SECTION 4: TRUING UP OF COSTS

4.1 The JSEB in has submitted for truing up of costs for FY 2003-04, FY 2004-05 and FY 2005-06. The truing-up for FY 2003-04 has been proposed on the basis of the expenditure incurred, and for FY 2004-05 and FY 2005-06 in comparison to the expenditure approved by the JSERC.

4.2 The Board has proposed Rs 627 Crore, Rs 737.27 Crore and Rs 590.47 Crore as the truing–up costs for FY 2003-04, FY 2004-05 and FY 2005-06 respectively. The detail of truing–up costs for the previous years is summarized in Table 4.1.

Table 4.1 Truing–up of costs (Rs Crore)

Description	Difference between FY 2003-04 (Approved) and FY 2003-04 (Actual)	Difference between FY 2003-04 (Approved) and FY 2004-05 (Provisional)	Difference between FY 2003-04 (Approved) and FY 2005-06 (Rev. Estimate)
Power Purchase	149.59	391.37	522.72
Fuel	22.78	(11.55)	8.39
Employee cost	(26.44)	41.57	35.90
Interest and Finance charges	266.50	385.88	486.94
Total Cost	**412.43**	**807.27**	**1053.95**
Add: Temporary Contingency	(110.00)	(110.00)	(110.00)
Less: Non-Tariff Income	(284.57)	0.00	0.00
Gross Total	**587.00**	**697.27**	**943.95**
Government Subsidy	40.00	40.00	(353.48)
True–Up of Costs	**627.00**	**737.27**	**590.47**

4.3 The Board has proposed recovering true–up costs arising due to the difference in the interest charges for the previous years by converting increase in interest charge into Regulatory Asset. Regulatory assets will incur an interest of 12% p.a., which will be applicable till the time this amount is recovered either from consumers or from Government or through efficiency improvement in future years.

4.4 Further, the Board submits that the increase in other costs, which includes Power purchase cost, employee cost, etc should be recovered from customers through an increase in tariffs or from Government as subsidy or through an alternative mechanism. The Board has prayed to the Commission for issuance of suitable directives for recovering subsidy of Rs 40 Crore.

4.5 The Commission in the tariff order for FY 2003-04 highlighted that the accounts of the JSEB for FY 2001-02 and FY 2002-03 had not been audited till the time of the issue of the order. It has also emphasized that this data uncertainly would have an impact on the tariff.

4.6 The Commission has also issued the following direction to the Board in the tariff order for FY 2003-40:

Qoute

The Commission directs the Board to come up with a new petition for FY 2004-05 removing the various data deficiencies highlighted throughout the tariff order. The Commission also directs the Board to audit the books of accounts for FY 2001-02 and FY 2002-03 and submit the same to the Commission by March 2004

Unquote

4.7 The Board did not submit any petition for FY 2004-05 or FY 2005-06 and its accounts since FY 2001-02 are also not yet audited.

4.8 In the absence of audited accounts since FY 2001-02, the Commission appointed a **Chartered Accountancy Firm** for the verification of the assets and liabilities of the JSEB. An important observation of the firm made in this regard was that the annual accounts submitted by JSEB to JSERC were provisional and they differed from the annual accounts finalized by JSEB. comments/observations were given by the Firm on the following areas: break up of all expenses, calculation of depreciation, list of assets, rates of depreciation, deprecation policy, source wise loan taken by JSEB, interest on loans, repayment schedule, asset base of unbundled JSB along with additions, deductions, accumulated depreciation and net block, detailed statement of 'asset not in use', contribution, grants and subsidies towards cost of capital assets, capital expenditure, working capital statement, power purchase costs, fuel cost of own plants, capitalization policy, number of consumers and sales, connected load, category wise revenue billed and revenue receivable , bad debts, area wise and transformer wise electricity distributed, billed and collected, non tariff income, assets lost due to fire and transmission charges.

4.9 JSEB was unable to provide substantial explanation for most of the above issues and in most cases; the figures could not be verified, as information was not provided by JSEB to the Accountancy Firm.

4.10 The report submitted to the Commission highlights the following:

"The accounts are compiled on the basis of cash trials and related details assuming that the documents sent by the accounting units are correct.

JSEB officials at compilation level are ignorant about details sent by the accounting units. Officials were also not able to explain any adjustments if any made by the accounting units.

'Accounting Units' and 'Inter units accounts' are never reconciled and many a times same data sent to Head Quarters at different points of time differs.

Data availability is also a big issue at JSEB. Memos are endorsed from Directors level to the Accounting Officers Level of the concerned department. Even then the data is either not made available or not made available in time."

4.11 The detailed report of the Chartered Accountant is given in Annexure 3 at page 202 of this order.

4.12 The Commission also received the remarks of **the Accountant General (Audit)** on the Accounts part of the tariff petition submitted by JSEB. The remarks received were on employee costs, repair and maintenance, depreciation and other components of ARR. The important comments of the Accountant General (Audit) are given below:

4.12.1 Employee cost

(a) Though the Board furnished a provisional figure of Rs 208.41 Crore towards employee cost for 2004-05, the actual figure as per the accounts (provisional) worked out to Rs 137.26 Crore. As the cost did not register any increase in FY 2005-06 over the previous year as per tariff petition, the same figure of Rs 137.26 Crore may be adopted for 2005-06. Accepting the increase of 5% in 2006-07 over previous year (as projected in tariff petition), the projected cost work out to Rs 144.12 Crore only.

