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POWER FINANCE CORPORATION LIMITED

MINISTRY OF POWER

COMMITTEE ON PUBLIC UNDERTAKINGS 1996-97

ELEVENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

THIRD REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1996-97)

(ELEVENTH LOK SABHA)

POWER FINANCE CORPORATION LIMITED

MINISTRY OF POWER

[Action Taken by Government on the recommendations contained in the 50th Report of the Committee on Public Undertakings (Tenth Lok Sabha)]

सत्यमेव जयते

Presented to Lok Sabha and
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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 3rd Report on Action Taken by Government on the recommendations contained in the 50th Report of the Committee on Public Undertakings (Tenth Lok Sabha) on Power Finance Corporation Limited.

2. The 50th Report of the Committee on Public Undertakings (1995-96) was presented to Lok Sabha on 7th March, 1996. Replies of Government to all the recommendations contained in the Report were received on 9th September, 1996. The Committee considered and adopted this Report at their sitting held on 10th December, 1996.

3. An analysis of the action taken by Government on the recommendations contained in the 50th Report (1995-96) of the Committee is given in Appendix-II.

NEW DELHI;
17 December, 1996
26 Agrahayana, 1918 (S)

G. VENKAT SWAMY,
Chairman,
Committee on Public Undertakings.

CHAPTER I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Fiftieth Report (Tenth Lok Sabha) of the Committee on Public Undertakings (1995-96) on Power Finance Corporation Limited which was presented to Lok Sabha on 7th March, 1996.

2. Action Taken notes have been received from Government in respect of all 16 recommendations contained in the Report. These have been categorised as follows:—

(i) Recommendations/Observations that have been accepted by Government

Sl. Nos. 1 to 5, 7 to 14 and 16.

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies

Nil

(iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee

Sl. No. 6

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited

Sl. No. 15

3. The Committee desire that final replies in repect of recommendation for which only interim reply has been given by Government should be furnished to the Committee expeditiously.

4. The Committee will now deal with the action taken by Government on some of the recommendations.

A. Renovation & Modernisation

(Recommendation Sl. No. 3)

5. The Committee had noted that the role envisaged by the Planning Commission for PFC in power generation was 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 required huge capital investment but also involved long gestation period, the importance of focussing attention on the schemes aimed at better utilisation of the existing facilities gained all the more significance. While finding that the areas like bringing about improvements in the existing power units and minimising transmission and distribution loss had not received adequate attention, the Committee had stressed 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.

6. In their reply, the Government have stated that financial assistance to renovation and modernisation of thermal and hydel power plants is one of the priority areas of financing by PFC. Loans sanctioned by PFC in this area during 1993-94 to 1995-96 was Rs. 71.59 crores, Rs. 109.93 crores and Rs. 197.19 crores, respectively to its various borrowers. Amounts disbursed during the same period were Rs. 73.94 crores, Rs. 82.63 crores and Rs. 61.48 crores respectively. The transmission and distribution projects were stated to be another priority areas of financing by PFC. Loans sanctioned by PFC in this area during the year 1993-94 to 1995-96 were Rs. 1112.63 crores, Rs. 1346.40 crores and Rs. 936.40 crores respectively.

7. The Committee regret to note that although renovation and modernisation of power plants and transmission and distribution projects are stated to be priority areas of financing by PFC, the funds sanctioned/disbursed for these areas have shown a declining trend during 1995-96. The Committee would re-emphasise that PFC should concentrate more on schemes relating to renovation and modernisation of power plants and transmission and distribution projects.

B. Engaging of the private sector for Renovation & Modernisation

(Recommendation Sl. No. 5)

8. While observing that the funds sanctioned by PFC under the Renovation and Modernisation Programme had shown a declining trend the Committee had recommended that if the eligibility conditions laid down by the Corporation came in the way of implementation of priorities set at the national level, PFC should review its lending policies so as to make the benefits available to the maximum number of power utilities. The Committee had also recommended that Government should take a decision on engaging of the private sector for Renovation & Modernisation of power plants which had been achieving less than 30% PLF after considering all the merits and demerits.

9. In their reply Government have stated that PFC has reviewed its operational policy and relaxed loan conditionalities so that SEBs earning less than 3% rate of return could also avail financial assistance for R&M Schemes of Hydro and Thermal Power Plants. However, the reply is silent on engaging of private sector for such schemes.

10. The Committee are constrained to observe that while PFC has relaxed its loan conditionalities, the Government has not furnished reply in regard to engaging of private sector for Renovation and Modernisation of power plants. They recall that while agreeing with the view of the Committee that more thrust should be given to renovation and modernisation, the Secretary, Ministry of Power during evidence had stated that the Government would soon come out with certain guidelines for involving the private sector for renovation and modernisation of power plants which had very low PLF. The Committee would like to be apprised of the action taken by Government in this regard.

