro and renewable sources of energy. The Policy aims at, *inter alia*, laying guidelines for accelerated development of the power sector. It also requires the CEA to frame a National Electricity Plan with a 15 years perspective, once in five years.

Meghalaya was power surplus till 1989-90. The situation since then however, has seen a radical reversal. During the five-year period 2005-06 to 2009-10 covered by this review, 38 *per cent* of the power consumed in the State was internally generated

and the balance 62 *per cent* was met from the State's share of free power from Central Government power utilities and power purchased from outside the State. The State share of free power from Central utilities during 2005-06 to 2008-09 was 77.02 MU, 56.51 MU, 75.42 MU and 68.88 MU respectively.

At the beginning of 2005-06, electricity requirement in Meghalaya was assessed as 3500 Million Units (MU)[16] of which only 514.44 MU[17] were available leaving a shortfall of 2985.56 MU, which works out to 85 *per cent* of the requirement. The total installed power generation capacity in the State of Meghalaya as on 1 April 2005 was 185.20 Mega Watt (MW) and effective available capacity during 2005-06 was 58.99 MW[18] against the peak demand of 262 MW leaving deficit of 203.01 MW. As on 31 March 2010, the comparative figures of requirement and availability of power were 5069 MU[19] and 534.79 MUs with deficit of 4534.21 MUs (89 *per cent*) while the installed capacity was 186.70 MW and effective available capacity was 70.57 MW. Thus, there was a growth in demand of 1569 Million Units during the review period whereas the capacity addition was only 1.5 MW and additional capacities under work in progress were 167.50 MW[20].

In Meghalaya, power generation is carried out by the Meghalaya State Electricity Board, (MeSEB) which was incorporated on 21 January 1976 as a wholly owned State Government enterprise under the administrative control of the power department of the Government of Meghalaya. With effect from 01 April 2010, the MeSEB has been corporatised as the Meghalaya Energy Corporation Limited (MeECL) which will be a Holding Company of three subsidiary companies *viz.* (i) Meghalaya Power Generation Corporation Limited (Genco), (ii) Meghalaya Power Distribution Corporation Limited (Discom) and (iii) Meghalaya Power Transmission Corporation Limited (Transco). These subsidiary companies are yet to be formed as of September 2010.

The MeSEB's management was headed by a Chairman who is assisted by Member Secretary, Member Technical, Member Finance, Member Hydro – cum- Principal Chief Engineer and four Chief Engineers. The MeSEB with its Head Office at Shillong and 3594 employees (including 204 employees at generating stations) on its rolls as on 31 March 2010, has six operational hydro power stations *viz.*, (i) Umiam Stage-I (4 x 9 MW), (ii) Umiam Stage-II (2 x 9 MW), (iii) Umiam Stage-III (2 x 30 MW), (iv) Umiam Stage-IV (2 x 30 MW), (v) Umtru (4 x 2.8 MW) and (vi) Sonapani (1.5 MW).

[16] Meghalaya Power Policy
[17] MeSEB Annual Accounts 2005-06
[18] Worked out on the basis of PLF
[19] Includes requirement of domestic, commercial, industrial and other bulk users as per Meghalaya Power Policy
[20] Myntdu Leshka Hydel Project (3x42 MW), New Umtru Hydel Project (2x20 MW) and Lakroh Hydel Project (1x1.5 MW)

The MeSEB's turnover during 2009-10 was ₹ 486.55[21] crore which was equal to 3.89 *per cent* of estimated State Gross Domestic Product of ₹ 12,502 crore for the same year.

A review of implementation of rural electrification schemes by the MeSEB was included in the Report of the Comptroller and Auditor General of India for the year 2008, Government of Meghalaya. The recommendations of the Committee on Public Sector Undertakings (COPU) thereon are still awaited (July 2010). The COPU Meeting for discussion of the review was supposed to have been held on 23 August 2010 but it was postponed as the officials of the MeSEB did not turn up for the discussion.

4.2.2 Scope, Methodology and Audit Objectives

The present performance audit conducted during March 2010 to July 2010 mainly deals with planning, project management, financial management, operational performance with regard to generation activities, environmental issues and monitoring by the MeSEB top management during the period 2005-06 to 2009-10.

The audit methodology involved scrutiny of records at Head Office, six generating stations and two[22] of the MeSEB's three ongoing projects, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, discussion of audit findings with Management and issue of draft review to Management for comments. The percentage of installed capacity covered in Audit to total installed capacity as on 31 March 2010 was 100 *per cent.*

The objectives of the performance audit were to assess and ascertain whether:

Planning and Project Management

- capacity addition programme taken up/ to be taken up to meet the shortage of power in the State is in line with the National Policy of Power for All by 2012;
- a plan of action is in place for optimization of generation from the existing capacity;
- contracts were awarded with due regard to economy and in transparent manner; and
- execution of projects were managed economically, effectively and efficiently.

Financial Management

- projections for funding the new projects and upgradation of existing generating units were realistic including the identification and optimal utilization for intended purpose;

[21] Provisional figure furnished by MeSEB. This figure may not tally with figure of turnover mentioned in Paragraph 4.1.1 since the figure in that paragraph is as per latest finalised accounts of all companies (including MeSEB for the year 2008-09).

[22] Myntdu Leshka Hydel Project (3 x 42 MW) and Lakroh Mini Hydel Project (1 x 1.5 MW)

- all claims including energy bills and subsidy claims were properly raised and recovered in an efficient manner; and
- the soundness of financial health of the MeSEB.

Operational Performance

- power plants were operated efficiently and preventive maintenance as prescribed was carried out minimising forced outages;
- life extension (renovation and modernization) programmes were ascertained and carried out in an economic, effective and efficient manner; and
- the impact of Renovation & Modernisation (R&M)/Life Extension (LE) activity on power generation.

Environmental Issues

- the MeSEB's corporate social responsibility policy to environmental issues and related concerns and which have an impact on its operation.

Monitoring and Evaluation

- MIS existed in the MeSEB for effective monitoring of operations.

4.2.3 Audit Criteria

The audit criteria adopted for the audit objectives were:

- National Electricity Plan, norms/guidelines of CEA regarding planning and implementation of projects;
- standard procedures for award of contract with reference to principles of economy, efficiency and effectiveness;
- targets fixed for generation of power;
- parameters fixed for plant availability, Plant Load Factor (PLF) etc; and
- Legislation relating to Environmental laws.

4.2.4 Financial Position and Working Results

The financial position of the MeSEB as a whole (including generation, transmission and distribution) for the five years ending 2009-10 is given below.

Table 1

(Rupees in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10*
A. Liabilities					
Capital	202.00	202.00	202.00	202.00	202.00
Reserve & Surplus (including Capital Grants but excluding Depreciation Reserve)	210.57	251.56	388.92	592.44	906.50
Borrowings (Loan Funds)					
Secured	799.78	994.08	1127.06	1264.81	1597.09
Current Liabilities & Provisions	118.31	186.90	257.22	315.88	359.66
Total	**1330.66**	**1634.54**	**1975.20**	**2375.13**	**3065.25**

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10*
B. Assets					
Gross Block	495.81	500.81	525.18	549.67	607.51
Less: Depreciation	222.36	235.08	249.22	264.83	295.00
Net Fixed Assets	273.45	265.73	275.96	284.84	312.51
Capital works-in-progress	282.26	486.88	736.83	1013.42	1330.80
Investments	52.71	48.26	66.37	80.21	226.26
Assets not in use deferred cost and intangible Assets	17.56	22.03	19.41	22.82	31.53
Current Assets, Loans and Advances	394.87	407.86	474.19	581.23	715.12
Accumulated losses	309.81	403.78	402.44	392.61	449.03
Total	**1330.66**	**1634.54**	**1975.20**	**2375.13**	**3065.25**

*Source: MeSEB, * Provisional figures break up details would be available on finalisation of the account.*

Form the above it will be seen that:

- 'Current Assets, Loans and Advances' (which *inter alia* comprises 'Receivables against Supply of Power' and 'Sundry Receivables') was ₹ 394.87 crore in 2005-06 and increased to ₹ 581.23 crore in 2008-09 mainly due to increase in Receivables against supply of Power from ₹ 199.23 crore in 2005-06 to ₹ Rs.252.34 crore in 2008-09[23].
- The accumulated losses of MeSEB increased from ₹ 309.81 crore in 2005-06 to ₹ 449.03 crore in 2009-10.
- 'Secured Loans' increased from ₹ 799.78 crore in 2005-06 to ₹ 1597.09 crore in 2009-10 mainly due to loans borrowed from REC, Banks, State Government, Bonds, Centrally Sponsored Scheme Loan, etc for ongoing projects and renovation and modernization (R&M) works for Umiam Stage II hydel power house.
- 'Current Liabilities & Provisions' was ₹ 118.31 crore in 2005-06 and increased by 204 *per cent* to ₹ 359.66 crore in 2009-10 mainly on account of unpaid liabilities for purchase of power by the MeSEB and servicing of principal and interest payment obligations at levels higher than in earlier years.

The details of working results of the MeSEB as a whole (including generation, transmission and distribution) like cost, realization and net profit/ loss per unit of operation are given below:

Table 2

Sl.No	Description	2005-06	2006-07	2007-08	2008-09	2009-10*
1.	**Income**	**(Rupees in crore)**				
	Revenue from Sale of Power	254.30	233.17	318.15	392.51	415.74
	Other Income including Interest/Subsidy	60.66	54.84	65.19	51.48	70.81
	Total Income	**314.96**	**288.01**	**383.34**	**443.99**	**486.55**
2.	**Generation**	**(In MUs)**				
(i)	Own Generation	516.72	391.12	665.38	554.13	536.15
(ii)	Less: Auxiliary Consumption	2.28	2.03	2.32	1.29	1.36
	Total	**514.44**	**389.09**	**663.06**	**552.84**	**534.79**

