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**POWER FINANCE CORPORATION  
LIMITED**

**MINISTRY OF POWER**

**COMMITTEE ON  
PUBLIC UNDERTAKINGS**

**1995-96**

**FIFTIETH REPORT**

**TENTH LOK SABHA**



सत्यमेव जयते

**LOK SABHA SECRETARIAT  
NEW DELHI**

**FIFTIETH REPORT**  
**COMMITTEE ON PUBLIC UNDERTAKINGS**  
**(1995-96)**

**(TENTH LOK SABHA)**

**POWER FINANCE CORPORATION LIMITED**  
**(MINISTRY OF POWER)**



*Presented to Lok Sabha on 7.3.1996*

*Laid in Rajya Sabha on 1.3.1996*

**LOK SABHA SECRETARIAT**  
**NEW DELHI**

*February, 1996/Phalgun, 1917 (Saka)*

**C.P.U. No. 769**

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**CORRIGENDA TO FIFTIETH REPORT OF  
COMMITTEE ON PUBLIC UNDERTAKINGS (1955-56)  
ON POWER FINANCE CORPORATION LTD.**

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# COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

CHAIRMAN

Shri Vilas Muttemwar

MEMBERS

## *Lok Sabha*

2. Shri Basudeb Acharia
3. Shri R. Anbarasu
4. Shri Chetan P.S. Chauhan
5. Shri Ramesh Chennithala
6. Shri Ram Sunder Dass
7. Shrimati Saroj Dubey
8. Prof. M. Kamson
9. Shri Guman Mal Lodha
10. Shri B.M. Mujahid
11. Shri Ramdew Ram
- \*12. Dr. C. Silvera
13. Km. Pushpa Devi Singh
14. Shri Pius Tirkey
15. Shri Virendra Singh

## *Rajya Sabha*

- \*\*16. Shri M.A. Baby
17. Shri R.K. Dhawan
18. Dr. Murli Manohar Joshi
19. Shri V. Narayanasamy
- \*\*\*20. Shri Santosh Kumar Sahu
21. Shri Pravat Kumar Samantaray
22. Shri G. Swaminathan

## SECRETARIAT

- |                            |                        |
|----------------------------|------------------------|
| 1. Shri G.L. Batra         | — Additional Secretary |
| 2. Smt. P.K. Sandhu        | — Deputy Secretary     |
| 3. Shri Raj Shekhar Sharma | — Assistant Director   |

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\* Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of Ministers w.e.f. 17 February, 1994.

\*\* Elected w.e.f. 12.8.1993 vice Shri Sunil Basu Ray ceased to be Member of the Committee w.e.f. 9.7.1993 consequent on his retirement from Rajya Sabha.

\*\*\* Ceased to be a Member of the Committee consequent upon the retirement from Rajya Sabha w.e.f. 2nd April, 1994.

# COMMITTEE ON PUBLIC UNDERTAKINGS (1995-96)

## CHAIRMAN

1. Sqn. Ldr. Kamal Chaudhry

## MEMBERS

### *Lok Sabha*

2. Shri E. Ahamed
- \*3. Shri Ayub Khan
4. Prof. Susanta Chakraborty
5. Shri Prithviraj D. Chavan
6. Shri B. Devarajan
7. Shri Oscar Fernandes
8. Smt. Sheela Gautam
9. Shri Anna Joshi
10. Prof. (Smt.) Savithiri Lakshmanan
11. Shri Balraj Passi
12. Dr. A.K. Patel
13. Smt. Suryakanta Patil
14. Shri Syed Sahabuddin
15. Shri Pius Tirkey

### *Rajya Sabha*

16. Shri Sanjay Dalmia
17. Shri Jagesh Desai
18. Shri Deepankar Mukherjee
- \*19. Shri Suresh Pachouri
20. Shri Vayalar Ravi
21. Shri Krishan Lal Sharma
22. Smt. Kamla Sinha

## SECRETARIAT

- |                       |                          |
|-----------------------|--------------------------|
| 1. Shri G.C. Malhotra | — <i>Joint Secretary</i> |
| 2. Smt. P.K. Sandhu   | — <i>Director</i>        |
| 3. Shri P.K. Grover   | — <i>Under Secretary</i> |

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\* Elected w.e.f. 22nd August, 1995 vice Shri Vilas Muttemwar resigned from the Committee. Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of Ministers w.e.f. 14th September, 1995.

\*\* Ceased to be a Member of the Committee consequent on his appointment as Minister in the Council of Ministers w.e.f. 15th September, 1995.

## INTRODUCTION

1. the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Fiftieth Report of the Committee on Public Undertakings (Tenth Lok Sabha) on Power Finance Corporation Limited.

2. The Committee on Public Undertakings (1993-94) took evidence of the representatives of Power Finance Corporation Limited on 13th and 27th January, 1994 and the representatives of Ministry of Power on 16th March, 1994. The Committee on Public Undertakings (1995-96) again took evidence of representatives of Power Finance Corporation Limited on 21st August, 1995 and the representatives of Ministry of Power on 4th October, 1995.

3. The Committee on Public Undertakings (1995-96) considered and adopted the Report at their sitting held on 13th February, 1996.

4. The Committee feel obliged to the Members of the Committee on Public Undertakings (1993-94) for the useful work done by them in taking evidence and sifting information. They would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

5. The Committee wish to express their thanks to Ministry of Power and Power Finance Corporation Limited for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Power and Power Finance Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

NEW DELHI;  
February 26, 1996  
Phalgun 7, 1917(S)

KAMAL CHAUDHRY,  
*Chairman,*  
*Committee on Public Undertakings.*



# **PART - A**

## **BACKGROUND ANALYSES**

### **I. ROLE AND OBJECTIVES**

#### ***A. Historical Background***

1.1 The genesis of the idea of creating a term-finance institution, especially for power development, can be traced back to early 1980s. In 1983, the issue was taken up by the Advisory Board on Energy appointed by the Government of India and in an inter-departmental meeting held in the Planning Commission in February, 1984. Department of Power (now Ministry of Power), Government of India, also examined in detail the need for creating a Development Financial Institution for the Power Sector and prepared a background paper which was considered by the Government at the senior officers' level. It was generally agreed that there was an urgent need for creation of such a financial institution for mobilizing and disbursing funds, supplementary to what is provided under the normal planning processes. Government of India accepted the proposal of Department of Power and thus the Power Finance Corporation Limited (PFC) came into existence in July, 1986. It started its lending operations from the last quarter of the year 1987-88.

#### ***B. Role and Objectives***

1.2 The main objects of PFC, as set out in the Memorandum and Articles of Association, are to finance:

- Power Projects, in particular thermal and hydro-electric projects;
- Power transmission and distribution works;
- renovation and modernisation of power plants aimed at improving availability and performance of such plants;
- system improvement and energy conservation schemes;
- survey and investigation of power projects;
- maintenance and repair of capital equipment including facilities for repair of such equipment, training of engineers and other personnel employed in generation, transmission and distribution of power; and
- studies, schemes, experiments and research activities associated with various aspects of technology in power development and supply.

1.3 According to the Corporation consistent with the role of PFC as a development financial institution for the Power Sector, its operations over

the years have become comprehensive and cover rendering of financial assistance to power projects, giving guarantee for credits availed by project executing agencies, imparting training and arranging consultancy services and other measures leading to their institutional development.

1.4 However, in view of the fact that the Power Sector in the States own and operate a major proportion of power systems in the country, the financial assistance from PFC till recently is stated to have been almost confined to the State Power Utilities i.e. States Electricity Boards (SEBs), State Power Generation Corporations (SGCs) and, where these do not exist, the State Power Departments.

1.5 In this connection, the Committee enquired as to how far the Corporation has been successful in fulfilling its role in the Power Sector. During the course of examination of the representatives of Power Finance Corporation Limited (PFC), the Chairman and Managing Director (CMD), PFC in his evidence stated as follows:

"When we started we initially gave loans for the generation projects, co-funded some of them, the critical ones which were languishing. Over the years our priority has changed, giving priority to getting more out of what is already there, that is, the facilities that have been set up there in the generation side for renovation or for getting modernisation; on the transmission side improve the power that is already there and have a bigger transmission system. We have given a very high priority to system improvement whereby the quality of power improves through voltage stabilisation, through reduction in transmission losses and other such losses through installation of capacitors. We are also encouraging better servicing of the consumers. This is a latter day development which we are trying to emphasise on the state power sector by having a better method of metering, billing and collection, satisfying consumer as also meeting the legitimate revenue requirements of the corporation. We are still financing or are the co-funders for generation plants but because they require lot of money we come in at the crucial stage near commissioning, when need is felt for extra funds."

1.6 Elaborating the change over of PFC's role from merely a lending institution to development finance institution, the witness continued:

"Initially we started as a mere lending institution. Over the years, we started developing what is known as development finance institution whereby we sit together with our borrowers and try to help them in their own working. Our lending facilities are to meet the objectives of our shareholders — the Central Government which expects us to do it and they must also lead to a better working of the power sector, at least the borrowers of the PFC. In that context towards the end of 1990 and the beginning of 1991 we

have evolved a system of improvement of the state power sector through what are called "operational and financial action plans (OFAPs)."

1.7 It has been stated in a note given by PFC that as a Development Financial Institution in Power Sector, PFC has been striving to help bring about a progressive improvement in the working of its borrowers, which have mainly been the State Power Utilities, SEBs and SGCs. Towards this, it has been laid down in the Operation Policy Statement (OPS) of PFC that only those State Power Utilities which are agreeable to evolve a time-bound action plan to bring about operational and financial improvement in their working would be eligible for PFC loan. This plan, called Operational and Financial Action Plan (OFAP) was to be evolved by each utility with the assistance of PFC and got approved by the respective Boards, State Government and PFC. So far 19 SEBs, SGCs, etc. have formulated OFAPs accepted by their Boards/State Governments and PFC.

1.8 During the evidence of representatives of Ministry of Power on 16 March, 1994 in connection with the examination of PFC, on the role and objectives of the Corporation, the Secretary, Ministry of Power stated as follows:

"The Corporation has travelled a good distance, but, I believe, it has many more miles to go. There are, three or four important roles of the Corporation. The first is as term lender; second role is as a channel, as an assessing agency for international assistance; the third role is as developmental financial institution for the sector as a whole; the fourth role is an institutional builder."

1.9 During subsequent evidence of the representatives of the Ministry on 4 October, 1995, the Secretary, Ministry of Power stated:

"In the initial years of its operations, PFC acted as a term lending agency and gave thrust to the completion of on-going generation projects in the States which had been languishing for shortage of funds. From 1988-89, PFC was entrusted the task of financing, renovation and modernisation programmes of thermal power plants. The focus of lending operations of PFC shifted during the Eighth Five Year Plan towards strengthening transmission and distribution schemes and system improvement which hitherto had received low priority from SEBs. Two major external loans, totalling over US \$ 500 millions were raised by PFC for systems improvement and R&M schemes. These funds have now been fully committed. Through the funds made available for renovation and modernisation, PFC has enabled increased generation of around 10,000 million units per year which is equivalent to 2000 MW of installed capacity. Its financing of transmission and distribution schemes have resulted in addition of 13,226 circuit kilometers of transmission lines and in supporting 23,564 circuit kilometers. It

has also assisted in commencing of 6,262 MVAR shunt capacitors. Further, it has also helped in completion of thermal and hydel generation capacity addition of 8,940 MW thermal and 780 MW hydel."

1.10 Commenting on the role played by PFC in bringing about institutional development in the State Power Sector, the Secretary, Ministry of Power stated in evidence:

"The Power Finance Corporation has also played a significant part in bringing about institutional improvements in the state sector which is a complex and challenging task. While we certainly cannot claim that the state sector has turned around, we do see signs of improvements. When the PFC began its lending process in 1987-88, only two SEBs had a rate of return of more than 3 per cent. Today, I am happy to report that 11 SEBs have recorded rate of return of 3 per cent or more as per their 1993-94 accounts."

1.11 On being pointed out that the role of PFC in the development of power sector was negligible since the Corporation was providing financial assistance to SEBs by way of supplementing plan assistance, the CMD, PFC stated during evidence:

"Yes Sir. But we are doing more than that. Had it been only for supplementing the projects which had been plan funded, we would not have been doing the sanctioning of the projects to the extent of 80 per cent. Basically it is 100 per cent as 20 per cent accounts for overheads of utilities. We would like to give even beyond the existing limits."

A representative of PFC added:—

"Sir, when we say 'supplementing the plan' it means, it can be taken from 0 to 100 per cent. For example, there can be 10 per cent of the plan allocation. There can be another situation when there is a 50 per cent plan allocation. These are different situations. We submit that our role is not negligible. In the sense that we are giving thrust to some major areas which were neglected earlier included transmission, distribution, where major losses were there, and we made a very significant contribution there. In the R&M during the 7th and 8th plans our contribution has been quite substantial."

1.12 In this connection, the Secretary, Ministry of Power stated in evidence as follows:

"If you take the progress that have been made by the PFC in the last six or seven years, I would say that a beginning has been made, and a good beginning has been made. It will be very difficult if you ask whether it should supplant rather than supplement funding in the power sector. The requirement of power sector in the whole country is very substantial. No single institution

will be able to supplant. It can only supplement. From this point of view if you see that, they have mobilised about Rs. 8,000 crore. It is in addition to the resources otherwise available to the Electricity Boards. Out of these Rs. 8,000 crore, it has already disbursed Rs. 5,300 crore. What happens is that when Electricity Boards take up some programmes and if the required money is not available at the appropriate time, the money that is available remains idle. Suppose Rs. 1,500 crore is needed and we have only Rs. 1,200 crore. For want of Rs. 300 crore this Rs. 1,200 crore remains idle. Since Electricity Boards are not financially sound, they have not been able to go out and raise bonds in the market. But this organisation is able to mobilise some funds from multilateral agencies like ADB. We could get funds from KFW."

1.13 However, on the role being played by PFC in the power sector, the Secretary, Ministry of Power, conceded during evidence:—

"But we do admit that we can do better."

1.14 The Committee wanted to know whether with the liberalised policies of the Government, there was need to redefine the role of PFC, with a view to widening the scope of its functioning. Replying to this, the Secretary, Ministry of Power stated in evidence as follows:—

"PFC was created primarily to assist the Electricity Boards. I think as far as the role of the PFC and Electricity Boards is concerned, there is no change in the thinking of the Government of India. It is still the same. It will continue to play the role and play its role in a much bigger way. Electricity Boards are the ones which are devoid of funds. If you take the private sector they have got access not only to internal sources but also to external sources. So, our basic roles of assisting the Electricity Boards will continue."