C. Transmission and Distribution Losses

(Recommendation Sl. No. 6)

11. The Committee had noted 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 was to reduce the losses progressively during the current plant period so as to bring it to 15% by the end of Ninth Plan. However, according to Economic Survey (1994-95) the commercial losses of SEBs in absolute terms had increase from about Rs. 4100 crores in 1991-92 to about Rs. 6300 crores in 1994-95 and was projected to increase further to about Rs. 7100 crores in 1995-96. Considering the seriousness of the problem, the Committee had desired that PFC should reorient its priorities in keeping with the national priorities so that more funds were made available under T&D scheme with a view to check both technical and commercial losses. In view of the increasing commerical losses, the Committee had recommended that greater thrust should be given to measures aimed at checking commercial losses by SEBs.

12. In their reply Government have stated that transmission, urban distribution, capacitor installation and other system improvement schemes which had been assigned high priority by PFC result in loss reduction and energy conservation in the power system. World Bank loan No. 3436-IN and ADB loan No. 1161-IND were being utilised in funding schemes aimed primarily at loss reduction and system improvement. Energy efficient measures such as installation of capacitors to reduce losses, reduction of LT/HT ratio by way of adoption of LT less distribution system were being encouraged by PFC. Installation of high accuracy trivector electronic meters on all the 11 KV and above voltage substations and for HT consumers for metering were being encourage for reduction in commercial losses and improvement in revenue collection. The Government have also stated that PFC was giving and would continue to

give greater thrust and encouragement to the various Power Utilities in formulation and financing of schemes aimed at reducing both technical and commercial losses in T&D systems.

13. The Committee are not satisfied with the reply of the Government. The Planning Commission had envisaged specific scheme during the Eighth Plan period to reduce the T&D losses which stood at 22-23% at the national level progressively and bring it to the level of 15% by the end of the Ninth Plan. On the contrary the facts emerging in the Economic Survey (1994-95) revealed that the commercial losses in the SEBs in absolute terms had increased steadily over the years. The resource crunch faced by the SEBs is not a hidden fact. The Secretary, Ministry of Power had admitted before the Committee during evidence that allocations both under the Plan funds as well as those sanctioned by PFC were not adequate to meet the requirements of resources for improving T&D network. It was in this context that the Committee had recommended that PFC should reorient its priorities in keeping with the national priorities so that more funds were available for improving the Transmission and Distribution System.

14. The Committee are constrained to find that the Government have not taken their recommendations seriously. The reply furnished by the Ministry only reiterate those steps which were already being taken by PFC for system improvement. In view of the tardy progress made by the SEBs in checking both technical and commercial losses so far, the Committee reiterate their earlier recommendation and desire that greater thrust should be given to system improvement in T&D network.

D. Board of Directors

(Recommendation Sl. No. 15)

15. The Committee had observed that till 23rd January, 1996 there was no response to a proposal for appointment of three non official part-time Directors which was sent to DPE on 20th September, 1995. Another proposal for induction of Professionals on the Board was also stated to be awaiting approval. The Committee had desired that the proposals should be cleared expeditiously and suitable persons inducted on the Board without any delay. They had also recommended that such delays which were detrimental to the efficient functioning of the Corporation should be avoided in future.

16. The Government have in their reply stated that the proposal for appointment of 3 non-official Directors which was sent for concurrence of DPE in September, 1995, had not been concurred to so far. It was also stated that the Minisry was making all out efforts to strengthen the Board of PFC. However, the reply is silent about the proposal for induction of Professionals on the Board.

17. The Committee regret to note that the proposal for appointment of three non-official Directors on the Board of PFC which was sent to the DPE on 20 September, 1995 has not been approved so far. They deplore such undue delay in decision making on the part of the Government. The Committee desire that the matter should be taken up with the DPE for clearance of the proposal expeditiously. They would urge that such delays should be avoided in future. The Committee desire that the proposal for induction of professionals on the Board should be expedited. The Committee also like to be apprised of the action taken by Government in this regard within three months of the presentation of this Report.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation (Serial No.1, Paragraph 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 improved efficiency and institutional development of its borrowing entitites. 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 betterrun SEBs. The Corporation's role in providing funds to utilities in priority areas like System Improvement, Transmission & Distribution and Renovation & Modernisation has continued to remaih lacklustre. 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.

Reply of the Government

1. Mobilisation of Resources

PFC's resource mobilisation effort is linked to its disbursement programme/plans. These plans/programme are drawn up on the basis of discussions with the borrowers and on the basis of Annual Plans for the State Power Sector finalised at the Planning Commission in Dec.-Jan. of every year. Further, the disbursement of funds by PFC is linked to the implementation of the projects. PFC funding to the State Sector is only supplemental and not a substitute to the funds allocated to the various power projects under the planning process.

As on 31/3/96 PFC's resource base is as follows:—

	(Rs. in crores)
Equity	1030.45
Bonds	1890.36
PDS	0.33
FCL	623.47
GOI Loans	460.00
Reserves	846.82
	4851.43

Thus in about 9 years of operations PFC has raised Bonds amounting to Rs. 1898 crores. It has also been successful in tying up two loans, one from World Bank and another from ADB for US$ 265 million and US$ 250 million respectively, for various identified projects of State Electricity Boards. Besides, PFC has arranged direct foreign currency loans for North Madras Thermal Power Project of TNEB, Rayal Seema Thermal Power Station of APSEB and Yelanhanka Diesel Power Project of KEB. These direct FCL have since been disbursed fully. The WB and ADB loans, under disbursal, are showing satisfactory progress.