[23] Figures for 2009-10 not available

Sl.No	Description	2005-06	2006-07	2007-08	2008-09	2009-10*
(iii)	Add: Purchase of Power	871.66	929.30	924.15	968.92	947.29
	Total	**1386.10**	**1318.39**	**1587.21**	**1521.76**	**1482.08**
(iv)	Less: Transmission and Distribution Losses	495.73	485.64	529.11	477.16	503.22
	Total Generation available for sale	**890.37**	**832.75**	**1058.10**	**1044.60**	**978.86**
3.	**Expenditure**	**(Rupees in crore)**				
(a)	**Fixed Costs**					
(i)	Employee Cost	75.08	82.60	95.93	104.79	114.92
(ii)	Administrative and General expenses	5.43	6.48	7.32	7.92	10.01
(iii)	Depreciation	12.72	12.62	12.90	14.12	25.93
(iv)	Interest & Finance Charges	42.10	52.62	76.24	87.57	103.41
	Total Fixed Cost	**135.33**	**154.32**	**192.39**	**214.40**	**254.27**
(b)	**Variable Costs**	**(Rupees in crore)**				
(i)	Purchase of Power	182.60	240.73	203.20	201.64	222.63
(ii)	Lubricants & Consumables/ R & M	12.09	12.61	17.23	16.13	20.35
(iii)	Other Debts/Income Tax	62.33	2.29	2.37	22.69	14.24
	Total Variable Cost	**257.02**	**255.63**	**222.80**	**240.46**	**257.22**
C.	**Total Cost 3(a) + (b)**	**392.35**	**409.95**	**415.19**	**454.86**	**511.49**
4.	Realisation (Rupees per unit)	2.86	2.80	3.01	3.76	4.25
5.	Fixed cost (Rupees per unit)	1.52	1.85	1.82	2.05	2.60
6 (i)	Effective Variable cost of purchase of power (Rupees per unit)	3.26	4.10	3.30	3.03	3.56
6 (ii)	Effective Variable cost of generation (Rupees per unit)	2.25	0.61	0.44	1.02	0.98
6 (iii)	Variable cost (Rupees per unit)	2.89	3.07	2.11	2.30	2.63
7.	**Total cost per unit {5+6(iii)}**	**4.41**	**4.92**	**3.93**	**4.35**	**5.23**
8.	Contribution {4-6(iii)} (Rupees per unit)	(-) 0.03	(-) 0.27	0.90	1.46	1.62
9.	**Profit (+)/Loss(-) (4-7)** (Rupees per unit)	**(-) 1.55**	**(-)2.12**	**(-) 0.92**	**(-) 0.59**	**(-) 0.98**

*Source: MeSEB, * Provisional figures*

From the above table it will be seen that:

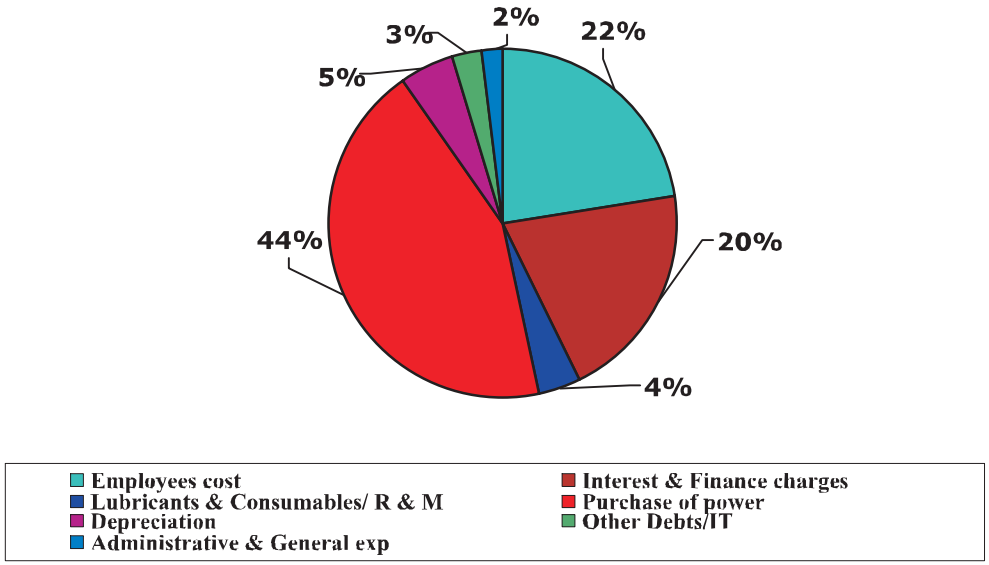
- During the review period 2005-06 to 2009-10 'Fixed Costs' had increased by 88 *per cent* from ₹ 135.33 crore in 2005-06 to ₹ 254.27 crore in 2009-10. This was mainly on account of increase of 146 *per cent* in "Interest & Finance Charges" from ₹ 42.10 crore to ₹ 103.41 crore during the period under review.
- During 2005-06, the MeSEB spent ₹ 182.60 crore on purchase of power and the corresponding figure in 2009-10 had increased to ₹ 222.63 crore. The Variable Cost per unit of purchase of power ranged from ₹ 3.03 to ₹ 4.10 per unit during the review period against own generation cost per unit which ranged from ₹ 0.44 to ₹ 2.25 per unit during the same period. Therefore, purchase of power had been a costlier option as compared to own generation.

- The loss per unit of power sold had decreased from ₹ 1.55 in 2005-06 to ₹ 0.98 in 2009-10 which is due to the fact that during this period the power tariff in the State was revised four times[24].
- Transmission & Distribution (T&D) losses as a percentage of total power available for sale ranged from 31.36 *per cent* in 2008-09 to 36.38 *per cent* in 2006-07. It would have to be clearly recognised that Power Sector will remain unviable until T&D losses are brought down significantly and rapidly. A marginal improvement in T&D losses, say by five *per cent* in 2009-10 alone, would have netted the MeSEB an additional income of ₹ 10.69 crore (25.16 MU).

4.2.4.1 Elements of Cost

Fuel & Consumables and Depreciation constitute the major elements of costs. The percentage break-up of costs for 2009-10 is given below in the pie-chart.

Components of various elements of cost

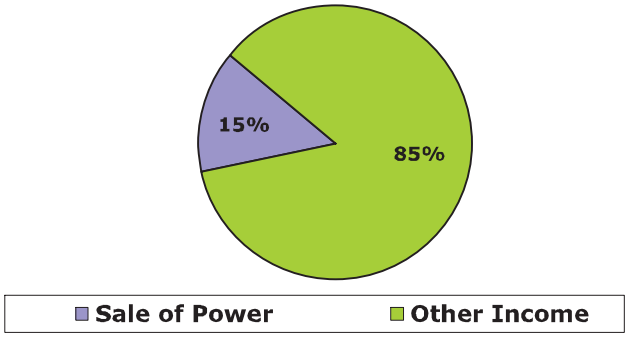


4.2.4.2 Elements of revenue

Sale of Power constitutes the major elements of revenue. The percentage break-up of revenue for 2009-10 is given below in the pie-chart.

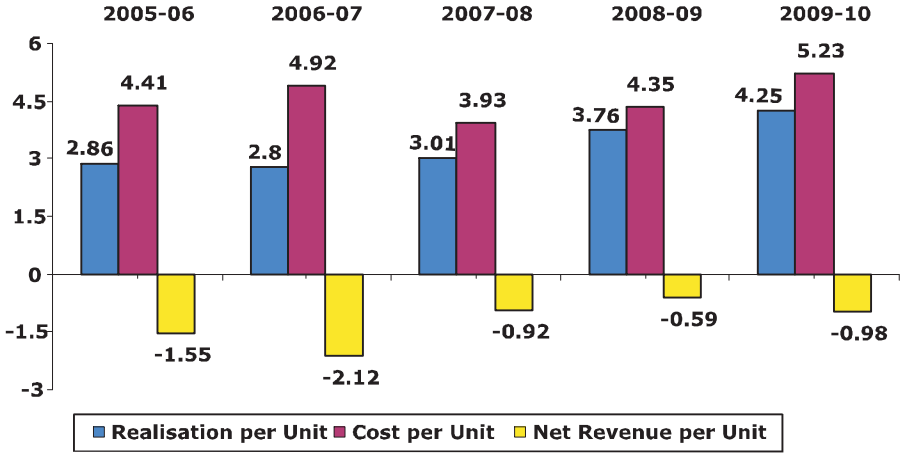
[24] Revised with effect from November 2005, January 2008, September 2008 and November 2009

Components of various elements of revenue



4.2.4.3 Elements of cost of operations

The MeSEB was not able to recover its cost of operations. During the last five years ending 2009-10, the net revenue remained negative as given in the graph below:



Had the actual recovery per unit been commensurate with the cost of power per unit, the MeSEB would have earned additional revenue of ₹ 570 crore during the review period. The main reasons for high cost of generation/ supply had been poor capacity utilisation corroding the system performance, elasticity of sale with respect to energy generated being less and heavy Transmission & Distribution losses. The other reasons are over staffing in Administration, higher interest cost and higher expenses on power purchases.

4.2.5 Audit Findings

Audit explained the audit objectives to the MeSEB during an 'entry conference' held on 18 February 2010. Subsequently, audit findings were reported to the MeSEB and the State Government in August 2010 and discussed in an 'exit conference' held on 11 November 2010, which was attended by the Commissioner, Department of Power, Government of Meghalaya, Chief Engineer (Generation) and other officials of the MeSEB. The MeSEB also replied to audit findings in November 2010. The views

expressed by them have been considered while finalising this review. The audit findings are discussed below.

4.2.6 Operational Performance

The operational performance of the MeSEB for the five years ending 2009-10 is given in **Appendix 4.7.** Its operational performance was evaluated against various parameters as discussed in the ensuing paragraphs. It was also seen whether the MeSEB was able to maintain pace in terms of capacity addition with the growing demand for power in the State. Audit findings in this regard are discussed in the subsequent paragraphs. These audit findings show that the losses were controllable and there was scope for improvement in performance.

4.2.7 Planning

The NEP aims to provide availability of 1,000 units of electricity per capita by 2012. As at the end of 2009-10, the per capita availability in Meghalaya was 178 units whereas based on projected population of the State, the total energy requirement of domestic users would be 3000 MU by 2012 if the objective of the NEP is to be achieved. The State has been purchasing power (from Central utilities and outside State). During 2005-06 to 2009-10, it was 871.66 MU, 929.30 MU, 924.15 MU, 968.22 MU and 947.29 MU respectively which includes the State share of free power from Central utilities (77.02 MU, 56.51 MU, 75.42 MU and 68.88 MU during 2005-09 respectively[25]). The power generated within the State and available for sale was only 534.79 MU in 2009-10. Power purchased during 2009-10 was 947.29 MU. Even assuming that all the new power projects (167.50 MW) in the State currently under execution become operational in the next few years, these capacity additions would result in an additional generation of 880.38 MU[26].

The actual requirement as per the target set out in the NEP would be 3000 MU (342 MW). At current levels of population and taking into account the present generation of the MeSEB, an additional generation of 2465 MU[27] is still required if the State is to achieve availability of 1,000 units of electricity per capita as set out in the NEP and availability of power would be 293.46[28] units per capita which is well short of the target set out in the NEP. Thus, it is observed that even after taking into account the capacity addition of all the new projects there would still be shortfall of 1585 MU[29].