1.15 Commenting on a change in PFC's initial policy to confine funding operations to power projects only in the state sector, the Secretary, Ministry of Power stated in evidence as follows:

"Over the period, the business environment for the PFC has become increasingly competitive. Generation of power has now been opened to the private sector. Bilateral and multilateral agencies have started direct funding to State power utilities, and the Indian financial institutions have also taken up financing of generation projects in the power sector. In order to cope with these developments, the PFC's Boards has also decided in March 1995 to finance private sector power projects, both in the field of generation and distribution."

In this connection, the CMD, PFC stated during evidence:

"We are having a dialogue with some of the existing private utilities who approached us in the beginning. We would give some sanctions to them also."

*C. Eighth Five Year Plan Prospects*

1.16 The Central Electricity Authority had estimated that a capacity addition of 48,000 MW would be required during the 8th Five Year Plan period. Based on the resources available for the 8th Plan, the target fixed by the Planning Commission for a capacity addition was 30,537 MW, which included a capacity addition of 2,810 MW from the private sector. Out of the capacity addition of 27,727 MW in the public sector planned during the Plan period the break up into thermal, hydro and nuclear was stated to be as under:

	Capacity Addition (MW) (State & Central Sector)
Thermal	16507
Hydro	10120
Nuclear	1100
Total	27,727

1.17 It has also been stated that in the context of liberalisation the growth rate of demand for electricity which is around 9% is bound to go up further. PFC in a note stated that according to the 14th Electricity Power Survey of India, published by Central Electric Authority energy requirement and peak demand at the end of the various 5 year plans is as follows:—

	Energy Requirement (MKWH)	Peak Demand (MW)
At the end of 8th Plan	359612	63670
At the end of 9th Plan	517005	91191
At the end of 10th Plan	726096	127401

1.18 According to the Ministry of Power the capacity addition made during the first three years of the 8th Five Year Plan is as follows:—

Year	Capacity additon in MW
1992-93	3537.27
1993-94	4538.75
1994-95	4598.50
	12674.52

1.19 The Ministry subsequently informed that based on the likely capacity addition of 20,729.7 MW during the 8th Five Year Plan, the likely power supply position at the end of the 8th Five Year Plan (1996-97) will be as follows:

	Shortage (%)
Peak Demand	28.9
Energy	14.7

1.20 Explaining the phenomenon, the Secretary, Ministry of Power stated in evidence as follows:

“What was really estimated for the Eighth Five Year Plan is about 48,000 MW to be added. This was based on one of the surveys conducted by the CEA. For every plan we conduct a survey. So we required an additional capacity of about 48,000 MW to really meet the growing demand for power. Over a period of time, when we reviewed this taking into consideration the projects already in progress or the project which could be started, at that point of time it was estimated that we would be able to meet, at the most, about 30,000 MW during the Eighth Plan. When we undertook a mid-term review up to 1994-95 we had found out that we had done about 12,600 MW. That means in the remaining two years, that is, in the current year and the next year, we will have to see that 8,000—10,000 MW is added. But actually, in the current plan, we may not be able to go beyond 28,000 MW. If we touch 28,000 MW itself, I think, it will be a major achievement. One of the major reasons for this installed capacity going down is because of the lack of funds with the electricity Boards.”

1.21 Explaining the reasons for shortfall in capacity addition, Ministry of Power stated in a note:

“The slippage is due to the fact that there have been changes in the sectoral emphasis in the State Plans. Even for ongoing generating schemes there has been a slowing down of funding in some States. There have also been delays in the private sector generation. In addition, there were many project-specific problems which adversely affected the project implementation, such as:—

- (a) Procedural delays in the resolution of inter-state disputes and problems due to the disputed site conditions at some projects.
- (b) The unresolved issues in fuel linkages.
- (c) Suspension of works due to contract failures.
- (d) Finalisation of executing agencies.”

1.22 When the Committee pointed out that in view of the fact that allocated funds were inadequate to meet the plan targets, Planning Commission should have been approached to increase the allocation and reduce the target, the Secretary, Ministry of Power stated in evidence:

"We have taken up with the Planning Commission both for allocation of more funds and for reduction of targets. We have taken up these two issues with the Planning Commission. We presume that the Planning Commission will make available some additional funds to us. Though we operate at the level of 30,000 MW yet we knew that we will not be successful. Unfortunately, additional funds have not been given to us. Actually, when we go for the revised budget we do plead with them that we require some additional funds and they may be made available to us. Rs. 49,000 crores is earmarked for the generating sets."

1.23 Commenting on the role of PFC in the sphere of capacity addition in the power sector, the secretary, Ministry of Power stated as follows:

"As far as installed capacity is concerned, PFC has a very very limited role to play. This amount of, say, Rs. 50,000 which is for generation of power for the country, is to come from the State Electricity Boards as well as whatever you get from the Central Plan. As far as the role of PFC in the generation of power is concerned, it has been mostly concentrating on renovation and modernisation of the existing thermal and hydro power plants and also on creating new power plants."

1.24 The Planning Commission has stated in the 8th Plan document as follows:

"The Eighth Plan will lay emphasis on improvements in the operation of the existing thermal generation units and other plant and equipment, reduction in the technical losses of the power system, improvement in the financial performance of the Central and State electricity undertakings and expeditious project implementation to minimise time and cost overruns. The Eighth Plan will place considerable emphasis on improving the reliability of power supplies to consumers in different parts of the country and promote access to the benefits of electricity in rural areas, especially for agricultural consumers."

1.25 The Committee note that the 8th Plan document has listed out Renovation & Modernisation Programme, reduction in T&D losses, etc. as thrust areas for the plan period.



## **II. LENDING OPERATIONS**

**2.1** Energy deficit in the terminal year of the 8th Five Year Plan was estimated to be around 9%. In addition to this, the growth rate of demand for electricity is bound to go up further with the liberalisation of economy. The Committee wanted to know the measures contemplated by PFC to reduce the gap between demand and supply in the power sector. The CMD, PFC replied during evidence:

“After the privatisation policy introduced by the Government of India, the generation capacity is planned to be added increasingly by independent power producers. If that continues, then the demand and supply gap in the power sector can be reduced by the following measures; (i) by giving emphasis on strengthening transmission and distribution network which we are already doing to maximize the existing capacity utilisation, (ii) by following some improvement measures to reduce the losses and to increase the efficiency so as to increase the availability and utilisation of power and (iii) by promoting life extension to increase the availability of units. I fully agree that preference should be given to the old plants so as to rejuvenate them and also for diversified efforts to finance private sector, Central sector and State sector.”

**2.2** From the easy flowing generation schemes, the following major areas have been identified by PFC for providing financial assistance on priority basis:

- (a) Power System improvements, such as installation of capacitors;
- (b) Improvement in Power Distribution in the urban areas;
- (c) (i) Renovation & Modernisation of Transmission Systems.  
(ii) New Transmission Systems.
- (d) Renovation & Modernisation of Generation Projects.
- (e) Generation Projects.

### **A. Power System Improvement**

**2.3** Emphasising the need for system improvement to check transmission and distribution loss of power, the Chairman, CEA stated during evidence as follows:

“One of the essential components for reducing the loss is the system improvement schemes. Wherever the distribution network is not adequate the lines are getting loaded. They have to improve it by adding one more line or by putting larger conductor to bring in system improvement. The other factor is the installation of the

capacitors which is very important for the reduction of the losses because they boost the voltage and reduce the loss. PFC finances both the system improvement and also the installation of capacitor programme. The schemes have to be made by the different boards and these schemes are sent to PFC; depending on the criteria, they are giving the loan."

2.4 PFC informed that in the sphere of system improvement they had installed 8262 MVARs out of 8402 MVARs sanctioned. The amount sanctioned for installation of capacitors upto 31 March, 1995 was Rs. 274.65 crores and the amount disbursed was Rs. 211.98 crores.

2.5 Commenting on the priority accorded to system improvement by PFC, the Secretary, Ministry of Power stated during evidence as follows:

"Sir, our major concern is about the system improvement in T&D losses by installing capacitors. One major role for PFC is funding of the installation of capacitors. Once a capacitor is installed, it reduces the losses in the system. In fact, they have added 6,200 MVAR capacitors. That is one major programme which is being carried out. Once the capacitor is installed, it will improve the voltage fluctuations and it will also reduce the T&D losses. This is a major achievement. In fact, if I am given the choice I would in the PFC only recommend for the capacitors for the entire country which will ultimately improve the service and will also save millions and millions of rupees.

In addition to this we are also funding urban distribution and system improvement programme as our transmission and distribution network is very poor which in turn results into so many breakdowns and disturbances. Once the system is improved, the quality of supply to consumer will also improve. So, we are of the view that we should spend more and more for system improvement."

2.6 Giving further details, the Secretary, Ministry of Power stated in evidence:

"Sir, the major thrust of capacitor installation is on transmission line. But the capacitors are also installed at the consumer point at 11 KV. and 33 KV. Sir, the consumers can install their own capacitors which will reduce the losses in the normal transmission."

On increased use of capacitors, the witness added:—

"REC and PFC are doing a very good job in this respect. They have also given the technical specifications as to what should be the size of the capacitors and as to what should be evolved. A lot of units are producing capacitors when compared to five years ago. We found that they are not adequate. Realising this, a lot of

units have come up. People are coming up with innovative measures. They are ready to lend them on lease."

2.7 In addition to this, PFC has also been giving loans for ancillary activities such as systems for better metering, billing and collection of dues, communication projects, computerisation of power projects, etc. Elaborating this, the CMD, PFC stated in evidence:

"Basically, these are enabling projects for promotional activities as well as to bring about the over all change in the management of the utilities as also the containment of T&D losses by way of system improvement. It covers Statewide computerisation, linking of all the outlying offices of the Boards with the Central Headquarters either through telephone line or through the HF & VHF, microwave communication system or through satellite so that they have the management information as well as the revenue collections and meter billing. It would also support them to reorganize themselves and manage their functions properly so that quick decisions at the Headquarters level could be taken."

2.8 When the Committee suggested that PFC could assist SEBs to introduce the electronic meter system developed with tamper proof system as a measure of system improvement the CMD, PFC stated in evidence:

"Whenever you introduce a system, one will find a way to defeat it. We have had organized national level workshops on the metering technology which is available indigenously and we had involved the manufacturers also in it. We had also involved all the utilities, Central Electricity Authority and the Power sector personnel. The recommendations which came from that is the graceful change over from the existing Electro-mechanical metering which has served us well. The second one is the static meter, that is, the electronic meter system where all these could be provided. If anybody tampers, it will stop; it will record the date and time at which the tampering was done and it will speak by itself.

Now following those recommendations, we have sanctioned some projects. I mean, we disseminated the recommendation to all the utilities and then we take up with them to work on it. If proposal gets materialised, such kind of meters would be installed in some of the projects which we have already sanctioned. We also involve the indigenous manufacturers. The main complaint from the users, the utilities was that the meter supplied was not a reliable one. So, in order to increase the dependability, we are also involving the BIS (Bureau of Indian Standards) to see whether they could develop some standards or specifications and also to see that whatever product comes out of indigenous manufacturing to be sold to the utilities and then to the consumer is a very reliable and dependable one. I cannot say that there is a lot of progress in

that, but there is a definite direction given to this and many of the utilities have gone for the electrostatic meters."

2.9 In a subsequent written information furnished to the Committee the Ministry of Power gave an account of the steps already taken by PFC in this regard:

"PFC has accordingly sanctioned loans for installation of over five lakhs electro-mechanical meters and over eleven thousand high accuracy H.T./L.T. electronic trivector meters. Installation of high accuracy electronic trivector meters which are less prone to tampering has helped SEBs in improved revenue realisation."

#### **B. Renovation & Modernisation (R & M)**

2.10 According to the Corporation, Government had been emphasising on a better utilisation of the existing installed capacity for generation. A number of plants throughout the country, both the thermal and hydro generation needed renovation & modernisation (R & M), but this had generally been neglected in the past by the respective SEBs for various reasons including paucity of resources. Thus, both in the 7th and 8th plans, a programme of R & M of power projects was drawn up, and is being implemented. PFC has been providing funds for this programme over and above the plan allocations made under this head to the SEBs.

2.11 The Committee enquired about the concrete steps taken by PFC in conformity with the emphasis given by Government for better utilisation of existing facilities. In reply, the CMD, PFC stated during evidence on 13 January, 1994 as follows:

"....Priority is being given to better utilisation of the existing facilities because it is cheaper to get extra megawatts out of what one has. Steps are being taken to prepare projects for renovation, modernisation for transmission, upgradation and they are being financed by us. Apart from our own resources, we have got two loans in the immediate past, one from the World Bank of 265 million dollars and another from the Asian Development Bank of 250 million dollars primarily for bringing improvement in the field of the State Power Sector. For that projects have been identified or are in the process of being identified. These loans have been sanctioned for that purpose so that we would have resources of the PFC, and also the resources of the State Plans, plus the resources of the international financing agencies which would act as a catalyst in this process."

2.12 Highlighting the priority accorded to Renovation and Modernisation of Plants by the Corporation the witness stated in evidence:

"One area was R & M and R & U of the plants, that is, both thermal as well as hydro plants. In that, till March 1995 PFC has sanctioned 73 loans for R & M of thermal power plants and 17

loans for renovation and uprating of hydro plants aggregating to about Rs. 465.15 crores and Rs. 219.65 crores respectively."

In this connection, the witness added:

"Both the activities of renovation and modernisation, as a matter of fact, basically are connected with refurbishment. Suppose, in a plant, there is a core equipment and if that still appears to be very agile and can be used for a longer period but the other paraphernal systems like, instrumentation, controls or oil systems plus the life extension assessment reveals that if by strengthening it we can get better service from the existing equipment, we would do that."

2.13 Suggesting life extension study of existing old power plants for refurbishment, a representative of PFC stated in evidence:

"There are many power stations where the units are more than twenty years old. We are suggesting that a detailed and systematic life extension study should be carried out. This technique has been developed in many of the Western countries where they have brought down cost of modernisation and renovation."

2.14 Asked about the role PFC could play in conducting Life Extension Study of power plants, the witness stated:

"PFC will assist the SEBs to conduct this study."

Elaborating this the CMD, PFC added:

"Life Extension Studies have been developed and conducted mostly in developed countries. So, we already have an arrangement with the Americans that they come here, take up a few pilot projects, conduct the studies, gave the results, and in the process, train those who are running that plant. We have also identified two public sector companies, BHEL and NTPC, which will get the technology transferred to them through assistance which is thus being given by PFC. We are also trying to negotiate with one or two other countries which have already conducted the life-extension studies. They are Australia and Germany. Once the plant is very old, there are two options. Either we have to let them close down or replace them. What these countries have found out is that by marginal replacement of critical parts and by adopting various other techniques, a very effective plant can be set up there itself and it is not necessary to scrap the whole plant."