(b) Creation of provision of Rs 60 Crore for pension corpus is a capital commitment for the Board and it cannot be treated as revenue requirement

(c) Thus, the projection of expenditure given for 2006-07 is very much on higher side. The estimate made in excess amounts to Rs 128.76 crore, which works out to 58% of additional revenue, expected from proposed tariff.

4.12.2 Repair and Maintenance

(a) The repair and maintenance expenses projected for 2006-07 is more than two fold of the actual figure for 2004-50. From 2001-02 to 2004-05, the R&M ranged between Rs 25 - 30 Crore per annum. Hence, the projection is very much on the higher side.

4.12.3 Depreciation

(a) The addition of assets projected for 2006-07 is nearly four times of additions made in 2004-05 which is very much of the higher side

(b) The depreciation rate goes on increasing from 5.11% (2004-05) to 5.52%(2006-07) as per the projections made in the tariff petition but the actual depreciation rate has been pegging around 5% during the period 2002-03 to 2004-05. Hence the depreciation-projected rate is on the higher side.

4.13 **The Audit Report (Civil and Commercial)** for the year ending 31st March 2005 also highlights the major issues with respect to the following in its review relating to Statutory Corporations.

(a) Computerized energy billing system of Ranchi Electricity Supply Circle of the JSEB

(b) Procurement, maintenance, repair and performance of transformers in JSEB

4.14 **Computerized energy billing system of Ranchi Electricity Supply Circle of the JSEB**

The Report states the following in its conclusions:

Quote

JSEB has outsourced electricity billing for the Ranchi Electricity Supply Circle to three external agencies who prepare and deliver computerized bills to the consumers falling under this supply circle. Audit found that the three external service providers prepared inaccurate bills by applying incorrect tariff, charges like energy charges were not billed and undue benefit was given to consumers. There were cases of short assessment, non-levy of delayed payment surcharge and time barred cases. Neither was the performance of the three external agencies monitored by JSEB nor was they penalized for non-fulfillment of contractual obligations like maintaining full address of consumers, making entry of security deposit in database and reviewing additional requirement of security deposit. As a result, JSEB lost revenue of Rs 20.52 Crore and Rs 85.74 Crore were blocked.

Unquote

4.15 **Computerized Procurement, maintenance, repair and performance of transformers in JSEB**

The Report states the following in its conclusions:

Quote

Performance of the Board with regard to procurement, maintenance, repair and performance of transformers was found to be deficient due to non-standardization of procedures, non-fixation of norms and absence of controls. The Board had not prepared any annual plan for procurement of transformers. No census of transformers procured, issued and commissioned was ever undertaken by the Board. Periodical maintenance of power and distribution transformers was not carried out resulting in high failure rate f distribution transformers. The Transformer Repair Workshops did not fix any norms for retrieval of materials form the repaired transformers. The Board did not standardize procedure to conduct auction in a systematic manner resulting in arbitrary auction of transformers and also in transformers lying idle at GSS yards. Due to non-fixation of norms/ration for transformation capacity among generation, transmission and distribution thereon the T&D loss was high. Monitoring and evaluation mechanisms and internal controls were not in place.

Unquote

4.16 The Commission would like to highlight at this point that the Board was unable to provide reliable estimates of category wise sales, number of consumers and connected load for the state. The reason provided was that billing process has been outsourced and therefore this information is not readily available with the JSEB. The

Commission is of the view that outsourcing of billing is not a valid reason for non-compilation of such basic but important data. When the other utilities in the county are moving towards institutionalizing Management Information Systems in the form of sophisticated systems like RIMS (Regulatory Information Management Systems), JSEB still struggles to maintain data on sale and consumers. Such a situation is unacceptable and the **Commission directs the Board to immediately start compiling this data on slab wise sales for each category, consumers and connected load.**

4.17 **The Commission expresses deep concern on the accounts not being audited since FY 2001-02. The Board has not filed the tariff revision petition since 2004 and has now requested for creation of Regulatory Asset. As per the National Tariff Policy, Regulatory Asset should be allowed only as an exception and not under business as usual conditions. Further, the Commission has been repeatedly reminding the Board that if they are exceeding their approved cost, they must file the tariff revision petition. However, the Board has remained totally indifferent and has filled no such tariff revision petition. The Commission therefore, is of the view that any such increase in cost is basically due to the Boards inefficient way of functioning. Hence, any such inefficient cost cannot be passed on to the consumers.**

4.18 **Further, in view of the above comments received from the Chartered Accountant, the Accountant General (Audit) and the Audit Report, the Commission is of the opinion that it cannot base its analysis on the information submitted by the JSEB in the form of provisional accounts. The Commission, therefore, for the purpose of this tariff order and the analysis contained therein has taken the figures approved by it in the tariff order issued for FY 2003-04 as the baseline data.**