During the review period, 10 projects (600.50 MW) were planned out of which only one project has been completed, three projects are under progress and the balance projects are still in investigation stages. The MeSEB needs to speed up the completion of these projects under progress and under investigation in order to be able to meet the

[25] Figures of 2009-10 not compiled by MeSEB

[26] The plant load factor for hydro power plants as fixed by the Central Electricity Authority is 60 *per cent*. Thus for 167.50 MW, energy generation would be 880.38 MU (167.50 x 24 x 365/1000 x 60% = 880.38)

[27] 3000 MU – 534.79 MU = 2465.21 MU

[28] Own Generation as on 31 March 2010/Total estimated population as on 31 March 2010 i.e. 880380000/3000000 = 293.46 units

[29] 3000 MU – 880.38 MU – 534.79 MU = 1584.83 (1585)

objective of the NEP. During the period from 2005-10, the actual generation was substantially less than the peak demand as well as average demand as shown below:

Table 3

Year	Actual Generation (MW)	Average Demand (MW)	Peak Demand (MW)	Percentage of actual generation to Average Demand	Percentage of actual generation to Peak Demand
2005-06	58.73	222.69	262	26.37	22.42
2006-07	44.42	254.66	298	17.44	14.91
2007-08	75.69	336.05	385	22.52	19.66
2008-09	63.11	362.52	424	17.41	14.88
2009-10	61.05	365.97	468	16.68	13.04

Source: MeSEB

As seen from **Table 3**

- Actual generation to average demand had come down from 26.37 *per cent* in 2005-06 to 16.68 *per cent* in 2009-10;
- Percentage of actual generation to peak demand had come down from 22.42 *per cent* in 2005-06 to 13.04 *per cent* in 2009-10.

The total supply in the State even after import was not sufficient to meet the peak demand, as shown below:

Table 4 **(In MW)**

Year	Peak Demand	Peak Demand met	Sources of meeting peak demand		Peak Deficit (Percentage of Peak Demand)
			Own[30]	Import	
2005-06	262	205.80	120.80	85.00	21.45
2006-07	298	221.79	29.52	192.27	25.57
2007-08	385	267.04	173.17	93.87	30.64
2008-09	424	230.92	84.07	146.85	45.54
2009-10	468	228.98	105.59	123.39	51.07

Source: MeSEB

Peak deficit had gone up from 21.45 *per cent* in 2005-06 to 51.07 *per cent* in 2009-10 and the MeSEB to meet this shortage, had consequently increased rotational load shedding in the State. From a report of the CEA releasing statistics for the period April – June 2010, it was seen that Meghalaya had the highest electricity deficit in the country at 32 *per cent* during this three months period.

4.2.7.1 Capacity Additions

The capacity additions planned by the State, actual additions and peak demand *vis-à-vis* energy supplied during review period are given below:

[30] The figures here may not tally with generation figures mentioned in the table above since it is the generation at the time of peak demand whereas generation in previous table is average generation during the year.

Table 5

Sl. No	Description	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Capacity at the beginning of the year (MW)	185.20	185.20	185.20	185.20	185.20
2.	Actual Additions (MW)	-	-	-	-	1.50
3.	Capacity at the end of the year (MW) (1 + 4)	185.20	185.20	185.20	185.20	186.70
4.	Demand (MUs)	3500.00	3840.00	4210.00	4620.00	5069.00
5.	**Energy supplied (MUs)**					
	a) Energy produced	514.44	389.09	663.06	552.84	534.79
	b) Energy purchased	871.66	929.30	924.15	968.92	947.29
	c) Total (a + b)	**1386.10**	**1318.39**	**1587.21**	**1521.76**	**1482.08**
	Less: T & D losses	495.73	485.64	529.11	477.16	503.22
	d) Net energy supplied	**890.37**	**832.75**	**1058.10**	**1044.60**	**978.86**
6.	**Shortfall in demand (MUs) {4 – 5 (d)}**	**2609.63**	**3007.25**	**3151.90**	**3575.40**	**4090.14**

Source: MeSEB

The State had a total installed capacity of 185.20 MW at the beginning of 2005-06 and managed to add a mere 1.50 MW during 2009-10. The particulars of envisaged capacity additions during 10 Plan (2002-07) were not available with MeSEB / State Government. Out of 600.50 MW envisaged to be added in the State as a whole during 11 Plan (2008-12), only 84 MW of capacity addition was planned during 2009-10. The shortfall in meeting the demand ranged from 74.56 *per cent* (2609.63 MU) to 80.69 *per cent* (4090.14 MU) and unmet energy demand was escalating year-on-year and had increased by 56.73 *per cent* in 2009-10 as compared to 2005-06. The major reasons for non-creation of additional capacity planned were delay in acquisition of land and handing over of sites and execution of additional item of work not envisaged in original DPR, *etc*. The hydro power potential[31] of Meghalaya is 3000 MW which is about three *per cent* of hydro potential of the country and also has abundant coal reserve for setting up of thermal power projects with capacity of 2000 MW.

The MeSEB currently has three hydro projects under construction as below:

Table 6

Sl. No.	Project	Capacity (MW)	Commencement of project	Expected date of completion
1.	Myntdu Leshka Hydel Project	126	May 2004	October 2011
2.	New Umtru Hydel Project	40	December 2008	December 2012
3.	Lakroh Hydel Project	1.5	July 2008	March 2011

Source: MeSEB

In addition to the three hydro projects currently under construction by the MeSEB, the State Government as of August 2010, has entered into Memorandums of Agreement (MOA) with the following parties to develop a total 1916 MW[32] of power generation capacity in the State out of which it would be entitled to 12 *per cent* of free power generated by these projects.

[31] Meghalaya Power Policy
[32] 1176 MW for hydro and 740 MW for thermal

Table 7

Sl. No.	Name of the Project	Name of the party	Date of signing
Hydro			
1.	Umduna HEP (57 MW)	M/s ETA star infrastructure	06.11.2008
2.	Umjaut (69 MW)	-do-	06.11.2008
3.	Kynshi I HEP (450 MW)	M/s Athena project Pvt Ltd	11.02.2010
4.	Rangmaw HEP (65 M)	M/s SEW Energy Limited	09.04.2010
5.	Kynshi II HEP (450 MW)	M/s Jaiprakash Power Venture	06.05.2010
6.	Mawphu (85 MW)	North Eastern Electric Power Corporation	MOA forwarded to NEEPCO (not yet signed) – November 2010
Thermal			
1.	Thermal power projects, Garo Hills (240 MW)	M/s Dharampal Satyapal Ltd	05.03.2010
2.	Thermal power project, Garo Hills (500 MW)	North Eastern Electric Power Corporation	MOA forwarded to NEEPCO (not yet signed) – November 2010

Source: Power Department, Government of Meghalaya

The guidelines issued (June 2001) by the Ministry of Power (MOP), Government of India envisages a three- stage development of new hydel power projects. Stage-I involves vetting of estimates/commercial viability and obtaining clearance from the Ministry of Environment and Forests. Stage - II involves preparation of Detailed Project Report, Public Investment Board approval and submission of Cabinet Committee of Economic Affairs (CCEA) note. Stage-III begins with the approval of CCEA, which specifies sanctioned cost and the scheduled time for completion of the project.

Given the protracted process leading up to the actual ground-breaking of a new power project (as with the case of the Myntdu Leshka Hydel Project discussed in a subsequent paragraph), the fact that all the above projects have not progressed beyond the MOA stage and the absence of any mention of specific completion/commissioning dates of the projects in the MOAs, the benefits to be reaped by the State as well as the resultant anticipated improvement in the power supply position is an open ended question.

4.2.7.2 Optimum Utilisation of existing facilities

In order to cope with the rising demand for power, not only additional capacity needs to be created as discussed in the preceding paragraphs, but optimal utilisation of existing facilities should also be ensured by undertaking life extension programmes, replacing existing generation equipment and other machinery which have completed their life cycle besides carrying out timely repair and maintenance activities in a planned manner.

The details of the hydro power generating units, which fell due for renovation and modernisation/ life extension programmes as per CEA norms during the five years ending 2009-2010 *vis-à-vis* the activities actually taken are indicated in the table below:

Table 8

Sl. No.	Name of the Plant	Unit No.	Installed Capacity	Due Date (as per CERC norms)	Date when actually taken up
1.	Umiam	Stage-II	18	2005-06	December 2009
2.	Umtru	-	11.20	1992-93	Yet to be taken up (November 2010)

Source: MeSEB

From the above it will be seen that the Renovation and Modernisation (R&M) of Umiam Stage –II which fell due in 2005-06 was taken up only in December 2009 and was still ongoing as of November 2010. The tender for R&M works was floated in February 2006 for International Competitive Bidding and technical and financial evaluation was approved by the MeSEB in May 2006. However, prior to issuing the letter of intent, Ministry of Power negated the tendering process in November 2006 and directed the MeSEB for re-tendering. However, the re-tendering was done only in August 2008 due to changes in qualification of bidders and again required approval of CEA. The letter of intent was issued to the successful bidder in December 2009. Hence, the main reason for delay in taking up Umiam Stage-II project for R&M was due to re-tendering process.

The R&M of Umtru power house, due in 1992-93 was yet to be taken up. During Exit Conference, the MeSEB stated (November 2010) that the reason for not taking up of R&M of Umtru Power House was due to construction of New Umtru Hydel Project and after completion of New Umtru, it will be decided whether Umtru Power House will be taken for R&M or not.

The year of commissioning of the MeSEB's generating stations is given below:

Table - 9

Sl. No.	Name of the Station	Year of Commissioning
1.	Umiam Stage-I	1965
2.	Umiam Stage-II	1970
3.	Umiam Stage-III	1979
4.	Umiam Stage-IV	1992
5.	Umtru	1957
6.	Sonapani	2009

Source: MeSEB

As per the guidelines of the Central Electricity Regulatory Commission, the useful life of the hydro generating units is 35 years and by this yardstick, Umiam Stage-I and II and Umtru generating units have outlived their utility. It was observed that the MeSEB was yet to evolve a strategy to address this issue.

4.2.8 Project Management

Undertaking detailed survey and investigation of proposed new power projects, preparing accurate and realistic draft project reports (DPR) - taking into account feasibility studies, infrastructure available and to be created in the project area, land acquisition and resettlement of people affected by the project, environmental and other clearances to be obtained from various authorities, bottlenecks likely to be

encountered in various stages of project execution, *etc.* – is a critical requirement in the planning stage that will greatly facilitate the smooth and timely completion of power projects.