2.15 On renovation and modernisation drive initiated by PFC, the Secretary, Ministry of Power stated in evidence as follows:

"One of the priority items that have been identified by PFC, is the renovation and modernisation of the existing power stations. In the Power Ministry, we have identified the power stations which really require some funding assistance. In Phase-I, we had got almost 45

power stations. This was implemented from early eighties to almost about 1986 or 1987. During the first few years of that period, the PFC had spent about Rs. 174 crore on the renovation and modernisation of the power stations. This was up to 1988-89. Thereafter, we have taken up the second phase. In the second phase, PFC has sanctioned almost Rs. 680 crore, out of which we have already disbursed nearly Rs. 400 crore. When the renovation and modernisation programmes were carried out, we made an assessment of the progress that we have made. We found that we are able to generate additional power to the extent of about 10,000 million units in a year. In terms of the installed capacity, it comes to about 2,000 MWs. This is the improvement that has been made. I think the PFC made some contribution in this respect."

2.16 On the importance assigned to Renovation and Modernisation of power plants, the Secretary, Ministry of Power added:

"Renovation and modernisation is on priority where a minor modification in the generating set, with least investment can produce maximum benefit."

2.17 Giving the details of sanctions and disbursements made for R & M of thermal projects, the CMD, PFC stated in evidence:

"Regarding R & M of the thermal generation, till March, 1995, the number of loans sanctioned was 73 for the amount of Rs. 465.15 crores and the disbursement was Rs. 277 crores.

2.18 It was stated that the funds required for renovation and modernisation of plants work out much less as compared to setting up of new plant. However, it is seen that funds sanctioned for R & M of thermal plants by PFC had been on the declining trend i.e. from Rs. 106 crores in 1991-92 to Rs. 74 crores in 1992-93, Rs. 29 crores in 1993-94 and Rs. 39 crores in 1994-95. Commenting on this, a representative of PFC stated in evidence as follows:

"Sir, in the R & M Schemes the amount is actually depending on the need. So, the reduction or an increase is actually not an indicator of performance. Actually speaking, we gave the loans when it is most useful and in that sense, it can be increased or decreased in a type of scheme. One scheme may cost Rs. 5 crore and another may cost Rs. 15 crore depending upon the usefulness."

2.19 The Committee were informed that with R & M undertaken in the Seventh Plan period, PFC was able to improve PLF from 46% to 53%. Pointing out that the minimum PLF expected is 68.5%, the Committee enquired whether it was worthwhile to invest in R & M projects. A representative of PFC stated in reply during evidence:

"Sir, I would like to submit that PLF is dependent on two factors. First, on the availability of the plant and as to how many hours in a year it is ready to operate and generate. Second, on the load demand which means what is the difference in the peak and the valley and the requirement. Now, considering the peak and the valley, if you see between the summer and the winter the difference is of the order of about 30 per cent and if you see the difference between the day and the night itself, the demand in power goes down upto 40 per cent. So, there is an inherent characteristic of the load demand which dictates the PLF and to that extent, 65—70 per cent which we are talking about is really not achievable on all India basis, if we want to meet all the peaks with installed capacity. Now, if we want to achieve all the peaks, the average PLF which we can expect is of the order of 50—60. If you see in the countries where there is sufficient generating capacity available — for example in the USA, the plant load factor there is very much 50—55 per cent, there also it is the availability they are quoting, which you are rightly saying and it can go even to 90% or beyond. So, the actual situation of a unit and how far it is utilised dictates the PLF. In fact, in certain situations where we are having a Power Purchase Agreement with private investors, we tell them that we will pay for a given Plant Load Factor because the load requirement is not in the hands of the IPPs. Basically, it is the availability of the units which is the real indicator."

2.20 During the evidence of the Ministry, when it was pointed out that there was a steep decline in the amount sanctioned by PFC for R & M of thermal power plants, the Secretary, Ministry of Power conceded before the Committee:

"Sir, what you mentioned is correct, it has gone down. We started with Rs. 100 crore. Finally, it landed at Rs. 29 crore in 1992-93. In fact the trend should really increase. This year we are going to spend Rs. 55.50 crore. Sir, the reason again, is ineligibility of some of the State Electricity Boards who really get these funds. Some State Electricity Boards are not making the payments of the loans which they had taken earlier. This is how, the trend has gone down. As I mentioned this is certainly very cheap. We get the best of it. I think this is one area where we need to concentrate more."

2.21 When the Committee suggested that it would be desirable to give more thrust to renovation and modernisation of existing power plants for minimising the power shortage in the country keeping in view the relative advantages of economy and time, the Secretary, Ministry of

Power was fully in agreement with the view. He stated before the Committee as follows:

"I fully agree with you that more thrust should be given to R & M of existing power plants. In this regard we are coming out with some guidelines to involve the private sector because in some of the plants even now the plant load factor is only 30 per cent. So, we are wanting that some of the plants could be given on lease to the private sector on some terms and conditions. During their lease period, we are going to have a contract system. We will very soon be coming out with the guidelines as to how to really involve the private sector in this field."

### *C. Transmission and Distribution (T & D)*

2.22 It has been stated that a greater emphasis on transmission & distribution schemes is being laid in recent years in order to ensure that the power generated is evacuated in time and reaches the various categories of consumers with minimum losses. Accordingly, PFC has been giving priority lending to such schemes.

2.23 The Committee enquired about the contribution made by PFC in reducing transmission and distribution losses of the SEBs/SGCs and other utilities. The CMD, PFC during evidence on 13 January, 1994 informed the Committee as follows:

"I would like to say that within a week from today, we are having a Seminar in Delhi, aided internationally in which for three days we are going to discuss this subject threadbare. We will also be finding out solutions to the problems which are known now, in that Seminar. We will be discussing not only about the transmission losses and those during distribution, but also about the loss due to thefts. On the first day we will be discussing the power thefts and on the second and third days we will be discussing the transmission loss as such. We are hopeful that mutual exchange of views will be there. We will also be getting the consultants from outside to know what is happening in other developing countries, forgetting about the developed ones. As far as the power thefts are concerned, we have been, during our meetings with the State Electricity Boards suggesting that as a part of the administrative machinery, they should strengthen the vigilance staff and to take other steps which are necessary. In case any assistance from PFC is necessary for their projects on reduction of the transmission loss, we would be definitely considering them."

2.24 On the same subject, the Chairman, CEA during his evidence before the Committee stated:

"The transmission and distribution losses have two components. One is the technical loss and the others is the commercial loss. As



far as the technical loss is concerned, whenever the electric current flows, there will be some loss. In our country, because of the large network and the large low voltage network because of rural electrification, etc., the losses are more. In the transmission systems of 400 KV, 220 KV etc., the loss is only four percent. It is in the 66 KV and below that the major portion of the loss is taking place."

**2.25** Describing the role played by PFC in this sphere, the CMD, PFC stated in evidence as follows:

"The main concern was of looking after strengthening of transmission and distribution projects as well as system for containment of T&D losses. In that the PFC has upto March, 1995 provided financial assistance of Rs. 274.65 crore for 42 capacitor schemes and Rs. 2942 crore for 283 transmission schemes and Rs. 1002 crore for 158 urban distribution schemes."

**2.26** The Committee were informed that out of Rs. 2960.24 crores sanctioned for transmission schemes only Rs. 1494.14 crores were disbursed and out of Rs. 1002.29 crores sanctioned for distribution schemes, only an amount of Rs. 435.83 crores was disbursed upto March, 1995. Only 48 projects out of 170 sanctioned were completed.

**2.27** Giving the details, a representative of PFC stated in evidence:

"In total 158 sanctions for Urban Development schemes were given till March, 1995; and another 12 sanctions were given after March, 1995. Out of this, 48 schemes have been completed fully and the work is going on in 122 schemes at the moment. So these 122 schemes will be completed in the next two to three years period."

**2.28** When it was pointed out that out of the sanctioned amount only less than 50% was disbursed, the Chairman, PFC stated:

"The projects which we have sanctioned have got a certain gestation period. The implementation needs some two-three years' time. Hence, the sanction if made some three years ago, the disbursement is being made in this year."

**2.29** It was pointed out that a large percentage of revenue was lost on account of commercial losses, mainly theft of power. During a survey conducted by an American firm in Gujarat it was found that out of 23% T&D losses, actual technical loss was not more than 10 to 12%. Agreeing with this view, the Secretary, Ministry of Power stated in evidence:

"You are very true. Today T&D losses account for 21-22 percent. If you take energy from somewhere in Nagpur to some farthest corner of Bombay, obviously technical losses will be there. It depends upon the type of line you have. If you have 400 KV line, the technical losses is very less. If you have 220 KV line, the

technical loss will be more and if it is 132 KV line, the technical loss will be little more. As far as India is concerned, 10 to 12 percent technical loss could certainly be allowed. But if you allow the transmission system where you provide for redundancy, even that 12 percent can be brought down. We have impressed upon the Electricity Boards to take whatever action they feel fit in this regard. Now theft of power has been made a cognizable offence under the law. SEBs are having surveillance squads. We are giving importance to better supervision, better management and better control on the theft of energy. This is one of the weakest areas."

2.30 Elaborating the need to check commercial loss, the Chairman, CEA stated during evidence:

"In C.E.A., we have issued guidelines to the various SEBs for reduction of T&D losses and also for energy audit. Of course, to control the theft and to have a check, tamper proof materials are to be installed. They are now available at the substations. We can certainly know how much power is sent, how much is the billing. The difference can tell us where the theft is taking place. If the energy audit is done by the SEB, certainly this can be taken care of. Mostly, it is the administrative action which has to be taken by them. Major distribution loss takes place at the lower voltage network. We have been suggesting LT less system so that the losses are reduced. That brings down the technical loss considerably."

2.31 The Committee pointed out that while focussing on increasing power generation it was necessary to improve the transmission and distribution network. This was all the more important since private sector was also involved in power generation whereas transmission and distribution had to be looked after mainly by the States. Sharing the views of the Committee, the Secretary, Ministry of Power stated in evidence:

"Our own experience says that if you spend about 50% of the funds on the generation, another 50% should be spent on the distribution and transmission. Unfortunately, it is not really happening in practice. In fact, while we spend about 70% of the plan on the generation, 30% is going for transmission and distribution. This is not a very healthy sign. This is one of the reasons why the Government of India said that we should go in for more and more private sector generation. This is with an intention that whatever money you are saving in the generation should be put in the transmission and distribution. But in actual practice what is happening is that every State Government has so many other priorities and whatever money they are saving on the generation side, they are putting on other programmes. But transmission and distribution continue to get the same fraction of

amount. Instead of 30% we are now getting about 50%, whereas having saved 70% on the generation side, 100% amount should have come here. But this is not happening. That is why it has become necessary for us to think whether we can really go ahead with the introduction of private sector in the field of distribution also. If we leave it only to the Government sector, I certainly feel that we will never be able to improve the quantitative and qualitative requirement of the consumers. This is one area where we are concentrating. Some of the States are giving distribution to the private sector. Orissa is an example where they have drafted the private sector to take up the distribution of power. Over a period of time we should certainly see more investment on transmission and distribution. If that does not happen, then we will have to per force go in for the private sector."

#### ***D. Funding of Municipal, Joint and Private Sector***

2.32 According to Economic Survey (1994-95) in the context of paucity of resources with Central/State PSUs and SEBs to bridge the gap between the rapidly growing demand and supply of power, a policy to encourage greater investments by private enterprises in the power sector with the objective of mobilising additional resources for capacity addition in power generation and distribution had been formulated in 1991 and was under implementation.

2.33 In view of the fact that over 90% of the power system in the country is under the control of State, the lending by PFC had nearly been to the State Power Utilities, i.e. SEBs and SGCs. However, the Corporation had reportedly been approached in the recent years by power utilities other than these e.g. those in Municipal Sector, such as BEST, in the Joint Sector such as DVC, and even private sector such as A.E.C. for assistance in the light of resource crunch even at the Central level, requests were received from the PSUs in the Power Sector such as Power Grid Corporation, National Hydro-electric Power Corporation, etc. for financing their projects. However, it had to be seen by PFC whether the same was possible in the context of its equity structure and resource mobilization, and without adversely affecting its traditional goal of financing the State Power Utilities.

2.34 A US \$ 20 million Technical Assistance Project (TAP) loan for private power development had been set up with the assistance of World Bank. Describing the areas covered under the project, the CMD, PFC stated in evidence:

"We have had extensive discussion with the State Electricity Boards. We are going to give constancy financing for three types of consultants basically, and for three areas. The areas are the evaluation of the existing proposals which may have come to the State Electricity Board by the private party, whether they are

Indian residents in this country, non-resident Indians or foreigners, and then working out alternate proposals sittings together with negotiation. Before we came in the picture, this practice as followed by Maharashtra State Electricity Board through direct aid from the World Bank. We got to know of that experience when we negotiated. The second area is, since it is going to be an on going process, apart from the proposals that they already have, for consultants to formulate new proposals which could be successfully passed on to the private parties."

2.35 Explaining the objective of the project, the CMD, PFC stated during evidence:—

"In that connection we would like to tell that we are maintaining the data bank of the consultants for the various areas-technical, financial and legal. As and when such proposals come, we work with them. In the beginning, there has been some inertia. Probably they thought they are well qualified to do it themselves, but with one or two negotiations which had taken place elsewhere they have realised that this is a very highly specialised area. The IPPs come equipped with and various experience which they have and the datas applicable to various countries alongwith the consultants. When a request comes, we work out the terms and conditions and we give it to them alongwith the list of likely consultants. They may add from their own experience/data bank and then they can go in for competitive or global bidding. After that evaluation is done. Their evaluation result is to be seen by PFC as well as the World Bank before such appointment takes place. In that entire process, we have been marketing this and trying to make them see that there is a need for such consultancy which can do the risk analysis on either side for equal and fair terms for both the parties."

2.36 PFC informed that so far only six loans have been sanctioned for five SEBs amounting to Rs. 28.97 crores (US \$ 9.20 million approx.). The Ministry of Power stated in a written reply that "despite the best efforts made by PFC, response from SEBs is not encouraging."

2.37 Another Project set up with US \$ 14 million from World Bank was Pre-Investment Fund. When asked about the nature of consultancy services being arranged by PFC to the SEBs/SGCs in this regard, the PFC in a note informed the Committee that PFC is financing SEBs in hiring consultants to conduct pre-feasibility/feasibility studies and other such activities leading to formulation of power projects. In the area of power development through Private Sector, PFC can finance SEBs to engage consultants to help them negotiate Power Purchase and other related agreements with the Independent Power Producers (IPPs) and also formulate projects for privatisation of the existing generation facilities.