The following table indicates the scheduled and actual dates of completion of the completed/ ongoing projects during the review period of the MeSEB:

Table 10

Sl. No.	Phase-wise name of the Unit	Details	Month of completion as per DPR	Actual time taken[33]	Time overrun (in months)
1.	Myntdu Leshka Hydel Project (3 x 42 MW)	Date of completion of **unit-I & II**	August 2004	Under Progress	75
		Date of completion of **unit-III**	June 2009	Under Progress	17
		Date of start of transmission of **unit-I & II**	August 2004	Under Progress	75
		Date of start of transmission of **unit-III**	June 2009	Under Progress	17
		Date of commercial operation/ commissioning of **unit-I & II**	August 2004	Under Progress	75
		Date of commercial operation/ commissioning of **unit-III**	June 2009	Under Progress	17
2.	Sonapani Mini Hydel Project (1 x 1.50 MW)	Date of completion of unit	February 2003	October 2009	78
		Date of start of transmission	February 2003	October 2009	78
		Date of commercial operation/ commissioning of unit	February 2003	October 2009	78
3.	Lakroh Mini Hydel Project (1 x 1.50 MW)	Date of completion of unit	August 2003	Under Progress	87
		Date of start of transmission	August 2003	Under Progress	87
		Date of commercial operation/ commissioning of unit	August 2003	Under Progress	87
4.	New Umtru Hydel Project (2 x 20 MW)	Date of completion of unit	June 2010	Under Progress	5
		Date of start of transmission	June 2010	Under Progress	5
		Date of commercial operation/ commissioning of unit	July 2010	Under Progress	4

Source: MeSEB

During the period under review, the Myntdu Leshka Hydel Project (MLHEP) made up for 75 *per cent* of the capacity augmentation effort of the MeSEB. The investigation of MLHEP started in 1975-76 and the initial DPR (3 x 18 MW) was submitted to CEA for Techno Economic Clearance (TEC) in August 1997. CEA recommended 2x42 MW project in 1997. The MeSEB submitted final revised DPR in October 1998. TEC obtained from CEA in September 1999 with condition that project should be completed within five years and Ministry of Environment & Forests (MoEF) accorded environmental clearance in September 2001. Administrative

[33] As on November 2010

approval for construction was accorded by the MeSEB in June 2002 for an estimated cost of ₹ 363.09 crore. Final forest clearance was accorded in May 2004. Work started in full swing from May 2004. The project cost was revised to ₹ 671.29 crore in October 2006. The MeSEB in January 2008 decided to add one more generating unit (42 MW) at an estimated cost of ₹ 114.59 crore. In January 2009, the project cost was revised to ₹ 965.93 crore. As of November 2010, project is scheduled to be completed by October 2011.

It will be seen from the above that conceptualisation of the MHLEP to actual commencement of the project took almost 30 years. The DPR envisaged that project was to be completed by August 2004 i.e., within five years of commencement. Since actual work started in May 2004 the project should have been completed by May 2009 which, as of November 2010, has been deferred to October 2011. The project has undergone two cost revisions and cost of the project has gone up by 102 *per cent*[34] which affect the economic viability of the project. Further, as per the conditions of the TEC obtained from the CEA in September 1999, in case the time gap between TEC and actual start of work on the project was three years or more, a fresh TEC from CEA was required to be obtained by the MeSEB before start of actual work. Since the work commenced only in May 2004 i.e. after a gap of more than five years, a fresh TEC was therefore, required. However, it was observed that the MeSEB had not complied with this stipulation.

Further, the project underwent numerous design changes due to incorrect consideration of dam type, change in foundation level, increase in numbers of dam blocks, incorporation of shear zone treatment, increase in Sluice Gates, change in seismic hazard level, incorporation of an Inspection Gallery, change in height of divide walls on bucket reinforcement, etc. There were also wide variations between tendered quantities and work actually executed. The scope and magnitude of these changes indicated that detailed survey and investigation had not been carried out and a proper and realistic DPR had not been prepared.

Indian Institute of Technology (IIT), Guwahati who was asked by the MeSEB in October 2007 to identify the factors for the variations between tendered quantities and work actually executed opined in its report (January 2008) that the tendered quantities of materials were estimated hurriedly by the MeSEB without any detailed design calculations for the dam, in view of the fact that specification drawings were prepared by the Central Water Commission (CWC) in November 2003 and tender was floated by the MeSEB in the same month itself. The IIT also concluded that the MeSEB engineers did not have any experience of construction of Sluice Spillway dam in Meghalaya.

The MeSEB stated (November 2010) that due to various reasons beyond the control of the department, it took almost five years to receive the final forest clearance. As a result, it took almost 30 years from the conceptualisation of the project till the actual

[34] (₹965.93 - ₹477.68)/₹477.68 x 100 = 102 *per cent*

construction. Further, they have stated that during construction detailed engineering works were taken which led to changes from that of DPR. The reply is not tenable as specification drawings were prepared by Central Water Commission (CWC) in November 2003 and the MeSEB had hurriedly prepared the estimate and floated the tender in the same month itself.

4.2.8.1 Delay in commissioning of Sonapani Mini Hydel Project due to lack of planning

Approval for Sonapani Mini Hydel Project (1 x 1.5 MW) at an estimated cost of ₹ 9.02 crore was accorded by Ministry of Non-Conventional Energy Sources (MNES) by March 2001. The project was scheduled to be completed within 24 months. However, work commenced only in March 2003 as the Small Hydro Division to execute the Sonapani MHP could be set up only in January 2003 and the project completed in October 2009 i.e. a time overrun of 78 months reckoned from the originally envisaged project completion schedule of March 2003. During the course of project's execution, a dispute over the ownership of the land arose (March 2004) which the MeSEB resolved by agreeing to pay the owner ₹ 3.26 crore in an out of court settlement which as of October 2010, was yet to be paid. Thus, although the project was completed at a cost of ₹ 9.60 crore, the payout to the land owner may result in the project cost escalating by 42 *per cent* from the original estimated cost of ₹ 9.02 crore in DPR to ₹ 12.86 crore and thus, adversely affecting the project's internal rate of return.

Thus, it was seen that although the approval was accorded by March 2001, the work was completed and the project was commissioned only in October 2009. Thus, the MeSEB for a small project of only 1.5 MW had taken nearly 78 months to complete shows the lack of planning by the MeSEB.

The MeSEB stated (November 2010) that the cost of generation without land cost was ₹ 0.91 per unit and with land cost it was ₹ 1.35 per unit. Thus, there would be no adverse affect on the internal rate of return of the project.

4.2.8.2 Delay in commissioning of Lakroh Hydel Project due to non availability of clear land

Lakroh Hydel Project was approved by MNES in March 2001 and stipulated to be completed within 30 months i.e. August 2003. However, work on the project commenced only in July 2008 after the dispute between the MeSEB and the land owner was resolved in January 2008. As of November 2010, the project is scheduled to be completed by March 2011. Against the estimated cost of ₹ 11.76 crore, expenditure incurred up to 31 March 2010 was ₹ 3.68 crore.

This shows lack of proper planning by the MeSEB. Thus, there was a delay of nearly five years for commencement of the project which would result in increase in project cost.

The MeSEB stated (November 2010) that the delay was due to delay in receipt of no objection certificate from Jaintia Hills Autonomous District Council (JHADC) by almost four years.

4.2.8.3 Cost overrun

The estimated cost of the various power stations executed under different phases, actual expenditure, cost escalation and the percentage increase in the cost are tabulated below:

Table 11 : Cost overrun

(Rupees in crore)

Sl. No.	Phase-wise name of the Unit	Estimated cost as per DPR	Awarded Cost	Actual expenditure as on 31 March 2010	Expenditure over and above estimate
	(1)	(2)	(3)	(4)	(5) = (4 – 2)
1.	Myntdu Leshka Hydel Project (3 x 42 MW)	477.68	965.93	848.07	370.39
2.	Sonapani Mini Hydel Project (1 x 1500 KW)[35]	9.02	9.89	9.60	0.58
3.	Lakroh Mini Hydel Project (1 x 1500 KW)[35]	11.76	11.47	3.68	--

Source: MeSEB

It would be seen from above that the Myntdu Leshka Hydel Project suffered a cost overrun of ₹ 370.39 crore as the MeSEB executed additional item of works which were not envisaged in the original DPR such as variations in the tendered quantity, increase in number of dam blocks, incorrect consideration of dam type, higher seismic hazard level etc. This resulted in increase in cost of power generation from the envisaged ₹ 0.43 paisa per unit to ₹ 0.88 paisa per unit and in the per MW cost from ₹ 3.79 crore in 1999 to ₹ 7.67 crore in 2010.

4.2.9 Contract Management

Contract management is the process of efficiently managing contract (including inviting bids and award of work) and executing work in an effective and economic manner. With respect to this, it was observed that the MeSEB awarded in March 2004 to M/s SEW Construction Pvt. Ltd, Hyderabad the work for construction of the MLHEP dam at a total cost of ₹ 87.81 crore and as per the agreement, the contractor was given 10 *per cent* interest free mobilisation advance which was not incorporated in tender document. Accordingly, the MeSEB paid in two equal installments (March/April 2004) a total of ₹ 8.78 crore as mobilisation advance to the firm. The advance was recovered from the firm's bills during the period May 2005 to December 2006. The Central Vigilance Commission (CVC) discourages interest free mobilization advance. Should the management feel it necessary in specific cases, then it should be clearly stipulated in the tender document and its recovery should be time based and not to be linked with the progress of work. Further mobilisation advance should be given in installments and subsequent installments should be released after

[35] The MeSEB has accounted the expenditure up to December 2009

getting satisfactory utilisation certificate from the contractor for the earlier installments. However, it was observed that the utilisation certificate from the contractor was not obtained while releasing second installment in April 2004 and no time schedule for recovery of advance was specified in the agreement. Contrary to CVC guideline, the recovery was linked to progress of the work done by the contractor. The loss to the MeSEB on account of payment of interest free mobilization advance to M/s SEW Construction Pvt. Ltd for dam worked out to ₹ 1.75 crore[36]. This is in violation of the CVC guidelines.

4.2.10 Manpower Management

The CEA recommended 1.79 persons per mega watt of the installed capacity. The position of actual manpower, sanctioned strength and manpower as per CEA recommendation in respect of generation stations of the MeSEB (except Sonapani) is given below:

Table 12

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Sanctioned strength	291	292	292	292	292
2.	Manpower as per the CEA recommendations	332	332	332	332	332
3.	Actual manpower	188	190	190	190	190
4.	Expenditure on salaries (Rupees in lakh)	321.35	348.97	410.69	470.77	475.02

Source: MeSEB

It may be seen from the above table that the actual manpower for generation stations was less than sanctioned strength and also as per CEA norms during the year 2005-06 to 2009-10. But, however when the norms are applied to generation station individually as detailed in **Appendix 4.8,** it may be seen that manpower was in excess in respect of Umtru. The percentage of excess manpower in respect of Umtru was 70 *percent*. The excess expenditure incurred on salaries with reference to CEA norms worked out to ₹ 1.57 crore. It may be observed from the Annexure that Umiam Stage III and IV having capacity of 60 MW have a manpower of only 41 and 45 persons in their projects as against CEA norms of 108 and 107 persons respectively. Umtru with 11.20 MW has 34 persons as against 20 persons as per CEA norms. Hence, it is recommended that the extra manpower of 14 persons from Umtru may be effectively deployed in Umiam Stage III & IV which has deficit staff strength of 38 *per cent* and 42 *per cent* respectively.

4.2.11 Operation and Maintenance

Operation and maintenance (O&M) cost includes expenditure on the employees, repair and maintenance including stores and consumables, consumption of capital spares not part of capital cost, security expenses, administrative expenses etc. of the generating stations besides corporate expenses apportioned to each generating station,

[36] Interest @ 10 *per cent*

etc. The details of O&M expenditure on five[37] generating units for period 2005-06 to 2009-10 are given below:

Table 13

(Rupees in lakh)

Sl No.	Name of the Unit	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Umiam Stage I (4 x 9 MW) & Umiam Stage II (2 x 9 MW)	245.77	228.06	232.23	293.99	269.75
2.	Umiam Stage III (2 x 30 MW)	252.46	103.31	155.09	142.38	139.62
3.	Umiam Stage IV (2 x 30 MW)	91.52	101.99	130.34	155.77	125.41
4.	Umtru (4 x 2.80 MW)	78.59	84.97	107.38	152.68	140.18
5.	**Grand total**	**668.34**	**518.33**	**625.04**	**744.82**	**674.96**
6.	Installed Capacity (In MW)	185.20	185.20	185.20	185.20	186.70
7.	**Cost per MW (7 = 5/6)**	**3.61**	**2.80**	**3.37**	**4.02**	**3.62**

Source: MeSEB

CERC in its regulation 2009 allowed O&M norm for 2009-10 in respect of Hydro generating power stations per MW as ₹ 38.45 lakh. It may be seen from the above table that O&M expenses remained in the range of ₹ 2.80 lakh to ₹ 4.02 lakh per MW during 2005-10, which was within the prescribed CERC norms.

4.2.12 Output Efficiency

4.2.12.1 Shortfall in generation

The targets for generation of power for each year are fixed by the MeSEB and approved by the CEA. It was observed that the MeSEB was able to generate a total of 2662 MU of power during 2005-06 to 2009-10 against a target of 2798 MU fixed as shown in the table below:

Table - 14

Year	Target	Actual[38]	Shortfall
	(In MU)		
2005-06	560	517	43
2006-07	569	391	178
2007-08	571	665	(+) 94
2008-09	568	554	14
2009-10	530	535	(+) 5
Total	**2798**	**2662**	**136**

Source: MeSEB

The net shortfall of 136 MU valuing during the period in financial terms worked out to ₹ 36.98 crore.

The year-wise details of energy to be generated as per design, actual generation, plant load factor (PLF) as per design and actual plant load factor in respect of the power Projects commissioned up to March 2010 are as given in **Appendix 4.9.**

The details in the Annexure indicate that:

- The actual generation and actual PLF of individual units achieved ranged from 20.22 *per cent* to 49.63 *per cent* which were far below the energy to be

[37] Excluding Sonapani Mini Hydel Project which was commissioned in October 2009

[38] Sonapani not taken for Target and Achievement since it was commissioned in October 2009.

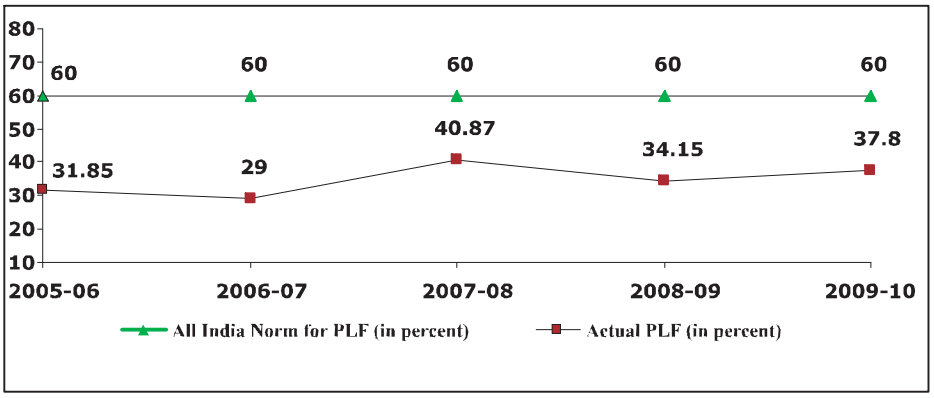
generated and PLF as per design (60 *per cent*) during the five years up to 2009-10.

- As against the total designed generation of 4865 MU of energy during the five years ending 2009-10, the actual generation was 2662 MU leading to the shortfall of 2203 MU, which could have been technically produced.

As the PLF had been designed considering the availability of inputs, the loss of generation (total 2203 MU) during the period 2005-06 to 2009-10 indicated that resources and capacity were not being utilised to the optimum level due to design deficiencies, frequent breakdown of units and delay in timely rectification of defects as discussed subsequently.

4.2.12.2 Low Plant Load factor (PLF)

The average PLF of the MeSEB during 2005-10 was 34.73 *per cent*. During each of the years under review, the average PLF of the MeSEB's five[39] hydro generating stations was as under:



It will be seen that the PLF ranged from 29 *per cent* (2006-07) to 40.87 *per cent* (2007-08) against the CERC norm of 60 *per cent* for hydro stations.

Reasons for low PLF were low plant availability, high planned outages and forced outages (due to unanticipated events like fire, accidents, delays in completing planned repairs and maintenance, *etc.*).

4.2.12.3 Plant Availability

Plant availability means the ratio of actual hours operated to maximum possible hours available during certain period. As against the CERC norm of 60 *per cent* plant availability during 2005-10, the average plant availability of power stations was 45.20 *per cent* during the five years up to 2009-10.

In respect of the MeSEB, these statistics for the period 2005-06 to 2009-10 were as under:

[39] Excluding Sonapani Mini Hydel Project which was commissioned in October 2009.

Table 16

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Total hours available	122640	122640	122976	122640	122640
2.	Operated hours	56605	44825	65544	53935	56430
3.	Planned outages (in hours)	14809	15468	8741	4797	12955
4.	Forced outages (in hours)	2711	2584	11803	16189	12160
5.	Idle hours[40]	48515	59763	36888	47719	41095
6.	Plant availability (*per cent*)	46	37	53	44	46

Source: MeSEB

It will be seen from **Table 16** that while 'total hours available' for generation during the period remained almost static at around 1,22,640 hours and 'operated hours' also remained at almost the same level of 56,600 hours at the beginning and end of the review period.

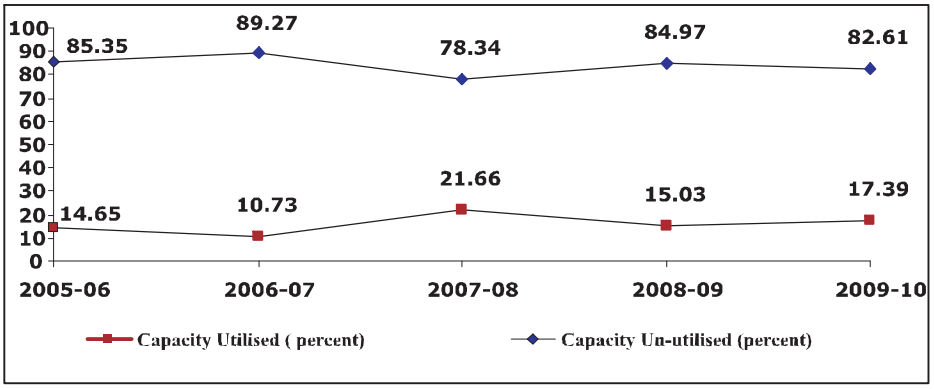
- Total outages (planned and forced) increased by 43 *per cent* from 17,520 hours in 2005-06 to 25,115 hours in 2009-10;
- Planned outages decreased from a high 15,468 hours in 2006-07 to 4,797 hours in 2008-09 and shot up to 12,955 hours the following year;
- Forced outages increased by 497 *per cent* from 2,711 hours in 2005-06 to 16,189 hours in 2008-09 and came down by 25 *per cent* to 12,160 hours in 2009-10.

The high incidence of planned and forced outages can be attributed to deficiency of the MeSEB's renovation and modernisation/life extension programmes (paragraph 4.2.7.2), inadequate expenditure on O&M (paragraph 4.2.11) and delay in completing repairs and maintenance of power stations (paragraph 4.2.13). The MeSEB stated (June 2010) that one of the reasons for the forced outages in 2009-10 was due to a major fire which broke out on 22 March 2009 in Transformer No. 3 of Stage I and damaged the control cables and relay panels resulting in extensive damage to equipments like generator, power cables, control and relay panels, *etc*. valued at ₹ 6.62 crore, for which MeSEB had lodged an insurance claim with Insurance Company on September 2009 which is yet to be received (November 2010). The generation loss on the basis of rates of realisation in respective years was ₹ 15.36 crore.

4.2.12.4 Low Capacity Utilisation

Capacity utilisation means the ratio of actual generation to possible generation during actual hours of operation. The actual capacity utilised ranged from 10.73 *per cent* to 21.66 *per cent* during the period 2005-10 as shown in the graph below:

[40] Hours when electricity could not be generated due to lack of desired water level in the reservoir



The main reasons for the low utilisation of available capacity during 2005-06 to 2009-10, as analysed in audit were due to frequent failure of runner, failure of stator coils and resultant shutdown of the unit for a very long period.

4.2.12.5 Auxiliary consumption of power

Energy consumed by power stations themselves for running their equipments and common services is called Auxiliary Consumption. SERC allowed (June 2003) 0.5 *per cent* of the power generated to be used as auxiliary consumption. The actual auxiliary consumption remained within the norms during review period except in 2006-07 when it increased marginally to 0.51 *per cent*.

4.2.13 Repairs & Maintenance

To ensure long term sustainable levels of performance, periodic maintenance of generating equipment is essential. The efficiency and availability of generating stations is dependent on the strict adherence to annual maintenance and overhauling schedules as reduced availability of equipment lead to reduced quantum of power being generated thereby increasing the cost of power.