**2.38** Giving more details about the Scheme, the Secretary, Ministry of Power stated in evidence as under:

"It is only for pre investment study and to assist the Electricity Boards to appoint consultants to help them. This is not for financing the project. One of the basic problems with Electricity Boards is that they do not have the feasibility reports. If somebody comes and says that they want to set up a plant, they should be able to say that this is 500 megawatt plant, the plant will be located in such and such place and you have to get the raw materials from such and such area. But they do not have such project study. Providing funds for these kinds of studies is more important. Seven or eight Electricity Boards are already availing these facilities. Rajasthan is one of them. Rs. 106 crores have already been sanctioned. There are still funds available. We will extend more and more funds."

**2.39** When asked about the conditions for loans, the witness added:

"This money will be going as loan. Basically private sector projects will be given to those States which are financially sound. But this is a loan on more concessional terms."

**2.40** On the response received for the Scheme, the Ministry informed the Committee in a note:

"Due to a good response, this was enhanced to US \$ 20 million with the approval of the World Bank. This has been fully committed to various SEBs for Pre-Investment activities."

**2.41** The Committee were informed that PFC had so far sanctioned 15 loans for 7 SEBs comprising 30 Schemes amounting to Rs. 106.30 crores as part of the project.

**2.42** The Committee of Directors in their Report submitted in March 1994 had recommended that it would be advantageous for PFC to finance private sector power utilities and Municipal bodies such as DESU, BEST, etc. The Report stated that this would facilitate the Corporation to enter into arrangements with other financial institutions or International Financial Institutions for co-financing and also secure loans or credits, which would be an additional resource for the power sector. The Committees had recommended financing of power entities in the following order of priority:—

- (i) SEBs/SGCs/Municipal Bodies such as DESU/BEST;
- (ii) Joint Sector Power Corporations such as DVC, NEEPCO, etc.
- (iii) Central Sector Power Corporation such as NTPC, NHPC, NPTC, etc.
- (iv) Private Sector Power Corporation mainly the existing power companies for the time being.

2.43 In this connection, the Committee enquired about the approach of PFC about funding the Power Utilities in these Sectors. During evidence the CMD, PFC stated in his reply as under:

"Sir, this possibility of funding the Central Power Sector Corporations, along with a few others, was examined by a Committee of PFC Directors. In so far as the Central Power undertakings are concerned, they (the Committee) said that we could take up financing them also, but within certain limitations which it had mentioned in its report. Now we are in the process of working out a business plan by which we will ensure that if we take up these other sectors like the Central Sector or even the existing private sector, the interest of the State Electricity Boards do not suffer because whereas the Central Power Undertakings can go to other sources for their money, the State Electricity Boards, in my humble opinion need our facilities much more because we are their traditional supplier of funds, ever since we have come in the field. So, we have to ensure that the State Power utilities do not suffer."

2.44 Asked about the role PFC proposed to play in the private sector also in keeping with the changed economic scenario, the Secretary, Ministry of Power stated in evidence:

"In March, 1995 about six months back a decision was taken that at the PFC level and at the Government level they should play an increasing role (in the private sector). In the initial stage their role will be to get some reports prepared and consultants appointed and to give facilities to Electricity Boards so that they can prepare Power Purchase Agreement. Basically in the initial stages they will concentrate in the private sector so far as getting a basket of projects prepared so that when they negotiate with the private sector companies, they will be able to negotiate on a better footing. All these years we do not have the experience of negotiating with the private sector people in these kinds of things. Strengthening the Electricity Board's hands by lending them some funds is one of the main activities. PFC will certainly play some role which it has not played in the private sector."

2.45 The Committee wanted to know if PFC wanted to further increase their involvement in funding of the private sector. The CMD, PFC replied in evidence:

"Surely, we want to do that. If we have to survive in the market, we have to position ourselves accordingly, equip ourselves fully."

2.46 The Committee were informed that the Board of PFC had approved on 23rd March, 1995 guidelines for financing private

companies by the Corporation. However, upto 31.8.1995, PFC had received only 7 proposals for financial assistance from Central as well as Private Sector.

2.47 The Committee wanted to know the capacity addition by the private sector envisaged and actually achieved in the 8th Five Year Plan. The Ministry stated in a written reply as follows:

"The 8th Five Year Plan document had envisaged a capacity addition of 2810 MW in the private sector during the 8th five Year Plan. As on date, a capacity addition of 860MW (18 MW Shivpur HEP of M/s. Bhoruka Power Corporation in Karnataka , 500 MW Bhanu TPS of M/s. BSES & 180 MW Trombay TPS & 150 MW Bhira PSS of M/s. TEC in Maharashtra and 12 MW Maniyar Small HEP of M/s. Carborandum Universal in Kerala) has already been achieved and an additional 500 MW (Budge Budge TPS of M/s. CESC in West Bengal) is expected to be commissioned during the 8th Plan. As such the total capacity addition in the private sector during the 8th Plan would be 1360 MW against the target of 2810 MW."

#### *E. Lending Policies*

2.48 According to the Corporation, in order to be eligible to borrow funds from PFC, the borrower is required to comply with the following eligibility conditions:—

1. PFC insists on the borrower (SEB etc.) to formulate and implement an Operational and Financial Action Plan (OFAP). The OFAP comprises of a series of well-defined Action Plans, addressing to different areas calling for improvement both in technical and financial fields.
2. The borrower has to achieve a minimum of 3% Rate of Return (ROR) on the net fixed assets. The State Govt. shall undertake to cause the borrower to do so and the State Govt. shall undertake to pay subsidy, wherever necessary, to enable the borrower to achieve this ROR.
3. The borrower is required to submit audited annual accounts within the prescribed period after the close of the year.
4. Funds provided by PFC constitute an addition to the funds provided to the SEBs/SGCs through the plan process.
5. Consistent deterioration in the financial ratios and financial position of the borrower and default in repayments to the Corporation will be treated as a ground for withholding consideration of fresh loan proposals.

2.49 The Committee had noted from the statement of sanctions and disbursement of loans by PFC that there was a decline in the overall sanctions in 1991-92 and 1992-93 as compared to other years. This was

stated to be mainly on account of implementation of PFC's Operational Policy Statement (OPS) from June, 1991, including inter-alia the said eligibility criteria as a result of which many utilities temporarily became ineligible for availing PFC loans. In this connection, the Committee enquired as to whether the eligibility conditions were very stringent. The CMD, PFC during evidence stated as follows:

"No Sir, For OFAP, a few senior people sit together in State Electricity Boards and work out what they feel best as an improved plan. there are two-three things which caused temporary difficulties. But, as I said things are changing. One is the financial aspect. We are insisting that the statutory return of 3% on net fixed assets at the beginning of each year should take place..... There are two aspects to the difficulty about State subsidy. Firstly the State Governments themselves have limited resources. One would imagine in the context of the limitation of resources that the State Governments should be slightly more willing and quicker or prompter in clearing the proposals put up by the State Electricity Boards for tariff revisions. Unfortunately that does not always take place even though the matter is discussed with them at the Central level at various meetings. .... There is also one other way in which State Govt. can improve the balance sheet of the State Electricity Board. Till about five years back, the State Electricity boards existed only on the State loans. Earlier loans were given at very cheap rates also. There was no equity. Then as a result of a study conducted by the Ministry of Power it was suggested in 1989 to the various State Governments that they should convert some State loans into Equity. That would reduce the interest burden of the State Electricity Boards and would enable a lesser resort to the subsidy in order to meet the 3% statutory return. Some State Electricity Boards have got it done, others have not. So in our monitoring we have been telling them to do so. Unless this 3% rate of return is achieved in a particular year, it becomes very difficult for us because we have also to see that the State Electricity Boards have a financial condition in which they can repay our loans. We have been very lucky that we generally do not find it difficult to get back our loans with some exceptions. But it is primarily because we have been insisting on a minimum of financial good health of the State Electricity Boards."

2.50 The Committee of Directors appointed by PFC to review the lending policies of the Corporation had in their Report made some suggestions. Giving the details of changes made in the lending policies of the Corporation on the basis of the recommendations of the Committee, Ministry of Power stated in a note:

"PFC has since finalised the guidelines and terms and conditions for financing the Municipal Sector, Central Sector Power



Corporations and the Private Sector Companies. The Corporation has also sanctioned one loan amounting to Rs. 33.20 crores to the Bombay Electricity Supply and Transport Undertaking (BEST), under the Municipal Corporation of Bombay. A few proposals of private sector companies are under scrutiny."

2.51 The Ministry informed that in addition to this the following changes have been made effective in the Lending Policies of the Corporation on the recommendations of the Committee:—

- (i) From the year 1993 onwards, for an SEB to become eligible for PFC loans, subsidy is to be paid by the State Government to the SEB up to the immediate preceding year and the SEB has also to submit a schedule for payment of subsidy for the year in which the loan is to be sanctioned.
- (ii) A policy of post-tax return of 12% on equity, including reserves has been adopted while working out the lending rates.
- (iii) Lending rates and other related terms and conditions are periodically reviewed according to the cost of the borrowing.
- (iv) Procedure are also reviewed and simplified, wherever necessary, taking into account the suggestions of the borrowers.
- (v) PFC has financed power utilities which have even achieved 2% statutory ROR but have committed to progressively achieve 3% ROR upto the year 1995-96.
- (vi) Loan Limits as percentage of project cost for various categories of projects consistent with the priorities have been re-fixed as under:—

Sl. No.	Categories	Existing Limit	Enhanced Limit
1.	Capacitor	80	80
2.	R&M	70	70
3.	T&D	50	60
4.	Gen. (Hydro)		35
	Gen. (Small Hydro)		50
5.	Gen. (Thermal)	30-40	30

- (vii) PFC has started financing 70% of the project cost of the schemes under World Bank/ADB funded projects irrespective of the category.
- (viii) Leasing Scheme has been revised.
- (ix) PFC has started providing loans for load dispatch and telecommunication facility upto 80% of the project cost.

(x) Financial assistance is being provided for equipments and machinery of specialised nature, including computers and hardwares, required for the purpose of proper implementation of the conditions of OFAP.

(xi) Pre-Investment Fund (PIF) of PFC has been made operational.

2.52 On being pointed out that difficulties are faced by the borrowers since certain items of expenditure which are incurred during construction of power projects like installation works of civil nature, insurance cost, etc. are not financed by PFC, the CMD, PFC stated:

"Normally advances for such schemes are not allowed by PFC. Our view is that the funds provided by the Corporation are on a plan basis and the Corporation is providing a specified percentage of the project cost depending on the nature of the project. The borrowers are required to contribute to the project either from the Plan funds or from other funds. For the items for which they are taking our loan they have to give a schedule for the equipment and that is listed. If any activity in that list is included for supply, when these people come they mainly mention the material and equipment they need. They use the Plan funds for the construction. But we have no objections to include it if they so want. We have done so in some cases."

2.53 Another difficulty reportedly experienced by the utilities was the levy of commitment charges by PFC at the rate of 1% per annum on the undisbursed amount of sanctioned loan even in cases where the disbursement of loan is delayed due to the default by PFC itself. In this connection, a representative of PFC stated in evidence:

"The commitment charges are charged by the PFC at the rate of one per cent per annum on the undisbursed amount of sanctioned loan. We are not charging commitment charges of one per cent per annum on the entire cost of sanction. We are only asking them to give yearly withdrawal schedule. On the amount of yearly withdrawal only one per cent of commitment charge is levied. It is only to have some kind of a deterrent or incentive for them to complete the project in time."

2.54 The Committee also mentioned that there were reports that there is lack of coordination between various Departments of PFC which leads to delays and harassment. In response to this, a representative of PFC stated in evidence:

"In this context, let us take the example of disbursement. They send some documents which are not complete for which we have given very detailed and clear-cut guidelines. Now, in that case if they are insisting on the payment of money, then our disbursement section is actually there actively consulting Regional Project

Departments whether we can make this payment or not. It is not a delay. We are trying to help them to get over the situation."

2.55 When it was pointed out that the borrowers were individuals, but State Power Utilities, the representative of PFC added:—

"When they have not met certain requirements, then we actually consult them. In that process, I would like to say that we are very thinly manned organisation and we are having only about 200 men working in our organisation. Inadvertently some borrowers might be feeling that they have been harassed."

2.56 Yet another difficulty reported was that in the event of interest and the instalments of the principal not being paid to PFC on the due date, a penal rate of interest at the rate of 2.5% per annum over and above the normal rate of interest at which the loan was sanctioned is payable to PFC. During the period of default such interest including penal rate of interest is calculated on daily compounding basis as a result of which huge amount of extra interest has to be paid in case of default. Trying to clarify the position the CMD, PFC stated in evidence:—

"The penal interest of 2.5 per cent per annum is charged by the PFC as per the terms and conditions which are duly accepted by the borrower. The necessity of the penal interest is to be seen in the event of ensuring that the borrowers are made to pay their respective dues. Sir, our effort is that the loan is utilised and the money remain in circulation. Penal interest is charged only when the borrower defaults in payment of dues during the specified period of 60 days and after that only we do the suspension. But the penal interest has to be levied from the date they have defaulted."

#### *F. Disposal of Application and Disbursement of Loans*

2.57 According to PFC the normal time taken for processing a loan application is about 4 months. On being enquired about the percentage of loan applications which were delayed beyond six months, the Ministry stated in a written reply:-

"The percentage of loan applications which were delayed by more than six months is 29%, 15% and 20% during the last three years, i.e. 1992-93, 1993-94 and 1994-95 respectively."

2.58 According to PFC, the general reasons for delays in disposal of loan applications are (a) Insufficient data on technical as well as financial aspects of the project given by the intending borrower alongwith the loan proposal and (b) Delay on the part of the borrower to provide the necessary clarifications/additional data, after preliminary scrutiny of the scheme by PFC.

2.59 Asked about the efforts made by PFC to reduce the delays in disposal of applications, the PFC stated that as the main reasons for delay

in processing of loan applications are due to the incomplete and delayed data from the borrowers, PFC has put in efforts as mentioned below to reduce these delays:—

- (i) Requesting SEBs to set up separate cells with identified Nodal officers in the Headquarters of the SEBs to deal with PFC loans.
- (ii) PFC has issued Guidelines to SEBs for scheme preparation and submission for obtaining loan, so that the specified data required by PFC for sanctioning of various types of schemes is known beforehand to the borrowers.
- (iii) Close interaction is maintained from the Corporation's side with SEBs in order to expedite receipt of information from the borrowers. Matter is taken up during visits to SEBs by PFC officials.
- (iv) Continuity of the officers at borrowers' end is tried to be maintained, so that frequent changes do not adversely affect the flow of information.
- (v) Progressive increase in staff in Appraisal Department of PFC.
- (vi) Engagement of consultants for Appraisal of Projects.