The MeSEB informed that it was not possible to draw maintenance schedules in advance for hydro stations. Repairs and maintenance are undertaken on a need basis.

However, it is seen that due to the absence of periodical time bound repairs and maintenance, the units had frequent breakdown and consequent shut down of the units. It is high time that the MeSEB which has now become a Corporation should chart out a programme schedule for repairs and maintenance of its units and avoid frequent shut down in the future.

It was noticed that Unit I of Umtru Power Station was put under shut down (September 2004) for overhauling works due to stator failure. The machine was dismantled departmentally on 15 December 2004 and the work was handed over to M/s Swamina International Private Limited, Kolkata only in June 2006 after 18 months taken up in the process of awarding the tender. The work was to be completed by October 2006 (four months) and there was no performance guarantee clause as per the agreement. The defective materials were dispatched to the firm only in August

2006 and received back in April 2007. The machine was assembled and put to test in June 2007. However, due to mistakes in installation by the firm, the required voltage could not be built up and unit was stopped. The fault was rectified and the unit was synchronized in July 2007. The unit was again stopped in November 2007 due to breaking of a 'thrust collor'. A new 'thrust collor' was fabricated and the unit was started up in September 2008. Thus the unit which should have been operational from November 2006 became operational only in September 2008. The loss to the MeSEB on this account worked out to 14,161 hours leading to generation loss of 18.78 MUs.

4.2.14 Financial Management

Efficient fund management to ensure optimum and judicious utilisation of available financial resources is a vital necessity for a commercial organisation like the MeSEB.

The MeSEB's main sources of funds were from realisation from sale of power, subsidy from State/Central Governments, loans from State Government/Banks/ Financial Institutions (FI), *etc*. These funds were mainly utilised to meet payment of power purchase bills, debt servicing, employee and administrative costs, system improvement works of capital and revenue nature, *etc*.

Details of source and utilisation of funds on actual basis of the MeSEB for the years 2005-06 to 2009-10 are given below:

Table 17

(Rupees in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10*
Sources						
1.	Net Profit/(loss)	(57.07)	(86.42)	23.30	45.93	49.02
2.	Add: adjustments	15.89	(7.54)	(21.96)	(36.10)	(105.44)
3.	Funds from operations (1+2)	(41.18)	(93.96)	1.34	9.83	(56.42)
4.	Cash deficit	141.48	340.11	523.05	554.69	565.12
5.	Total (3+4)	182.66	434.07	522.05	544.86	621.54
Utilisation						
6.	Capital expenditure	150.38	209.63	274.31	301.09	375.22
7 (a).	Increase in working Capital	(52.30)	87.57	133.22	123.95	58.17
7 (b).	Repayment of capital liabilities	43.40	42.91	115.86	129.65	131.73
8.	**Total {3-(6+7)}**	**182.66**	**434.07**	**522.05**	**544.86**	**621.54**

*Source: MeSEB, * Provisional figures*

The cash deficit was met mainly by increased borrowings in the form of cash credit/loans (₹ 1597.09 crore in 2009-10) from commercial banks/FIs. Main reasons for cash deficit were poor and delayed recovery of power supply bills, heavy loan servicing commitments, locking up of funds in inventory and capital expenditure incurred with returns yet to flow in. It was observed that dependence on borrowed funds increased from ₹ 150.38 crore in 2005-06 to ₹ 375.22 crore as at the end of 2009-10 entailing an interest burden of ₹ 361.94 crore during this period. This in turn increased operational costs. There was therefore, an urgent need for the MeSEB to optimise internal resource generation by enhancing PLF, vigorous pursuance of outstanding power supply and subsidy dues.

A few instances cited below indicate that there was scope for the MeSEB to improve its financial position:

- In March 2008, the Government paid ₹ 50 crore as one time settlement against power supply dues totaling ₹ 80.31 crore from various government departments. The MeSEB wrote off the balance of ₹ 30.31 crore;
- In December 2008, dues amounting to ₹ 21.70 crore from private consumers were written off;
- Loan servicing in the form of repayment of principal and payment of interest increased from ₹ 43.40 crore in 2005-06 to ₹ 131.73 crore in 2009-10;
- During 2007-08[41] to 2009-10, the MeSEB paid ₹ 1.30 crore as delayed interest and penal interest to the Rural Electrification Corporation Ltd (REC). As on 31 March 2010, the total outstanding loan of the MeSEB with the REC was ₹ 241.68 crore;
- The MeSEB during the review period availed itself of overdraft facility from banks on a number of occasions. As on 31 March[42] 2009, the overdraft with State Bank of India, Central Bank and Vijaya Bank stood at ₹ 14.51 crore. During 2008-09, it paid ₹ 4.64 crore as interest and ₹ 3.26 lakh as penal interest on overdraft availed by it from different banks. As per information given by the MeSEB, the overdraft facilities during 2006-07 to 2008-09 carried interest rates ranging from 7.25 *per cent* to 17 *per cent*.
- Had the MeSEB taken stringent measures to optimise the internal resources by vigorous pursuance for recovery of outstanding electricity dues instead of writing them off, it could have curtailed borrowing of overdraft and thereby avoided payment of interest and penal interest which would have augmented partially its financial position.

4.2.15 Claims and Dues

The particulars of subsidy claims raised by the MeSEB with Government on account of power purchased from outside the State during the review period is shown below:

Table 18

(Rupees in crore)

Sl.No.	Details	2005-06	2006-07	2007-08	2009-10	Total
	Power Purchase Subsidy					
1.	Subsidy claims raised	12.15	22.19	22.91	--	57.25
2.	Subsidy received from State Government for Power Purchase	--	12.15	22.00	12.31	46.46
3.	**Difference (1 – 2)**	**12.15**	**10.04**	**0.91**	**(-) 12.31**	**10.79**

Source: MeSEB

Out of ₹ 57.25 crore claimed as power purchase subsidy for the period 2005-06 to 2007-08 and 2009-10, ₹ 46.46 crore was received from Government leaving a balance

[41] Figures for 2005-06 and 2006-07 not furnished by the MeSEB.
[42] Figures for 2009-10 not yet compiled by the MeSEB.

of ₹ 10.79 crore. As of November 2010, subsidy claims for 2008-09 and 2009-10 were yet to be raised by MeSEB.

4.2.16 Tariff Fixation

The MeSEB is required to file an application with the Meghalaya State Electricity Regulatory Commission[43] for approval of generation tariff for each year, 120 days before the commencement of the respective year or such other date as may be directed by the Commission. The Commission may accept the application with such modifications/conditions as it deems just and appropriate and after considering suggestions and objections from public and other stakeholders, issue an order specifying targets for 'controllable' items and approve the generation tariffs for the year within 120 days of the receipt of the application.

During the review period 2005-06 to 2009-10, tariff was revised four times[44]. It was observed that tariff applications for all the years except 2008-09 were submitted in time. The tariff application for the year 2008-09 which should have been filed by November 2007 but with the consent of the Commission, was filed in March 2008. It was observed that the Commission had not set performance targets for each year subsequent to every tariff revision for parameters deemed 'controllable' for hydro generating stations which were:

(a) Availability
(b) Auxiliary Energy Consumption
(c) Operation and Maintenance Expenses
(d) Plant Load Factor
(e) Financing Cost which includes cost of debt (interest), cost of equity (return) and
(f) Depreciation

The Commission fixes the tariff based on detailed data pertaining to the preceding five years relating to generation, utilisation of Central power, purchase of power, transmission & distribution losses, aggregate technical & commercial losses, billing-efficiency, revenue collection efficiency, power demand & supply position *etc.*

As no performance targets were fixed the MeSEB may be in an advantageous position as it could not be penalised for underperformance, if any, with respect to any of the above parameters.

4.2.17 Environmental Issues

In order to minimize the adverse impact of power projects/stations on the environment, the Government of India has enacted various Acts and statutes. It was noticed that the MeSEB did not have any system to monitor and ensure compliance of these requirements with regard to environmental issues.

[43] Formed in July 2006
[44] Revised with effect from November 2005, January 2008, September 2008 and November 2009

Umiam Reservoir, which is the largest artificially created water body in Meghalaya, feeds five[45] downstream hydro power plants of the MeSEB. The reservoir covers an area of 10 Sq. Km. and serves as a recreational spot for tourists, boating and angling activities. In addition, the reservoir supplies drinking water to the Army Cantonment at Umroi as well as to the villages situated downstream of the power houses. A check of the water quality of the reservoir was carried by the Meghalaya State Pollution Control Board (MSPCB) during 2008 based on which water quality was certified as 'D'. As per the criteria prescribed by the Central Pollution Control Board (CPCB), fresh water classified as 'D' is unfit for human consumption and can be utilised only for propagation of wildlife and fisheries. In respect of a few parameters, the level of pollution of the reservoir as observed by the MSPCB was as follows:

Table 19

Sl. No.	Particulars	Month	Parameters	Dissolved Oxygen (DO)	Biochemical Oxygen Demand	Total Coliform organism
1.	Parameters fixed by the CPCB	-	A	6	2	50
		-	B	5	3	500
		-	C	4	3	5000
		-	D	4	-	-
		-	E	-	-	-
2.	Quality as ascertained by the MSPCB	January 2008	-	6.2	8.4	4300
		April 2008	-	5.4	10.5	4600
		July 2008	-	8.0	6.5	3300
		October 2008	-	6.0	10.0	3500

Source: MSPCB

It will be seen that the water quality with reference to 'dissolved oxygen' was within acceptable parameters. However, the 'biochemical oxygen demand' level was way beyond CPCB parameters. The 'total coliform organism' content was very much on the higher side with reference to CPCB norms. The MSPCB opined that the major sources of pollution of the water body were discharge of municipal solid and liquid water, dumping of spoils and garbage, deforestation and agricultural activities in the catchment area. It added that the faecal coliform count which indicates presence of pathogens in the water was a *"major concern"*.

We are of the view that the sources of pollution pointed out by the MSPCB will also contribute to silting of the reservoir at a faster rate than what the reservoir was designed for thereby reducing the life span of the lake. As 185.20 MW[46], out of the MeSEB's total installed capacity of 186.70 MW, is wholly dependent on the water of the reservoir for power generation the situation, if left unchecked, has serious implications on the MeSEB's long term operations and viability.

There was no evidence on record to show that the MeSEB had initiated or is contemplating initiating action to address these issues.

[45] Except Sonapani Mini Hydel Station.

[46] Umiam Stage-I (4 x 9MW), Umiam Stage-II (2 x 9 MW), Umiam Stage-III (2 x 30 MW), Umiam Stage-IV (2 x 30 MW) and Umtru (4 x 2.8 MW).