2.60 According to PFC the start of disbursement itself is delayed in many cases by 6 months or more due to delay on the part of borrowers in completion of loan documents, and signing of loan agreement. One of the reasons for this often is the time taken by SEB in obtaining the requisite guarantee from the State Government. Default by borrowers in repayment also causes suspension of disbursement for loans already sanctioned, till the dues are paid up. In this connection, the Committee enquired whether there was any possibility of reduction in the delay in disbursement of loans, the CMD, PFC stated in evidence:

"The general reason that is given by the State Electricity Boards is they find it difficult to get a guarantee from the State Government, which is basically due to bureaucratic delays. It is not as if the State Government is unwilling and things like that. We suggested that in three cases it has already been done by the concerned State Governments, whereby the State Government gives a bulk guarantee and once that authority is given, even a junior officer could just issue an authorisation letter. Once the loan comes up after sanction, the State Government guarantee could then come speedily. The State Board should know that they intend to take X amount of loan from PFC and the State Government authorises them they will give the guarantee for that amount. Now on that basis the special guarantee can come to us for each loan sanctioned and then it becomes easy. It is to be given by the State Government. We have written to them (SEBs)."

2.61 Suggesting that bulk guarantee should be authorised to avoid delay, the witness added:—

“The State Government gives guarantee to us in a prescribed proforma. There is no difficulty in giving the guarantee. The only difficulty is the bureaucratic delay. In certain cases, the case goes up to senior officers. In certain cases, I am told it goes up to the Chief Minister. And in certain cases, it goes upto the State Cabinet. The bulk guarantee can be authorised either by the Cabinet or by the Chief Minister so that issuance of letters for individual loans become easier. That is why three State Government have done.”

2.62 On being asked whether the State Government had any reservation on giving bulk guarantee, the witness stated:—

“It is not that the State Governments are having any reservation in this regard. But they are yet to take a decision on this.”

2.63 As regard loan disbursement procedure, the Committee enquired about other procedural difficulties experienced by the borrowers. The PFC in a note stated that SEBs/SGCs have experienced the following procedural difficulties:—

—Elaborate Schedule of payments;

—submission of Government undertaking for achieving 3% rate of return, and payment of subsidy thereof;

—price variation due to escalation not included in the schedule; and

—submission of details, such as Cheque No./Invoice No., etc. for the store items for taking reimbursement from PFC.

2.64 According to PFC after the sanction of loan borrower is required to submit loan documents, viz. Memorandum of Agreement, execution of guarantee deed/bond by the State Government (or any of the banks specified in letter of sanction), details of procurement of material etc., and acceptance of the loan sanctioned by PFC and terms and conditions attached thereto. On completion of necessary formalities, the borrower immediately receives payment upto 15% of the total loan sanctioned for the particular project. PFC is free not to disburse any loan, if it is found to its satisfaction that the loans already disbursed have not been properly utilised by the borrower for the specified project and/or the progress achieved in the implementation of the project is considered to be not satisfactory. Disbursement can also be withheld if the borrower is in default of repayments to PFC of instalment due on any loan given by the Corporation in the past.

2.65 When asked as to whether the procedure for disbursement of loans was cumbersome, the CMD, PFC stated:

"We are reviewing it and wherever it needs simplification, we will do it."

2.66 PFC had appointed in July, 1993 a Working Group consisting of its officers to simplify and streamline the procedure for processing of loan appraisals, execution of loan disbursement, etc. The Ministry of Power informed the Committee that based on the recommendations of the Working Group, a simplified and streamlined procedure has been evolved.

2.67 Describing the procedure adopted for disbursement of loans, the CMD, PFC stated during evidence:—

"We will see how the procedures can be further streamlined in order to remove any genuine difficulties which the borrower may be facing. Further, the State Electricity Boards have also got to generate adequate resources to meet a portion of their project costs. What is happening is that for certain reasons either the State Plan itself or their Annual Plan itself does not provide for enough resources in that particular year. Even if it provides for resources, the releases are often not made by the State Government in time. Wherever we insist that they should contribute matching funds, they come to us pleading not to insist on matching funds. They want us to give the funds to them stating there are some difficulties and that otherwise the project will never be completed. When we find such a situation, we sit together with the State Governments and persuade them that in the overall interest of the project itself, they should be in a position to meet their part of obligation."

### III. PERFORMANCE HIGHLIGHTS

#### a. Loans sanctioned & Disbursed

3.1 The total installed power generating capacity as on 31 March 1995 was 81,164.41 MW comprising of 20,829.04 MW Hydro, 58,110.37 MW Thermal and 2,225 MW Nuclear.

3.2 According to the Ministry of Power, the Installed capacity (Utilities) of Electricity from 1990-91 to 1993-94 was as under:—

1990-91	66086 MW
1991-92	69065 MW
1992-93	72330 MW
1993-94	76750 MW

3.3 The position of sanction of loans and disbursements made by PFC from 1990-91 to 1994-95 was as under:—

(Rs. in Crore)

Year	1990-91	1991-92	1992-93	1993-94	1994-95	Cumulative till 31.5.95
Sanction	1347.52	835.45	620.11	1380.95	1684.38	7943.00
Disbursement	894.86	920.05	612.97	707.51	792.41	5349.00

The average amount of loan sanctioned during the last 5 years by PFC comes to Rs. 1173.68 crores per year.

3.4 Presenting a brief profile of PFC at the outset of evidence of the representatives of Ministry of Power, the Secretary, MOP stated:—

“I would like to share my concern on the shrinking Clientele of the PFC due to the inability of several SEBs to meet their loans eligibility criteria. Even some of its eligible borrowers are reaching their maximum borrowing limits. Both of these have resulted in the PFC's lending operations not picking up to the levels that we would have wanted. As the hon. Committee has observed, this has resulted in the PFC not being able to uniformly extend its loans to the various States. Realising this the PFC has been interacting with other SEBs and State utilities to bring them to levels that could enable them to borrow from it.”

3.5 Considering the achievements in 1992-93, as base year, the sanction of loans by PFC increased by 122.69% during 1993-94 and 171.63% during 1994-95. So far as the increase in disbursement is concerned, it is 15.42% during 1993-94 and 29.27% during 1994-95.

3.6 Explaining this phenomenon the CMD, PFC stated during evidence:—

"In 1992-93, because of the problem which I indicated, the gestation period of the project which was sanctioned goes for 2-3 years. Secondly, our new norms for the eligibility criteria requiring the utilities to follow, that came in the middle of 1991 and it does take time, at least one year, for really to carry out or bring out a good OFAP including approval. So, it has given an impact on the sanctions. Some of the utilities became temporarily non-eligible and so, the sanctioned figures are reduced. But in 1993-94, we reversed that trend and the sanction was Rs. 1380.95 crores and the disbursement was Rs. 707.51 crores. In 1994-95, we have achieved an all-time high figure of sanction of Rs. 1684.38 crores and the disbursement was Rs. 792.41 crores, which in absolute terms, is about 12 per cent to 13 per cent more than the previous year's viz. 1993-94 figure of disbursement. But surely, the sanctioned figure recorded an all-time high."

3.7 The Committee wanted to know from the Ministry the reasons for disbursement remaining exceptionally low in 1993-94 and 1994-95. The Secretary, Ministry of Power observed during evidence:—

"Sir, in fact, you might perhaps have noticed that while the disbursements are low the sanctions have gone up."

3.8 Then the Committee pointed out that actually the sanction which amounted to Rs. 1347.52 crores in 1990-91 had gone down to Rs. 835.45 crores in 1991-92 and Rs. 620.11 crores in 1992-93. The witnesses then replied:—

"Sir, the years 1991-92 and 1992-93 were the years when we could not raise funds in the market. But later on in 1993-94 and 1994-95 both sanctions and disbursements are picking up."

3.9 When the Committee drew the attention of the witness to the disbursements in 1993-94 and 1994-95, which are termed as 'good years' by the Ministry were less than 1991-92 termed as 'bad year' the Secretary, Ministry of Power conceded before the Committee:—

"Sir, the disbursement during the year 1992, 1993 and 1994 is certainly not good. The one reason, if you permit me to say, was that during that period the country was affected by the Security Scam."

3.10 On being questioned about the measures taken to improve loan disbursements, the Secretary, Ministry of Power stated in evidence:—

"Sir, it basically depends upon the proper coordination between PFC with various Electricity Boards. It also depends on the disbursement claims that are made by the Electricity Boards. Sir, we are trying to streamline the procedure for sanctioning of loans as well as for disbursement of loans."



3.11 State-wise sanctions and disbursements made by PFC during the last three years are given below:—

(Amount in crores)

	1992-93 Amount		1993-94 Amount		1994-95 Amount	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
Andhra Pradesh	176.58	167.84	278.24	174.22	341.39	232.60
Bihar		2.74		0.48		
Gujarat	51.99	19.22	225.80	13.29		64.01
Haryana		16.72		5.83	55.50	20.55
Himachal Pradesh	28.53	17.59		11.09		3.91
Karnataka	61.06	4.07	212.90	63.13	228.82	98.09
Kerala		3.31		0.78		
Madhya Pradesh	112.95	79.53	209.70	92.74	0.23	21.46
Maharashtra	19.20	59.34	125.85	36.63	257.20	26.29
Manipur				2.75		0.90
Meghalaya					0.42	
Mizoram		4.23	1.20	5.64		4.11
Nagaland			15.61	7.43		8.18
Orissa	74.70	38.69	124.48	85.86	296.72	136.83
Punjab						
Rajasthan		22.51	122.27	83.45	277.80	101.43
Sikkim						
Tamil Nadu	95.00	66.86	38.90	66.76	190.20	64.67
Uttar Pradesh		77.76		26.75		
West Bengal		32.56	26.00	30.69	36.10	9.38
	620.11	612.97	1380.95	707.52	1684.38	792.41

Amount take into account reductions carried out subsequently.

3.12 When the Committee observed that there were severe imbalances in the assistance provided by PFC to various States, the CMD, PFC replied during evidence:—

“Till now, we have never allowed any financial stringency or our part to come in the way of disbursement. If there has been a delay, it has not, been for lack of funds. It all depends on the schemes progress.”

3.13 Conceding that assistance provided to the regions was not equitable, the Ministry of Power in a note stated that PFC's funding programme is closely linked with the national priorities as laid down in the plan documents, and Annual Plan allocation, and the Corporation assists the growth of power sector in accordance with the decided priorities. At the same time, it is true that PFC has not been able to expand its activities both in terms of lending as well as disbursement to cover all areas of the country to the extent the sector demands. In actual practice, PFC's operations were getting confined to certain better run SEBs only. This imbalance will have to be met by forcing the badly administered SEBs to

reform.

3.14 Enumerating the reasons for imbalance, the Ministry of Power stated in a note as follows:—

“PFC has been making earnest efforts to provide financial assistance to all the power utilities in the country which fulfils the prescribed norms. Despite that, the imbalance continues due to reasons enumerated below:—

- (i) The utilities and the State Government concerned have not shown interest in formulating an acceptable OFAP, for improving performance levels and institutional development of the utilities, as required under the eligibility norms.
- (ii) Non payment/delay in payment of subsidy by the State Government concerned for enabling SEBs concerned to achieve statutory minimum ROR of 3%.
- (iii) Poor financial health of the SEBs.
- (iv) Non release of adequate funds in time by the State Government concerned against the approved plan provision.
- (v) Persistent default by some of the utilities in repayment of outstanding dues of the PFC.”

3.15 According to the Ministry the following steps have been taken by PFC in correcting the imbalance between the borrowers:-

- (i) PFC has been vigorously pursuing the State Government to formulate OFAPs. As a result, OFAPs in respect of 5 utilities are in the process of formulation. For the remaining PFC continues its efforts in getting the remaining utilities to formulate the OFAPs.
- (ii) Operations of the SEBs which have OFAPs in place are also being continuously monitored by PFC's IDA Division to ensure that these SEBs do not fall back into the non-eligible category.
- (iii) PFC has also, from time to time, taken up with the State Governments and the utilities at various levels, matters pertaining to the release of subsidy and measures such as tariff revision for improvement in the financial health of the SEBs.
- (iv) Even the non-eligible SEBs are being considered by PFC for lending in the areas of environment.

#### **b. Institutional Development of Borrowers**

3.16 In the first years of its operations the thrust of PFC was to provide funds for such Generation Projects as were held up due to fund shortage in the first two years of the 7th Five Year Plan. PFC stated that the Corporation which started as a mere lending institution, gradually expanded its role to become a development financial institution in the power sector. Accordingly, PFC formulated the Operational Policy

Statement (OPS) adopted by the Corporation in November, 1990 aiming to bring about a progressive improvement in the working of its borrowers, which have mainly been the State Electricity Boards and State Power Generation Corporations. It was laid down that PFC would assist only those State Power Utilities which are agreeable to evolve in a time-bound manner an action plan called Operational and Financial Action Plan (OFAP) to bring about operational and financial improvements in the working of the utility with the assistance of PFC. This was aimed at self-improvement in a serious and methodological manner. Time was given upto June, 1991 and it was made clear that after that assistance would be given only to those State Power Utilities which prepared OFAPs to the satisfaction of PFC and obtained its approval.

3.17 Elaborating the scope of OFAP, the CMD, PFC stated in evidence as follows:—

“As a development financial institution, PFC has been acting as a catalyst. Neither we have any authority nor the teeth to do that. introduce reforms. We only use our lending leverage to work with the utilities and motivate people to come forward with an Action Plan for their own improvement so that they can chalk-out their own development plan. Its operations are not restricted purely with reference to the present state of health of their utilities. As a matter of fact, we are concentrating a lot more on those who are not eligible borrowers for us and that has brought results. We only want a commitment, a willingness from the utilities and the State Government. If they say, “Okay or Yes”, we will support. May be, there will be difficulties. At least, there should be a willingness from them to come forward and we go out to see and help them to develop the OFAP, formalise and go along with it. So, whether these SEBs who have not got OFAP, as a matter of fact there is hold back on their own part, and also I should say the lack of will from them to see such a daunting task of improvement when their negative rate of return which is 20 per cent or 30 per cent to come up to positive 3 per cent.”

According to PFC, OFAP mainly aims at:—

- (a) improvement in operational performance of the Power Utility;
- (b) improvement in its financial performance;
- (c) achieving the statutory return on investment; and
- (d) generating resources for investment in new projects.

3.18 The Ministry have informed that so far OFAPs have been formulated in respect of 12 SEBs, 6 SGCs and 1 Municipality run utility. Such utilities are eligible for PFC assistance provided they continue to fulfil the eligibility norms of achieving 3% Rate of Return (ROR) and other terms and conditions of PFC. The process of formulation of OFAP has already been initiated in the case of other 5 utilities.

**3.19** On the impact OFAP had on the functioning of State Power Utilities, CMD, PFC gave an account during evidence as follow:—

“The Operational and Financial Action Plan which is there for bringing about improvement in the utilities has brought about very significant and encouraging results to us. It cannot be said with claim that we have turned around the power sector. But it has made a very perceptible, qualitative and quantitative contribution towards that. It has resulted into many areas which I will indicate. 9 out of the 12 SEBs which now have the OFAP, acceptable to us, have recorded a rate of return of three per cent or more based on the annual accounts of 1993-94. 1994-95 accounts will be coming towards the end of the year.

There is an improvement in the periodic review of tariff. Tariff rate is one of the things for the recovery of cost of operation, overhead charges, transmission, etc. If the State Electricity Boards have to supply energy free or at a very marginal rate that needs to be subsidised by the State Government. There has been a problem because there is a shortage of resources. This has not been there in the past. Our efforts with OFAP has brought about this difference at least while the subsidies have been coming up, may not be timely, may not be in regular and adequate doses, but surely the State Government at all levels have been sensitized to this problem. They do see that the review is made and some subsidies are released. Then the tariff is periodically reviewed by the Board as well as by the State Governments leaving aside the agriculture sector where the revision of tariff is a problem of a very high order.”

**3.20** Explaining the term ‘acceptable Rate of Return (ROR)’, the Secretary, Ministry of Power stated in evidence:—

“Sir, in the Act, every State Electricity Board is supposed to earn a Rate of Return of not less than three percent at the beginning of the year. That means three per cent is the minimum to be achieved. But the maximum could be anything. Even to bring out the level of three per cent, if you take early 90s, that is, in 1991 there were hardly about five Electricity Boards which were earning a Rate of Return of three per cent. That five has become eleven now. Of course, three per cent Rate of Return is not very satisfactory. But the prescribed limit under the Act is three percent.”

**3.21** However, according to PFC the following difficulties were noticed in some case in the implementation of OFAP:—

- (i) Some SEBs find it difficult to receive the subsidy from the State Government in time and to have clearance of accumulated

backlog of subsidy in a phased manner.

- (ii) SEBs find it difficult to receive approval of the State Govt. to revise the tariff in time and in adequate doses, particularly in the case of agricultural consumers so as to at least meet the cost of generation.
- (iii) Most SEBs also find it difficult to recover outstanding power dues from Government Departments/Undertakings, etc.
- (iv) The metering for supply of power to agricultural consumers is very little. Hence, the exact consumption in this category cannot be realistically ascertained.
- (v) Many SEBs find difficult to have an adequate reserve of coal and oil; the coal agencies insist on cash payment for supply of coal.

3.22 On the existing system for monitoring OFAP with State Power Utilities, the CMD, PFC stated in evidence:—

“We have an Operational and Financial Action Plan unit with highly specialised and trained hands. They are assisting the State utilities to form the plans, discuss with them, diagnose their areas and help them to achieve it. The other requirement is that all these utilities which have the OFAP have to give the quarterly progress Report. They also go on missions, visiting utilities. Then they have a detailed discussion at all levels. It may be stated here that it is not that, at that level, everything is achieved. Then whatever is left that needs to be resolved.”

3.23 Expressing satisfaction on the role played by PFC in this sphere, the Secretary, Ministry of Power observed during evidence:—

“The Power Finance Corporation’s insistence upon having an Operational and Financial Action Plan has certainly helped in the process of improving physical and financial performance.”

3.24 The Committee were informed that for further institutional development of power utilities PFC is adopting two-tier strategy. The first part of the strategy is to conduct the studies relating to power improvement and to disseminate information through workshops, seminars etc. on Metering, Billing & Collection, Prevention of Power, Thefts, and Reduction in Transmission & Distribution Losses. The second is to impart training in India and the USA for SEB/PFC officials. PFC is also organizing In-Company Training Programmes for PFC/SEB employees in common areas relating to finance, management, etc. including representatives from PER of PFC on training.

3.25 Commenting on the improved operational performance of PFC by bringing about system improvement in the Power Sector and stabilising the

Corporation's role as a Development Financial Institution, CMD, PFC observed during evidence:—

"Our role in bringing about some improvement has brought some very tangible results.

1. Reduction in loss due to installation of Shunt Capacitors. An estimated savings of 0.1 MU/MVAR/Year could be achieved by capacitors installation in HT transmission lines of 33 KV and above. PFC has caused installation of 6262 MVAR Capacitor banks till March, 1995.

2. Strengthening of urban distribution system has been a major contribution of PFC. We have sanctioned loans to strengthen urban distribution systems of over 150 towns. This has helped in reduction of system losses apart from reaching larger number of consumers with improved quality of power supply.

3. Reduction of T&D Losses. The statistics from CEA, MOP and Planning Commission indicate that there is a declining trend in overall T&D losses in the State Power Sector. The feed back is encouraging and it is felt that PFC has contributed significantly in system improvement. It is very difficult for us unless a study is commissioned to carry out the assessment as to what T&D loss reduction has been, but the Central Electricity Authority and the Planning Commission have been carrying out the job and as per the data published by them from 1990-91 to 1993-94, T&D losses has been showing a declining trend and in 1994-95 it has come to 19.8 per cent.

4. Improvement in PLF due to Phase I R&M schemes. This has resulted in additional generation of power to the extent of about 10,000 MV/year. These are the major areas where improvement has taken place and this improvement is reflected in the national average. This could be seen as a measure of performance."

### *c. Environmental Upgradation*

3.26 In order to ensure sustainable growth of power sector, it is imperative that environmental obligations of existing utilities are met and new projects ensure appropriate safeguards for environmental protection in tune with the statutory requirements. According to PFC the Environmental Assessment & Monitoring Unit (EAMU) not only assists in appraisal of environmental upgradation schemes sent to PFC but also helps the utilities in identifying areas that require environmental upgradation. PFC also reportedly addressed itself to the need for replacement/modernisation of ash collection and disposal system in achieving considerable improvement and environmental quality, especially in urban areas and industrial concentration.

3.27 Owing to the degradation of environment as a result of increasing pollution around the Thermal Power Plants in various parts of the country, the Committee desired to know the extent of assistance rendered by PFC

to the thermal power plants for taking up environmental upgradation schemes. In reply, the CMD, PFC stated during evidence:—

“On the environment side we are supporting thermal projects where this problem is there. In the case of Electrostatic Precipitators (ESPs), we have been supporting projects which is either modernisation of ESPs or augmentation, or for replacement of ESPs if they are not working properly. In the World Bank Loan there is an element of supporting upgradation of environment around thermal power plants. The future projects should not merely tinker with what is called environmental upgradation but look at it from a realistic point of view. They have to see how the ground—water, air, subsoil—water, the workers’ colonies, other habitation and certain areas around the thermal power plants are affected, and take steps to improve the environment. We have been telling the State Electricity Boards that they should engage proper consultants who can do proper studies. We have said we are willing to fund those programmes.”

Elaborating, this a representative of PFC added:-

“In the Environmental Upgradation Scheme we have covered 20 stations. As the Chairman mentioned we have sanctioned loans also. The ESPs are being upgraded to handle the additional quantity of ash. Recently, some of the State Electricity Boards have come forward to us with some proposals regarding ash utilisation. Those proposals are being considered by us. Gradually more awareness is coming to the State Electricity Boards.”

3.28 When the Committee enquired as to how many schemes of replacement/modernisation of ash collection and disposal system were assisted by PFC during the last three years, the Ministry of Power stated in a written reply as follows:-

“During the last three years (1992-93, 1993-94, 1994-95), PFC has sanctioned 8 schemes amounting to Rs. 50.9 crores for installation of Electrostatic Precipitators (ESPs) augmentation of old ESP capacity and ash disposal system covering thermal generating units (ranging from 110 to 210 MW) at 7 Thermal Power Stations aggregating to a total installed capacity of 3010 MW. In addition, PFC has already sanctioned loans worth Rs. 75.70 crores for environmental upgradation in this financial year (upto August, 1995).”

3.29 In the Annual Report (1994-95) PFC has stated that the Corporation has relaxed some of the prevailing loan conditionalities to enable ineligible borrowers to avail loan assistance to implement environmental upgradation schemes. PFC carried out environmental

review of 6 thermal power plants in the year 1994-95 and helped utilities in the preparation of Environmental Upgradation Action Plans for the Power Sector.

3.30 On the benefits derived out of the Environmental Upgradation Schemes, PFC stated in the Annual Report:-

"Direct benefits of environmental upgradation schemes funded by PFC have been reduction in pollution due to air emissions and effluent discharge from utilities, conservation of natural resources (water, oil) by schemes for recycling/re-using and reduction in solid waste management problem by implementing fly ash utilisation activities."

3.31 In regard to setting up of power plants based on technology of utilising ash, the Committee wanted to know whether PFC could provide assistance. The CMD, PFC in evidence stated as follows :—

"There are other schemes of the State Governments and the Central Government where such assistance can be given separately. Due to the keen interest taken by the international agencies which traditionally have been funding projects in this country, there are resources available from various agencies. But what we can do is definitely we have an element of our financial assistance whereby we assist in the pre-investment activity, that is, survey of any particular plant, where there is no problem in our funding; but this goes slightly beyond our limit."

3.32 When pointed out that such assistance would be related to control of pollution for which PFC was providing funds, the witness commented, "We will examine that."



## **IV. ORGANISATIONAL MATTERS**

### **a. Project Appraisal & Monitoring**

4.1 The Committee wanted to know what was the existing organisational set up in PFC for appraisal of projects financed by it. In reply, PFC stated in a note September, 1993 that the task for appraisal of various projects funded by the Corporation is looked after by the Project Appraisal Department under the Projects Division with its four groups (viz. Thermal, Hydro, Transmission and Urban Distribution) and Financial Appraisal Department. On receipt of a loan request for a project the following activities are performed by the concerned group :—

- Preliminary scrutiny of loan requests.
- Identification of additional information/updated data if any, required from the borrower, and coordination with other groups in this regard.
- Obtaining additional information and/or updated data, analysis of the information received, Technical and Financial Appraisal of the scheme at the headquarters and wherever required, also by field visits.
- Preparation of final appraisal report.
- Preparation of agenda note for obtaining Board approval.
- Coordination with borrower for completion of loan documents, consequent to sanction of the loan.
- vetting of loan documents received from the borrower.
- Signing of loan agreement with the borrower.

4.2 According to PFC, in a loan appraisal, PFC will undertake not only the appraisal of the project *per se* but also institutional and financial appraisal of the borrowing entity. The appraisal will be directed to ensure that the selected project conforms to the priorities adopted by PFC and is financially and economically sound.

4.3 It has been stated that as part of monitoring PFC satisfies itself that the execution of the project is being carried out efficiently and in a manner likely to achieve the objective for which the loan is given. For this purpose, once the loan is sanctioned, the borrower is expected to furnish information according to the reporting system prescribed by PFC. PFC calls for monthly progress reports from its borrowers for the Projects financed by the Corporation. The reports bring out the status of actual achievements *vis-a-vis* the plan of identified activities involved during the

various stages of implementation of the project, e.g. Engineering, Procurement, and Site-work including commissioning.

4.4 The Committee enquired about the mechanism for monitoring various power projects by the Corporation. A representative of PFC during evidence informed the Committee:—

“In PFC, the responsibility of monitoring is also with the Project Division, we have set up the Division on the technical side based on disciplines like thermal generation, hydrogeneration, transmission and urban distribution. These are the four disciplines which we are supporting and all the projects are covered under these four disciplines. The appraisal team of the scheme for that particular area is also responsible for the monitoring of the scheme. At the time of appraisal of the scheme, we ask the SEB to prepare action plan indicating their schedule of activity like procurement etc. All these activities are reviewed at the time of proposal appraisal. Whatever is finalised at the time of discussion becomes a basis for monitoring after the loan is sanctioned. We have developed a format for the reporting system. These reports are submitted by State Electricity Board every month.”

4.5 Ask as to whether the PFC had any monitoring cell to monitor the progress of various projects financed by it, the witness observed in evidence :—

“Presently the various sub-group are relatively small groups. It is mostly through the progress reports that we monitor. But these teams also go down to the borrowers' headquarters plus some sites from time to time to see how it is coming along. We have recently set up a separate monitoring group which would undertake monitoring of bigger projects.....”

4.6 On the same subject, a representative of the Ministry of Power stated in evidence as follows:—

“There is a regular monitoring cell in the Power Finance Corporation and officers go to the projects concerned for monitoring. In fact, one of the achievements of the PFC is that they also make the State Governments give plan allocation to the project concerned because assistance given by the PFC is an additionality to the plan allocation. Unless and until the State Government gives the money, PFC does not release their share. Secondly unless the bills are produced, PFC does not release the money. Therefore, chances of diversion of money is hardly any. They monitor it from time to time.”

4.7 When enquired from the Corporation in September, 1993 whether they were satisfied with the existing monitoring system, the CMD, PFC conceded during evidence :—

"I am not satisfied. That is why we intended to strengthen it. We have initiated and very shortly we hope to have result of the organisational study. It is very important aspect of our working which has to be given necessary support."

4.8 In this connection, PFC informed subsequently that an organisational study of the Corporation had been concluded and based on the recommendations, proposals for strengthening the different Departments were formulated. The Consultant had recommended strengthening and streamlining of Project Appraisal as well as Monitoring. Of the steps taken by PFC based on the recommendations of the consultant, the Ministry of Power stated in a note :—

"Taking into account the observations of the consultant, the Project Division in PFC has been strengthened and regional groups have been formed for project appraisal. Each regional group has been provided with personnel having expertise in different disciplines. Personnel for financial analysis, loan execution and procurement have been provided for each regional group. These regional groups are also monitoring the progress of projects supported by Management Information System (MIS)."

4.9 Commenting on the benefits derived through restructuring of the organisational set up, the Ministry stated in a note :—

"In short, the re-structuring has re-oriented the organisation to make it more client centered and pro-active to the requirements of the borrowers."

#### ***b. Organisational Restructuring & Manpower***

4.10 The sanctioned strength of manpower in PFC is 307, against which actual strength of manpower as on 31 March, 1994 was 190. The Committee wanted to know whether the existing level of manpower was tallied with reference to volume of work. PFC stated in a note as under:—

"In the formative years of the Corporation, the personnel were inducted primarily to organise the setting-up of the Corporation and to undertake the immediate functions connected with the main objective of the Corporation, i.e. to give term-finance for power projects. As the work grew, particularly in the latter half of 1990-91, an internal assessment of the work-load and man-power requirement was carried out and was approved by the Board of Directors in April' 91, which assigned the ceiling limit for man-power for the year 1991-92. However, the Management, conscious of the need to avoid surplus man-power, has regulated the progressive induction of additional personnel strictly by actual increase in the work-load from time to time, keeping well within the man-power ceiling approved. The ceilings as fixed for 1991-92, have not been increased in the

subsequent years. In order to ensure that jobs of temporary nature and of short-duration do not become the basis for permanent addition to manpower, services of consultants are being resorted to wherever feasible."