4.2.18 Monitoring by top management

The MeSEB is the biggest public sector undertaking of the State in terms of capital employed, turnover, number of employees, *etc*. For an organisation of its size, it is essential that a well documented and designed Management Information System (MIS) is in place to collect and collate vital operational and financial data for submission to top Management to enable them to take prompt decisions and mid-course corrections. It was noticed that the MeSEB had no MIS in place. MeSEB stated that it has been conducting regular meetings and brings out a periodical MIS bulletin. A perusal of the said document revealed that the bulletin was more in the nature of an in-house magazine containing assorted reports on various activities of the MeSEB, (training, sports activities, phone numbers of MeSEB employees, photographs, *etc*.) and articles of general interest. We are of the opinion that this hardly qualified as a MIS report.

In the course of this review, it was observed that the information required was to be called for and collected from various departments/offices of the MeSEB. The time taken to furnish the information indicated that the same was not readily available with the departments/offices from which this was requested for and it was evident that additional efforts had to be put in by all concerned in this regard. Further, the accuracy of information was at times highly suspect as the same data furnished by different sources of the MeSEB was not the same. There was no centralised database which otherwise, would have taken care of these shortcomings.

A rigorous MIS is an essential prerequisite for a successful commercial organisation. The MeSEB with effect from 01 April 2010 has been split up into a holding company[47] and three subsidiary companies[48] (yet to be formed). It is recommended that well planned MIS system be put in place in these four entities to ensure that these organisations do not suffer from the infirmities suffered by the mother organisation on this count.

The MeSEB stated (November 2010) that it had appointed M/s Pricewaterhouse Cooper as the consultant to implement IT initiatives.

4.2.19 Conclusion

- **MeSEB could not keep pace with growing demand of power in the State due to inadequate planning for setting of the new projects as per their requirement.**
- **The management of projects under execution was ineffective as there were instances of time and cost overrun, which caused significant increase in interest during construction period.**

[47] Meghalaya Energy Corporation Limited
[48] Meghalaya Power Generation Corporation Limited, Meghalaya Power Distribution Corporation Limited and Meghalaya Power Transmission Corporation Limited

- **The unit-wise deployment of manpower was not in accordance with the prescribed CEA norms.**
- **Plant load factor and plant availability remained less than CEA norms in all the years under review. Further, PLF, plant availability and capacity utilisation declined since 2007-08.**
- **MeSEB did not plan for preventive repair and maintenance schedule which adversely affected the performance of generation stations.**
- **MeSEB failed in vigorous pursuance of its outstanding dues and subsidy claims.**
- **MeSEB did not initiate any action for addressing the environmental pollution issues.**
- **The MeSEB did not have a proper MIS in place for exercising effective control over its activities by top management.**

4.2.20 Recommendations

The MeSEB needs to:

- **evolve effective planning for capacity addition to keep pace with growing demand to overcome the shortage of power;**
- **evolve effective monitoring mechanism for establishment of new power generating stations/units as per the scheduled plan;**
- **rationalise its manpower allocation to ensure optimum utilisation;**
- **enhance plant load factor, plant availability and capacity utilisation by minimising forced outages;**
- **formulate and implement preventive maintenance schedule to ensure effective and efficient utilisation of plants;**
- **vigorously pursue for realisation of outstanding dues and subsidy claims;**
- **evolve an action plan for minimising the adverse impact on water bodies;**
- **evolve Management Information System for effective and regular monitoring by top management; and**
- **enhance the use of its undertrapped vast hydro and thermal potentials.**

AUDIT OF TRANSACTIONS

POWER DEPARTMENT

MEGHALAYA STATE ELECTRICITY BOARD

4.3 Avoidable liability

Issue of bonds by the MeSEB without proper consideration resulted in avoidable liability of interest of ₹ 5.92 crore

The Board of Directors of the Meghalaya State Electricity Board (MeSEB) in February 2007 approved the raising of ₹ 250 crore, with a 'green shoe option'[49] of ₹ 100 crore, through a bond issue. Subsequently, the MeSEB assessed its fund requirement at ₹ 220 crore and approached (May 2007) the Government of Meghalaya (GOM) for a State backed guarantee for a bond issue of this amount with a coupon rate of 10.50 *per cent* per annum. The guarantee was accorded by GOM in August 2007 following which, the MeSEB appointed UTI Securities Ltd, Mumbai as consultant for the issue in the same month. The said amount of ₹ 220 crore was raised through two separate bond issues of ₹ 120 crore and ₹ 50 crore respectively and the balance ₹ 50 crore as a loan from a scheduled bank.

The first bond issue - without a 'green shoe option' - for ₹ 120 crore and with a tenure of 10 years, was offered from 1st to 24th October 2007 with interest at 9.90 *per cent* per annum (with a 'put' and 'call' option[50] at the end of the 7th year) and 9.95 *per cent* per annum (without option). The issue was closed eight days before the due date as it was fully subscribed.

In April 2008, the Board of the MeSEB approved raising the balance ₹ 100 crore through another bond issue. However, the management did not raise the entire amount immediately but decided in November 2008, to mobilise ₹ 30-40 crore in the same month and the balance in December 2008, when it hoped to access the amount at a lower rate of interest.

Accordingly a bond issue of ₹ 30 crore with a 'green shoe option' of ₹ 100 crore, was offered from 14th to 19th November 2008. The issue, without 'put' and 'call' option and with a ten-year tenure, carried an interest rate of 11.40 *per cent* per annum. The

[49] A 'green shoe option' allows the issuing company/organisation to offer more shares/bonds than the originally offered amount if the issue is over subscribed.

[50] A 'call'/'put' option at the end of the 7th year gives the issuer/investor the right to redeem the bonds at par at the end of the 7th year.

issue closed on 18 November 2008 after raising ₹ 50 crore which included ₹ 20 crore under the 'green shoe option'.

Subsequently, the MeSEB mobilized another ₹ 50 crore at 9.95 *per cent* from a scheduled bank in September 2009.

Audit observed that although the Board of the MeSEB in February 2007 approved the bond issue with a 'green shoe option', the same was not exercised at the time of the first issue for ₹ 120 crore in October 2007. As a result, although the issue was oversubscribed and closed eight days before the due date, the MeSEB was not in a position to retain the excess subscription. Failure to incorporate the 'green shoe option' was inexplicable as by management's own calculations the issue, with interest rates of 9.90 and 9.95 *per cent*, was at a lower cost than the interest rate of 10.50 *per cent* it had estimated in May 2007. Had the MeSEB retained this option, the amount of ₹ 50 crore raised through a second bond issue in November 2008 would not have been necessary. In the bargain, the MeSEB would have saved ₹ 7.25 crore being the interest differential of 1.45 *per cent* i.e., 11.40 *per cent* minus 9.95 *per cent,* over the 10 year tenure of the bonds.

The Management stated (September 2009/March 2010) that a prudent decision was taken to raise only ₹ 120 crore through the first bond issue to avoid keeping excess funds in short term deposits at interest rates varying from 5 *per cent* to 7.5 *per cent* per annum. The reply is unacceptable as even if the ₹ 50 crore raised through the second bond issue in November 2008 had been raised in the first issue in October 2007 and this amount parked in short term deposit, the additional interest burden which the MeSEB would have had to bear would have been 2.45 *per cent*[51] amounting to ₹ 1.33 crore[52] for the period November 2007 to November 2008, i.e., 13 months.

Thus, raising funds through the first bond issue without a 'green shoe option' resulted in an extra avoidable liability of ₹ 5.92 crore[53]. In addition, omission to include a 'put' and 'call' option for the second bond issue was against the MeSEB's interest as in the event of drop in bond rates in future, the organisation would not be in a position to take advantage of this situation.

The matter was reported to Government in June 2010; reply was awaited (November 2010).

[51] 2.45 per cent = 9.95 *per cent* (interest rate of first bond issue) *minus* 7.5 *per cent* (interest rate on fixed deposit).
[52] ₹ 50 crore X 2.45 *per cent* X 13 months = ₹ 1.33 crore
[53] ₹ 7.25 crore less ₹ 1.33 crore.

4.4 Failure to take action to collect dues from Government consumers

Failure of the MeSEB to take action under Section 56 of the Electricity Act, 2003 against errant government consumers led to unpaid electricity bills accumulating to ₹ 11.25 crore in 23 months up to February 2010.

The Government of Meghalaya (GOM) in April 2008 agreed to liquidate the outstanding dues as on 31 March 2008 amounting to ₹ 80.31 crore[54] of all the State Government agencies to the MeSEB through a one time settlement (OTS) of ₹ 50 crore subject to the MeSEB waiving the interest component on the arrear dues. The MeSEB accepted (June 2008) the OTS offer and the GOM accordingly released ₹ 50 crore in two installments of ₹25 crore each in June 2008 and August 2008.

The Chief Secretary (CS), GOM, in May 2008 informed all heads of departments of the OTS deal with the MeSEB and instructed that electricity dues payable by the government departments to MeSEB be treated as settled upto 31 March 2008 and all bills from April 2008 would be treated as current bills which departments would have to clear regularly on a monthly basis. The CS also instructed all departments/offices to make suitable provisions for payment of electricity bills and pointed out that failure to pay the bills would result in disconnection of electricity under Section 56 of the Electricity Act, 2003.

It was also observed that the Chief Engineer (Distribution) [CE], MeSEB in July 2008 instructed all heads of MeSEB Revenue Divisions that in case any government consumers default on payment of electricity dues from April 2008 onwards, necessary action for discontinuance of power supply might be taken as per Section 56 of the Electricity Act, 2003.

However, despite the directions by the two functionaries, it was observed that during the period of 23 months (April 2008 to February 2010), the electricity dues from State Government consumers again accumulated to ₹ 11.25 crore[55] as detailed below:

(Rupees in crore)

Sl. No.	Name of Division	Outstanding as on February 2010
1.	Shillong Revenue Division	5.07
2.	Central Revenue Division	1.10
3.	Western Revenue Division	0.52
4.	Jowai Revenue Division	1.83
5.	Garo Revenue Division	1.29
6.	Williamnagar Revenue Division	1.44
	Total	**11.25**

In view of the fact that the instructions of the CS were being ignored by State Government agencies, the MeSEB should have disconnected the power supply to the errant government consumers under Section 56 of the Electricity Act, 2003 which was reiterated by the CE, MeSEB in July 2008. Failure by the MeSEB to do so in even a

[54] comprising of (i) arrears of payment of electricity charges ₹ 62.41 crore and, (ii) delayed payment charges ₹ 17.90 crore.

[55] month upto which figures available with the MeSEB.

single case has again resulted in increase of outstanding dues to ₹ 11.25 crore against government consumers as on 28 February 2010.