4.11 In reply to a question as to why the sanctioned strength was kept much more than the actual strength, PFC stated in a note:—

"In the latter half of 1990-91, an internal assessment of the work load *vis-a-vis* manpower requirement was carried out, when it was expected that PFC would be approving about 200 projects during 1991-92 involving an outlay of Rs. 2000 to Rs. 2500 crores and disbursement of the order of Rs. 1500 crores. The manpower requirement was, in that light, assessed at 307 (both executives and non-executives) based on these parameters. However, due to various factors/reasons, such as temporary ineligibility of most SEBs for PFC loans, following implementation of provisions of OPS from June, 1991, the above levels of operation could not be reached during 1991-92 and in the succeeding year also. When this position became apparent, it was decided to regulate the recruitment and induction of personnel in tune with the build-up of work-load, within the limit of 307 already approved. This was the main reason for the actual strength being lower than the sanctioned strength. As on date, the Corporation has 184 employees (consisting 116 executives and 68 non-executives)."

4.12 The Committee enquired whether the organisational structure was reviewed at any time. PFC informed the Committee that since it was felt that a review of the organisational structure of PFC was needed, M/s. IDA Consultants, New Delhi was engaged for carrying out an organisational study. According to the Annual Report (1994-95) organisational restructuring of PFC has been done and that has fetched the desired results in delayering the Organisation, bringing about greater client-focusing in operations and facilitating greater networking amongst the constituent units and divisions.

#### *c. Board of Directors*

4.13 PFC informed the Committee that as they gained experience, the need for non-official Directors who would bring in their experience in the field of financial management was felt. Although, the process started in 1991, 3 non-official Directors could be appointed only on 13 July, 1994 owing to the lengthy process of approval which was involved. Subsequently one of the Directors resigned on 25th April, 1995. The Ministry has stated that a proposal has been mooted for appointment of 3 more part-time non-official Directors.

4.14 Stating the latest position in this regard the Ministry of Power stated in a note as follows:—

"A proposal, duly approved by the Ministry of Power, for appointment

of 3 part-time non-official Directors on the Board of Directors of the Power Finance Corporation (PFC) Limited, was sent to the Department of Public Enterprises on 20th September, 1995 for their concurrence. The Department of Public Enterprises have been reminded on 16th November, 1995, 15th December, 1995 and 2nd January, 1996. Their concurrence is still awaited. As soon as the concurrences of Department of Public Enterprises is received, the case would be sent for the approval of the ACC and only after that the proposal would be formalised."

4.15 In this connection the Secretary, Ministry of Power stated in evidence as under:—

"Sir, about one and a half years back we had got some professionals involved. Also we are considering another proposal which is under examination at the final stage where we are proposing to bring in some more professionals on the Board of Directors of PFC. We would also like to associate the Chairmen of State Electricity Boards, which was not the case there in the past. As the PFC is basically supposed to fund the programme of the State Electricity Boards, apart from getting some of the non-officials, we are getting different professional Directors also."

*d. Performance Review Meetings*

4.16 According to the DPE guidelines Performance Appraisal Meetings of PSUs are to be taken by the administrative Ministry in each quarter of the year.

Ministry stated in a note that Performance Appraisal Meetings of PFC during the years 1992-93 to 1994-95 were held as under:—

Year	Date of Meeting	Year/quarter of which PRM was held
1992-93	09.07.1992	Quarters ending December, 1991 and March, 1992
1992-93	12.05.1993	For the year 1992-93
1993-94	30.08.1993	Quarter ending June, 1993
	03.03.1994	For the period ending July to September, 1993 and October to December, 1993
1993-94 & 1994-95	08.12.1994	For the period ending 31st March, 1994, 30th June and 30th September, 1994
1995-96	12.09.1995	For the quarters ending December, 1994, March, 1995 and June, 1995.

4.17 The Committee enquired about the reasons for not holding Performance Appraisal Meetings in the respective quarters from 1992 to 1995. The Secretary, Ministry of Power resolved:—

"Sir, in fact, the Performance Review Meetings of these organisations, not only the PFC but other organisations, are being held regularly. Sometimes we hold the formal performance meetings. In the case of these organisations which get loans from ADB and World Bank, these meetings are held on a normal basis. We have been almost meeting once in a month. When we discuss these loans, we discuss the complete performance of the Corporation also. Discussion with the World Bank and ADB are also minuted. In those discussions the total performance of the Corporation is covered."

4.18 When it was pointed out that such meetings are to be held formally in every quarter the Secretary, Ministry of Power observed:—

"I take your point. We have been having a series of meetings. But the point made out is, we should call even the regular meeting as a performance meeting and maintain the minutes. We maintain the minutes of all our meetings."

4.19 To a suggestion that before performance review meeting, a performance review report should be obtained the Secretary, Ministry of Power observed as follows:—

"We get all monthly reports. In fact, every Corporation is supposed to send the monthly reports. The Department of Public Enterprises fixes annual targets. These targets are broken up into quarterly and monthly targets. We get monthly reports from all our Corporations. Most of the Corporations' performance in physical terms and financial terms could be assessed. We examine those reports, make some comments and communicate to them wherever they are lagging."

## **PART-B**

### **CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE**

1. Power Finance Corporation Limited (PFC) was established on 10th July, 1986 with the objective of providing term finance to the State power utilities and bringing about improve efficiency and institutional development of its borrowing entitles. The Corporation started its lending operations from the last quarter of the year 1987-88. Although the working results of the Corporation have been steadily improving, its role in mobilisation of funds for power development has not been very impressive. It has yet to make a significant impact as a vital catalytic institution in the power sector. The sanctions of loans have continued to remain low and the disbursements have gone down over the years. There is severe imbalance in the loans provided by PFC to different States. In actual practice, PFC's operations are getting confined only to certain better-run SEBs. The Corporation's role in providing funds to utilities in priority areas like System Improvement, Transmission & Distribution and Renovation & Modernisation has continued to remain lackluster. After going into the working of PFC, the Committee are of the view that there is sufficient scope for improvement in several spheres of working of the Corporation. These aspects have been dealt with by the Committee in detail in the subsequent paragraphs.

#### **Recommendations (Sl. No. 1)**

2. The main objective of PFC is to function as a development financial institution for providing supplementary finance to power development programmes by State power utilities with a view to bringing about improved efficiencies and institutional development of the SEBs, SGCs, etc. and thereby ensuring balanced growth of all segments of the power sector. Apart from being a term lender, PFC is expected to serve as a channel for international assistance, a development financial institution for the power sector as a whole and an institutional builder. The Corporation has so far mobilised about Rs. 8,000 crores and disbursed approximately Rs. 5,300 crores. Average lending of PFC per year has been of the order of Rs. 600 crores against the average sanction of Rs. 900 crores per year. If viewed as a percentage of the annual capital expenditure of the SEBs, it comes to only about 8-10%. Keeping in view the critical role which PFC has to discharge towards State power utilities for which primarily it was created, this can only be termed as a modest achievement. Moreover in the context of liberalised economic scenario in which demand for electricity is going to increase manifold, the Committee are of the view that PFC has yet to travel a very long distance and gear itself adequately to meet the challenges ahead.

This can only be met through concerted efforts coupled with sound resources base. The Committee, therefore, desire that every effort should be made by PFC to ensure that in the near future it plays a much bigger role so that it is able to make a significant impact in the power sector.

#### Recommendation (S. No. 2)

3. As against the projected requirement of 48,000 MW capacity addition during the 8th Five Year Plan, Planning Commission had fixed 30,537 MW for the plan period which included a capacity addition of 2,810 MW from the private sector. The Committee were informed that on the basis of a subsequent review, the likely capacity addition during the current plan period was estimated to be only 20,729.7 MW. One of the major constraints coming in the way of capacity addition is scarcity of funds with SEBs. The Committee, however, note that the role envisaged by the Planning Commission for PFC in power generation is more by way of providing assistance for renovation and modernisation, improvement in transmission and distribution and system improvements of the existing power plants than by providing assistance for new capacity addition. In view of the very fact that the establishment of new power plants not only require huge capital investment, but also involve long gestation period, the importance of focussing attention on the schemes aimed at better utilisation of the existing facilities gains all the more significance. They, however, find that areas like bringing about improvements in the existing power units and minimising transmission and distribution loss had not received adequate attention during the Seventh Plan Period. In view of the relative advantages of thrust in these spheres for improving power generation, the Committee stress that PFC should give fillip to the power sector by concentrating more on carrying out improvement in the existing units, transmission and distribution network, etc.

#### Recommendation (Sl. No. 3)

4. The power sector is capital intensive and its demand is bound to increase in tune with economic development. Present expectations are that Power deficit in the terminal year of the Eighth Plan will be around 9%. In view of this, one of the priorities fixed for the Eighth Plan period is improvement in the operation of existing power generation units and plant equipments. Accordingly, major areas which have been identified by PFC for providing financial assistance on priority basis are power system improvement through installation of capacitors; improvement in power distribution in urban areas; Transmission & Modernisation of transmission system; Renovation & Modernisation of generation projects and setting up of new generation projects. Under the scheme of system improvement, PFC has placed special focus on adding of lines and installing of larger conductors and capacitors. The amount sanctioned by PFC upto 31 March, 1995 for installation of capacitors was Rs. 274.65 crores and the amount disbursed was Rs. 211.98 crores. 6262 MVARs were installed out of



8402 MVARs sanctioned. In addition to this, PFC resorted to system improvement by giving loans for ancillary activities such as system for better metering, billing and collection of dues, communication projects, computerisation of power projects, etc. The Corporation had sanctioned loans for installation of over 5 lakh electromechanical meters and over 11,000 high accuracy HT electronic trivector meters. According to the Government, system improvement is a major concern since it plays a major role in improving voltage fluctuations and reducing T&D losses. The Committee concede with the view expressed by the Secretary, Ministry of Power that installation of capacitors throughout the country can result in effecting substantial savings. However, going by the trend of assistance sanctioned so far by the Corporation, the Committee are sceptical as to whether adequate priority is being accorded to system improvement. Taking into account the very fact that transmission and distribution network is very poor in our country, the Committee emphasise that top priority should be given to providing conductors and installation of capacitors, etc. by PFC.

#### Recommendation (Sl. No. 4)

5. Renovation & Modernisation (R & M) of aged plants in the country remained neglected in the past especially on account of paucity of funds. Thus, the Planning Commission had recommended that R&M Programme for rehabilitation of the ageing thermal and hydel units initiated in the Seventh Plan should be pursued further during the Eighth Plan. It was also envisaged by the Planning Commission that while the CEA and the Ministry of Power will provide the necessary technical and administrative support, PFC would play an important role in financing the programme. Through Life Extension Study, PFC had identified 45 power stations under the R & M Programme in Phase I which required funding assistance and disbursed Rs. 174 crores. In phase II an amount of Rs. 680 crores was sanctioned against which the amount already disbursed was about Rs. 400 crores. The Committee were surprised to find that funds sanctioned for R & M of thermal plants had been on the declining trend, viz. from Rs. 106 crores in 1991-92 it had come down to Rs. 29 crores in 1993-94 and Rs. 39 crores in 1994-95. What further disturbs the Committee is the fact that allocation of funds is not being made on the basis of priorities fixed by the Corporation. They are unhappy to note that inspite of the priority accorded by PFC to R&M Programme the assistance provided for this purpose to thermal plants has been very meagre since 1992-93. The Committee are also surprised to find divergent reasons put forward by PFC and the Government on the decline in funds sanctioned under R&M Programme. It is a matter of concern that non-eligibility of some of the SEBs is coming in the way of providing assistance under the scheme and those which are thus deprived are some of the really deserving ones. The Committee are of the opinion that if the eligibility conditions laid down by the Corporation do come in the way of implementation of priorities set at the national level,

PFC should rather review its lending policies so as to make the benefits available to the maximum number of power utilities. They would expect the Government to take a decision on engaging of the private sector for renovation and modernisation of power plants which have been achieving less than 30% PLF after considering all the merits and demerits. They trust that Government will take the above observations of the Committee in right earnest and keeping in view the relative advantage of economy and time, put implementation of R & M Programme on the right footing.

#### Recommendation (Sl. No. 5)

6. The Transmission and Distribution (T&D) System in the country is over-loaded and is quite inadequate to handle the increasing load demands. T&D losses are (i) on account of technical losses due to energy dissipation in the transmission and distribution lines, transformers and other equipment used in the system, and (ii) other losses caused by meter-reading errors, defective meters, unmetered supplies and pilferage of energy. The average T&D losses at the national level during the Seventh Plan period was 22-23% against an international average of less than 10%. The Planning Commission had envisaged specific schemes during the Eighth Plan to reduce the T&D losses progressively so as to bring it to 15% by the end of the Ninth Plan. The Committee note that out of Rs. 2960.24 crores sanctioned for transmission scheme only an amount of Rs. 1494.14 crores was disbursed and out of Rs. 1002.29 crores sanctioned for distribution scheme only Rs. 435.82 crores was disbursed upto March, 1995. Out of 170 projects sanctioned under distribution scheme only 48 projects were completed owing to long gestation period involved. This was stated to be the reason for the disbursements being low for the T&D schemes. It has been brought out that out of about 23% T&D loss, the actual technical loss is only about 10 to 12% and the remaining is on account of commercial loss including pilferage, faulty meter, etc.

7. The Committee note with deep concern that T&D losses at the national level had been in as high a range as that of 22-23% and the target set by the Planning Commission is to reduce the losses progressively during the current plan period so as to bring it to 15% by the end of the Ninth Plan. Another more disturbing revelation that the Committee has come across is that according to Economic Survey (1994-95) the commercial losses of SEBs in absolute terms have increased from about Rs. 4100 crores in 1991-92 to about Rs. 6300 crores in 1994-95 and is projected to increase further to about Rs. 7100 crores in 1995-96. Keeping in view the fact that most of the SEBs are languishing for want of sufficient funds and are unable to make desired level of investment in this area, the Committee doubt whether it will at all be possible to bring down the losses to 15% by the end of the Ninth Five Year Plan as envisaged by the Planning Commission. The Secretary, Ministry of Power was rather candid in admitting that the allocations both under the Plan funds as well as those sanctioned by PFC are not adequate to meet the requirements of resources for improving the T&D network.

Considering the seriousness of the problem, the Committee desire that PFC should reorient its priorities in keeping with the national priorities so that more funds are made available under T&D Scheme with a view to check both technical and commercial losses. However, in view of the increasing commercial losses, the Committee are of the view that greater thrust should be given to measures aimed at checking commercial losses by SEBs.