The matter was brought to the notice of the Government in September 2010; reply was awaited (November 2010).

INDUSTRIES DEPARTMENT

MEGHALAYA INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

4.5 Irrational decisions to sanction loans

Despite the borrower defaulting on the first loan, another two loans were sanctioned to him.

The Meghalaya Industrial Development Corporation Limited (MIDC) sanctioned (August 1996) a loan of ₹ 60 lakh[56], repayable in 18 half-yearly instalments commencing from December 1998, to the Proprietor, Yalana Hotel (Proprietor) for setting up a hotel and shopping complex at Shillong. Upon the dues accumulating to ₹ 115 lakh (August 2002) owing to irregular repayments[57], the Proprietor, citing poor hotel occupancy and income from the restaurant not coming up to expectations, proposed (September 2002) a One Time Settlement (OTS) of the loan for an amount of ₹ 66.55 lakh. The MIDC rejected (October 2002) the proposal on the ground that it did not qualify for an OTS.

However, based on the direction (March 2003) of the Government to consider the case, the MIDC approved (April 2003) an OTS of ₹ 98.22 lakh (principal ₹ 57.83 lakh and interest ₹ 40.39 lakh after waiving interest amounting to ₹ 25 lakh) to be paid in three equal installments in June 2003, September 2003 and December 2003. Against this repayment schedule, the Proprietor paid ₹ 4.91 lakh in January 2004 and another ₹ 4.91 lakh in March 2004.

In September 2004, the MIDC formulated an OTS scheme for its defaulting borrowers. One of the options under this scheme was for payment of the full principal amount outstanding in one installment and waiver of the entire interest due provided the outstanding principal was paid within one week of the borrower accepting the scheme. The Proprietor accepted this option in December 2004 but paid the outstanding principal amount of ₹ 57.83 lakh in two installments of ₹ 10 lakh in February 2005 and the balance of ₹ 47.83 lakh, plus interest of ₹ 6.39 lakh for delayed payment, in March 2005.

[56] with interest @ 19.75 *per cent* per annum and penal interest @ 3 *per cent* per annum over and above the interest rate

[57] Proprietor repaid ₹ 0.73 lakh in March 1997, ₹ 0.74 lakh in May 1997, ₹ 1.00 lakh in October 1999, ₹ 1.70 lakh in December 1999, ₹ 1.70 lakh in March 2000, ₹ 0.70 lakh in June 2000 and ₹ 1.20 lakh in July 2000 whereas the repayment should have been at ₹ 3.35 lakh per installment

Despite the Proprietor having defaulted on his loan and repaying his dues only by taking advantage of the Corporation's OTS scheme, the MIDC sanctioned him a second loan of ₹ 50.00 lakh in December 2005[58]. This loan was to be repaid in 20 quarterly installments commencing from August 2006. The Proprietor, however, did not make any repayments till July 2008. Following verbal negotiations between the MIDC and the Proprietor, the latter made payments of ₹ one lakh per month from August 2008 and till September 2010 had paid up ₹ 30.35 lakh[59] leaving a balance of ₹ 43.83 lakh[60] still to be paid. Thus, it would take another three and-a-half years for the loan to be settled.

It was further noticed that a third loan of ₹ 49 lakh was sanctioned to the Proprietor by the MIDC in June 2007. As of September 2010 the same had however, not been disbursed.

Sanction of the second and third loan to the Proprietor was imprudent and against the interests of the organisation considering that the Proprietor defaulted in repayment of the first loan and settled the same under OTS scheme. The decision was further flawed since the hotel project was commercially unviable as admitted by the Proprietor himself in August 2002 and borne out by the fact that he also failed to repay the second loan as per schedule. Against this backdrop, the Corporation's rationale of sanctioning a third loan to the Proprietor was inexplicable.

The matter was brought to the notice of the Government in June 2010; reply was awaited (November 2010).

4.6 Tardy action to recover a loan

Even after granting a 'one time settlement' package to a defaulting borrower, the Corporation's lack of concern in protecting its financial interests resulted in non recovery of ₹ 78.28 lakh.

Meghalaya Industrial Development Corporation (MIDC) in August 1996 sanctioned a term loan of ₹ 49.35 lakh[61] to Eastern Petrochemicals Private Limited (firm) for setting up a LPG refilling plant in Ri-Bhoi District with the stipulation that there would not be any change in the constitution of the firm without dues being fully cleared. The entire loan amount was released to the firm during October 1996 to March 1998.

[58] with interest @ 13.75 *per cent* per annum and penal interest @ 3 *per cent* per annum over and above the interest rate

[59] (Principal ₹ 10.94 lakh + Interest ₹ 19.41 lakh)

[60] (Principal ₹ 36.85 lakh + Interest ₹ 6.98 lakh) – figures furnished by the MIDC

[61] principal repayable in nine annual installments; interest at 19.75 *per cent* per annum on principal was payable annually, the first instalment of which was payable two years after the first disbursement.

Despite the firm's failure to repay the first installment towards principal of ₹ 5.50 lakh which fell due in October 1998, the MIDC sanctioned (January 1999) another loan of ₹ 7 lakh[62] to the firm which was released in February 1999.

The management of the firm changed in November 2003 with the original promoter executing a Memorandum of Understanding with another person to take over the firm for a consideration of ₹ 1.30 crore and with the condition that latter party was to pay outstanding dues of ₹ 64 lakh to the MIDC. The fact of the change of management came to the notice of the MIDC only in April 2005. The MIDC did not act on this information. Further, despite the fact of the failure of the firm in repaying its dues was brought to the notice of the Corporation by Audit (July 2008), no action was taken.

Between October 1998 and September 2008, the firm paid interest of ₹ 4.34 lakh only. As a result of persistent default by the firm, the over-dues accumulated to ₹ 1.77 crore (principal ₹ 56.35 lakh and interest ₹ 120.96 lakh) as on September 2008. At the request of the firm for a 'one time settlement' (OTS) package to liquidate its dues, the MIDC in September 2008 partially waved payment of interest amounting to ₹ 89.03 lakh. Under the OTS scheme, the balance amount of ₹ 88.28 lakh (principal ₹ 56.35 lakh and interest ₹ 31.93 lakh) was to be paid by the firm by December 2008 in three installments of ₹ 29.43 lakh each failing which the package was null and void. The firm, however, only repaid ₹ 10 lakh towards principal till April 2010. It was noticed that the MIDC instead of taking concrete action to realise the balance amount of ₹ 78.28 lakh, granted the firm, without any penalties, an extension of time up to 15 July 2010 to repay its dues. As of August 2010, the MIDC had not received any further repayments.

Thus, due to imprudent business practices of the MIDC, the Corporation on the loans of ₹ 49.35 lakh and ₹ 7 lakh advanced to the firm during October 1996 to March 1998 and February 1999 on which it should have got back ₹ 2.02 crore (principal ₹ 56.35 lakh and interest ₹ 146.07 lakh) was able to realize only ₹ 14.34 lakh of this amount till April 2010.

The Management stated (February 2010) that the firm due to unforeseen problems incurred losses since inception because of very low capacity utilisation and at present had stopped operations.

The Audit is, however, of the view that the MIDC should have, on the failure of the firm to honour its obligations under the OTS package, resorted to vigorous steps to recover its dues by invoking action under Section 29 of the State Financial Corporation Act, 1951 which empowers a Financial Corporation to take over the management or possession or both of an industrial concern in such events.

The failure of the MIDC to initiate the above action besides indicating the Corporation's lack of concern in protecting its own financial interest, also sends a

[62] with interest at 18.75 *per cent* per annum; principal plus interest repayable in ten half-yearly installments after three months from the date of commissioning/production of the unit

wrong message to its other borrowers - an impression which if left uncorrected – is bound to have adverse consequences on the financial health of the organisation in future.

The matter was reported to the Government in June 2010; reply was yet to be received (November 2010).

MAWMLUH CHERRA CEMENTS LIMITED

4.7 Unproductive expenditure on repairs

Injudicious decision to undertake repairs of a defective component for second time despite its failure in the first attempt and after having already placed orders to replace the item, resulted in unproductive expenditure of ₹ 18.43 lakh.

Mawmluh Cherra Cements Limited (MCCL) commenced commercial production in 1966 with Raw Mill No. 1 (RM1) having a capacity of 25 MT per hour. In 1978, the company commissioned Raw Mill No. 2 (RM2) manufactured by M/s KCP Limited, Chennai (KCPL) with a higher capacity of 55 MT per hour. Thereafter, the entire production line was shifted over to RM2 and RM1 functioned as a standby unit only.

In October 2007 the 'inlet journal' (IJ) of RM2 developed cracks but production continued after temporary repairs. In the same month, the company contacted KCPL and other engineering firms to repair the faulty part. KCPL, however, offered (October 2007) to replace the IJ only within 10 months for ₹ 27.12 lakh plus taxes. The only other response was from Larsen & Toubro, Kolkata (L&T) who offered to carry out the necessary repairs within 35 days.

On 11 March 2008, the MCCL placed an order with L&T to repair the IJ at a cost of ₹ 11.50 lakh plus taxes. L&T communicated (July 2008) its inability to guarantee the repair work and could not successfully fix the defective part by August 2008. In the meantime, the operation of RM2 was stopped from 23 March 2008, as the company decided that the mill should not be run till the inlet journal was repaired. Production on a limited scale was carried out through RM1.

In September 2008, the MCCL placed an order with the KCPL for supply and erection of a new IJ at a cost of ₹ 30.63 lakh plus taxes. Following this, on October 4, 2008, the company engaged a Chennai based firm to repair the IJ. The work was to be completed by 22 November 2008 against which the work was actually completed on 27 April 2009 at a cost ₹ 18.43 lakh. However, the repair work was a failure as RM2 broke down again after one and- a- half months. The IJ was ultimately replaced by KCPL in October 2009 at a total cost of ₹ 34.83 lakh. The mill is presently in operation.

Thus, RM2 which became defective in October 2007 was restored only after 24 months that included a period of around 16 months[63] when RM2 was totally non functional.

Considering that KCPL in September 2008 had already been asked to supply and replace the IJ, the management's decision to attempt to repair the IJ a second time in October 2008 was unjustified in view of the fact that the first such attempt in March 2008 failed. As the repair work of the faulty part (IJ) was unsuccessful, it resulted in an unproductive expenditure of ₹ 18.43 lakh.

The Company needs to formulate proper policy to meet such contingencies to avoid stoppages of machines for want of vital components or their repair.

The matter was reported to the Government/Management in June 2010; replies were awaited (November 2010).

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[63] from March 2008 to April 2009 and mid-July 2009 to September 2009.