#### **Recommendation (Sl.No. 6 Paragraphs 6&7)**

8. The importance of electricity to trigger off economic progress and spread socio-economic welfare has long since been realised. However, considering the heavy capital requirements for the new capacity addition programmes, it has been recognised that it will not be possible for the public sector alone to mobilize sufficient funds. A considerable emphasis has, therefore, been placed under the Eighth Five Year Plan on attracting private investments. PFC too, which was originally set up as a developmental financial institution, basically for the State Power utilities, has been approached recently by the municipal, joint and private sector for financial assistance. With a view to encourage the role of private sector in the power projects, PFC has set up two projects with US\$ 20 million World Bank assistance for each of the projects. These projects are Technical Assistance Project (TAP) for consultancy and financing and Pre-investment Fund for hiring consultants and conducting pre-feasibility/feasibility studies and other related activities leading to formulation of power projects. While under TAP only six loans amounting to Rs. 28.97 crores were sanctioned, fifteen loans amounting to Rs. 106.30 crores were sanctioned under Pre-investment Fund. The Committee were also apprised during the course of examination that with a view to equip themselves fully in changed economic scenario, the Board of Directors of PFC had recommended in March 1994, that besides the State Power utilities, PFC should also finance projects in municipal, joint, central and private sector. In pursuance of this recommendation a decision has since been taken in March, 1995 that PFC should play an increasing role in the private sector. The Committee were further apprised that in the initial stages their role would remain confined to appointing consultants and help SEBs in getting projects prepared.

9. Though the scheme which are being implemented by PFC with a view to encouraging involvement of private sector are steps in the right direction, yet the veracity of the very fact that State Power utilities have serious problems in raising resources internally and are dependant mainly on State Governments for financing projects cannot be denied altogether. On the contrary, the private sector can resort to various other sources for raising financial resources and capital inadequacy is not treated as a problem for this sector. In view of the resources crunch under which most of the State Power utilities are reeling at present and the inadequate allocations made by PFC for its priority schemes, the Committee are of the firm view that

expanding the role of the Corporation in the private sector any further would be detrimental to the interest of SEBs, SGCs, etc. which used to be its traditional borrowers. The Committee, therefore, strongly recommend that till the resource base of PFC is expanded further, it should not take up large scale financing of joint and private sector. Instead the Corporation should concentrate fully on funding schemes involving optimum utilisation in the State and Central sector. The Committee also desire that for the present PFC should make efforts to promote projects like TAP and Pre-Investment Fund which are being implemented with World Bank assistance.

**Recommendation (Sl. No. 7, Paragraphs 8 & 9)**

10. The Committee find that there are a number of eligibility conditions laid down on account of which some of the State Power Utilities are not eligible for availing PFC's loans. Perhaps this is one reason why sanctions and disbursements of loans have not picked up so far. On the basis of recommendations made by a Committee of Directors appointed by PFC to review the lending policies of the Corporation, a number of changes were stated to have been brought about in the lending policies which inter alia includes a decision to finance projects in Central, municipal and private sector. A number of difficulties faced by the utilities with regard to the lending operations of PFC were brought to the notice of the Committee, viz. non-funding of expenditure on ancillary items, levy of commitment charges at the rate of 1% per annum on the undisbursed amount of sanctioned loan, delay in sanctioning of loans, levy of penal interest at the rate of 2.5% over and above the normal interest in the event of default, etc. After having considered the comments of PFC on these, the Committee feel that the Corporation should adopt a more client-oriented approach in its operations. While agreeing with PFC's view on the need for applying certain deterrents to ensure timely repayment of loans and completion of projects, the Committee desire that the Corporation should bear in mind that it is a service institution engaged in helping utilities in power development. The Committee suggest that the lending policies of the Corporation should be more positive, pragmatic and flexible.

**Recommendation (Sl. No. 8)**

11. The normal time taken by PFC for processing loan applications is about four months. The loan applications which were delayed by more than six months were 29%, 15% and 20% during the years 1992-93, 1993-94 and 1994-95 respectively. According to PFC the applications are generally delayed on account of failure on the part of the borrower to provide necessary data. A number of measures have reportedly been taken by the Corporation to overcome delay in processing of loan applications. Even more delay is said to be occurring in the disbursement of loans. One reason for such delay is undue delay on the part of the State Government in furnishing guarantee. PFC suggested that system of bulk guarantee by the State Government could obviate the delay. Three State Governments have

already done it and others are yet to take a decision although they have no reservation in this regard. The Committee desire that the Corporation should devise a very efficient system for processing of applications and disbursement of loans. In view of the fact that timely implementation of projects by SEBs/SGCs is linked with the disbursement of loan by PFC, all avoidable delays should be dispensed with. To overcome delay on account of guarantee, the Committee suggest that the Ministry should take up the matter with the State Governments at the highest level and impress upon them the need to provide for bulk guarantee for PFC loans.

#### Recommendation (Sl. No. 9)

12. From 1990-91 to 1994-95 the total amount of loan sanctioned by PFC was 7943 crores and the amount disbursed was 5309 crores. While the sanctions, which declined from 1347.52 crores in 1990-91 to 620.11 crores in 1992-93, went up 1684.38 crores in 1994-95, the disbursements which stood at 894.86 crores in 1990-91 increased to 920.05 in 1991-92, but continued to remain low in the subsequent years viz. 612.97 in 1992-93, 707.51 in 1993-94 and 792.41 in 1994-95. From a scrutiny of loans sanctioned to Power Utilities, it is observed that there is a severe imbalance in the financial assistance provided by PFC to various States. One of the reasons advanced by PFC for the decline in sanction of loans in non-eligibility of some of the utilities after the new eligibility criteria was introduced in 1991. It is stated that some of the SEBs have not formulated acceptable OFAPs or improved the performance level as required under the eligibility norms laid down by the Corporation. However, this contention of the Corporation does not appear to be fully correct, since the level of acceptance of OFAPs and eligibility criteria of utilities have progressively improved over the years. On the other hand, the sanctions have not improved in keeping with the increase in the eligibility of utilities, not to mention about the disbursements which have remained lower than what was achieved even in 1990-91. Admittedly, some of the eligible borrowers have reached their maximum borrowing limits. The Secretary, Ministry of Power was candid in admitting that PFC's lending operations have not picked up to the level of the Government would have wanted and also the failure of the Corporation in extending assistance equitably to various States. In actual practice, the operations of the Corporation were getting confined to only certain regions and better run SEBs. The Committee are, therefore, not at all impressed by the lending operations of PFC. In Committee's view not only has PFC failed to expand its activities in terms of lending and disbursement equitably to all regions of the country but some of the States continued to remain almost totally deprived of the assistance rendered by the Corporation. The Committee, therefore, strongly emphasise the PFC should make every earnest effort towards ensuring that all bottlenecks in the lending operations of the Corporation are removed. A greater coordination and a closer interaction on the part of PFC with the State Governments is also called for so that some of the bottlenecks which SEBs are facing from their respective

State Governments such as delay in releasing subsidy and clearance of tariff revision proposals, etc. could be removed more expeditiously. They are of the considered view that in keeping with the increasing demand of financial assistance in the power sector, PFC should emerge as a nodal financial institution for the state power utilities and expand its lending operations to all the regions equitably.

**Recommendation (Sl. No. 10)**

13. In November, 1990 PFC formulated an Operational Policy Statement (OPS) aiming to bring about progressive improvement in the working of its borrowers. According to the OPS, the Corporation would assist only those State Power Utilities which were agreeable to evolve an action plan called Operational and Financial Action Plan (OFAP) in a time-bound manner to bring about operational and financial improvements in their working with the objective of achieving 3% rate of Return (ROR) and generating internal resources for investment in new projects. According to the Ministry, OFAPs were formulated by twelve SEBs, six SGCs and one Municipality run utility. As against five Electricity Boards which were earning 3% ROR earlier, eleven utilities had recorded the statutory ROR or even more. According to the Corporation, OFAP has helped in bringing about substantial improvement in the working of the utilities, besides motivating the State Governments to review the power tariff periodically and meet the needs of subsidy to the SEBs. The OFAP is monitored by an expert group of officers in PFC. For further institutional development of power utilities diagnostic studies are conducted and information relating to power improvement are disseminated through workshops, seminars, etc. organised by the Corporation. As also training is imparted in India and the USA to the employees of SEBs in areas like finance and management. According to PFC, as part of the institutional development brought about by the Corporation, there is considerable reduction in T&D losses and improvement in PLF and urban distribution system.

14. Although certain improvements have been brought about in some spheres of operation of State Power Utilities as a result of the initiatives taken by PFC, the Committee feel that there is no reason to be complacent about whatever little has been achieved in view of much that remains to be done. They find that the impact of PFC as development financial institution over the power utilities has been confirmed to certain better run SEBs which have been able to turn the corner. According to the Committee, the Corporation has a greater responsibility towards the badly run and sick SEBs keeping in view PFC's role as a development financial institution. There is very little that PFC has done as far as development of such utilities are concerned. The Committee desire that PFC should, without further loss of time, reorient its activities in such a manner that while continuing to assist the utilities which have already met the eligibility criteria, the Corporation also gives adequate attention

and provides requisite motivation to those SEBs, etc. which have not met the eligibility conditions for availing financial assistance.

**Recommendation (Sl. No. 11, Paragraphs 13 & 14)**

15. In recent times environment pollution by power projects has been an area of considerable concern. The Environmental Assessment & Monitoring Unit (EAMU) of PFC, besides assisting in appraisal of environmental upgradation schemes sent by SEBs, helps the utilities in identifying areas which require environmental upgradation. The Corporation carried out environmental review of 6 thermal power stations in 1994-95 and helped them in the preparation of Environmental Upgradation Action Plans. In view of the increasing pollution around Thermal Power Plants, assistance is made available to projects for modernisation, augmentation and replacement of Electrostatic Precipitator (ESP). During the period from 1992-93 to 1994-95, PFC had sanctioned eight schemes amounting to Rs. 50.9 crores for installation of old ESP capacity and ash disposal system. In the year 1995-96 (upto August, 1995) PFC sanctioned Rs. 75.70 crores as loan for environmental upgradation. In view of the environmental threat posed by thermal power plants on account of increasing pollution, the Committee are anxious that PFC should pay more attention to the area of environmental upgradation by power utilities. If need be, more funds should be earmarked for environmental upgradation schemes.

**Recommendation (Sl.No. 12)**

16. Project Appraisal and Monitoring also has much significance as PFC is a development financial institution engaged in lending assistance to Power utilities in some priority areas. The appraisal of projects funded by the Corporation is done by the Project Appraisal Department under the Projects Division with its four groups—Thermal, Hydro, Transmission and Distribution—and the financial Appraisal Department. According to the Corporation, the appraisal of loan application is not only directed to ensuring that the selected project conforms to the priorities adopted by PFC and is financially and economically sound, but goes beyond to evaluate the institutional and financial status of the borrowing entity. The responsibility of monitoring of the projects is also with the Projects Division. Actual monitoring is done through monthly progress reports and on-the-spot visits. Through this exercise, PFC satisfies itself that the project implementation is being carried out according to targets and in a manner likely to achieve the objective for which the loan was given. A separate Monitoring Group is reported to have been set up by PFC recently to undertake monitoring of bigger projects. Commenting, however, on the appraisal and the monitoring system of the Corporation, the CMD, PFC had clearly stated that he was not satisfied and conceded that the entire system required to be strengthened further. According to the Government, on the basis of the study carried out by the Consultant, the Projects Division for appraisal and monitoring of Projects was strengthened through formation of regional

groups. Each Regional Group is stated to have been provided with personnel having expertise in different disciplines. However, during the time of examination of PFC by the Committee it was too early to assess the extent to which the restructuring had equipped the Corporation with the required infrastructure for effective appraisal and monitoring of projects. The Committee desire that Government should make a review to assess whether the restructuring has brought about the right reorientation in the appraisal and monitoring of Projects in PFC and, if need be, take corrective measures to improve mechanism.

#### Recommendation (Sl.No. 13)

17. PFC, being a financial institution operating in an increasingly competitive environment, needs a client-oriented and effective organisational structure. The Committee note that the Corporation had strictly regulated induction of manpower in keeping with the actual increase in workload so as to avoid any surplus in future. However, the Committee note that the sanctioned strength of manpower on the basis of internal assessment of workload carried out in 1990-91 remained 307, whereas the actual strength of manpower as on 31 March, 1994 was only 190. It appears that M/s. IDA consultants, New Delhi engaged by the Corporation to carry out organisational study did not review the aspect of manpower requirement in PFC. Since the magnitude of operations of the Corporation has remained almost stable and far below the original assumptions, the Committee feel that the sanctioned strength of manpower in PFC should be rationalised in the context of present level of operations. The Committee trust that with the implementation of organisational restructuring, greater operational efficiency and client-orientation must have been brought about in PFC which will go a long way in improving its performance.

#### (Recommendation S. No. 14)

18. The DPE guidelines also provide for appointment of part-time non-official Directors on the Board of PSUs. This helps to provide guidance of experts and professionals to PSUs at Board level. The Committee are astonished to find that the process for induction of three non-official Directors which started in 1991 could be implemented only in 1994 on account of exceedingly long time taken for approval of the proposal. According to the Ministry one of the three non-official Directors appointed on 13 July, 1994 resigned on 25 April, 1995. Another proposal for appointment of three non-official part-time Directors was sent to DPE on 20th September, and till 23 January, 1996 there was no response. After concurrence of the DPE the proposal is to be approved by the ACC before it could be formalised. The Committee strongly deplore such inordinate delays at all levels of decisions making in the Government. They are unable to comprehend as to how such a simple proposal, which is well within the DPE guidelines, should take about three years' time for approval by the Government. Yet another proposal for induction of professionals on the



Board is also stated to be awaiting approval. The Committee urge that these proposals should be cleared expeditiously and suitable persons inducted on the Board without further delay. They also desire that such delays, which are detrimental to the efficient functioning of the Corporation, should be avoided in future.

**Recommendation (Sl. No. 15)**

19. The Administrative Ministry do not seem to have taken the appraisal of performance of PFC seriously. Only six meetings were held in four years as against 16 meetings which should have been held according to the existing DPE guidelines. The Committee are not in agreement with the plea of the Government that the performance of the Corporation was discussed in other routine meetings held with ADB, World Bank, etc. from time to time. They are of the view that no meaningful appraisal can take place during such meetings. The Committee, therefore, desire that in future separate Performance Review Meetings should be held regularly for effective appraisal and monitoring of the functioning of PFC.

**Recommendation (Sl. No. 16)**

**NEW DELHI;**

**February 26, 1996**

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**Phalguna 7, 1917(S)**

**KAMAL CHAUDHRY,**

*Chairman,*

*Committee on Public Undertakings.*