PFC is vigorously exploring the possibility of raising a line of credit totalling US$ 1 Billion from the WB and ADB. It is also working on a proposal for a direct foreign currency loan of US$ 150 million through a loan syndication arrangement.

2. *Sanctions and Disbursements: Imbalance*

With the implementation of the Operational Policy Statement of the Corporation in Nov., 1990 and the eligibility conditions laid therein, the sanctioning process slowed down temporarily during 1991-92 and 1992-93 as only a few State utilities, to begin with, met the eligibility criteria. After touching a low of Rs. 620 crs. sanctions during 1992-93, the sanctions have substantially improved and reached a level of Rs. 1657 crs. during 1995-96. Similarly disbursement have moved up from Rs. 612 crores in the year 1992-93 to Rs. 1087 crores in the year 1995-96.

PFC in its nine years of operations has cumulatively sanctioned loans amounting to Rs. 9173 and disbursed Rs. 6311 (upto 31st March, 1996).

3. *Borrower Eligibility Criteria*

PFC funds Power Projects based on the techno-economic viability and the credit worthiness of the borrower. PFC funds, as per its OPS (Operational Policy Statement) are not preallocated to any one borrower/

State. As a FI, PFC has laid down eligibility criteria to be fulfilled by the borrower. These are as under:—

(a) Formulation of OFAP.

(b) Achievement of 3% ROR with subsidy on actual received basis.

(c) Timely submission of Annual Accounts.

(d) Provision of matching Planned funds.

(e) Availability of Sanction limit

(f) Non incidence of default with respect to prior loans.

So far 22 States have availed of PFC loan assistance. However, of late borrower base of PFC has narrowed, due to various reasons as detailed below:—

(a) Default in payments by Borrowers.

(b) Exposure limit not available.

(c) Non achievement of 3% ROR.

(d) Non release of subsidy by the State Government.

In line with the GOI policy on private power development, PFC has widened its lending portfolio to include the joint, central, municipal and private sector. It has also expanded its range of facilities by introduction of lease financing and bill discounting schemes. PFC in the near future would also explore the possibility of co-financing large power projects in collaboration with other FIs under a consortium arrangement.

4. Funds allocation for T&D, system improvement and R&M schemes

(a) *Policy Guidelines*: PFC has consistently accorded top priority to funding of T&D, Urban Distribution, System Improvememt and R&M sub-projects in its loan portfolio. The T&D and R&D schemes are eligible for higher funding (70 to 80% of project cost) relative to other schmes. Besides such projects are eligible for a lower rate of interest. Further, R&M and Schemes for Capacitors Installation qualify for relaxed loan conditionalities.

(b) *Loan Sanction for T&D, R&M and System Improvement*: The cumulative sanctions of loans for the abovementioned schemes, as on March 31, 1996 is given as under:—

1.	Transmission	3,469.41
2.	R&M (Thermal Power Stations)	545.64
3.	R&U Hydro	329.94
4.	Urban Distribution	1,364.10
5.	System Improvement	292.45
	Total	6,001.54

Thus, against cumulative sanctions of Rs. 9173.05 crores till March 31, 1996, the sanctions against above schemes stands at Rs. 6,001.54 crores, thereby getting a share of 65% in the total loan sanctions.

(c) *Quantitative Achievements:* The quantitative achievement recorded against the above schemes, as on March 31, 1996, is given as under:—

Sl. No.	Scheme	Quantitative Achievements (As on March 31, 1996)
1.	Transmission	— 14,845 ckt. kms of Transmission lines — 20,663 MVA of Transformation capacity.
2.	R&M (Thermal)	
3.	R&U (Hydro)	— 463 MW of capacity addition — 251 MW of capacity uprating — 158 Million Units of Electricity Generation
4.	Urban Distribution	— 4061 MVA of Transformation capacity — 3700 ckt. kms of Transmission lines — 626 MVAR of capactors
5.	Systems Improvement	— 6087 MVAR of shunt capacitors

[Ministry of Power O.M. No. 32024/30/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 2, Paragraph 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.

Reply of the Government

1) As mentioned in reply to Recommendation No. 1, PFC has cummulatively sanctioned loans amounting to Rs. 9173 crores and disbursed loans amounting to Rs. 6312 crores upto 31st March, 1996. So far twenty two States/UTs have been sanctioned loans by PFC.

2) PFC's funding is only an additionality and not a substitute to the Plan funds allocated to the various State Power Projects. The financial requirement of the State Power Sector being very large, amounting to Rs. 48,000 crores (as per 8th Plan document), PFC can, fund around 10% of the State Power Sector requirements.

3) PFC funding to the SEBs is conditional on the meeting of eligibility criteria and provision of matching plan funds to the power project. However, the SEBs by and large suffer from serious resources crunch due to a host of factors. This condition is reflected in the various States showing keen interest in the private power development and Reforms in recent years.

4) The efforts of the Corporation in the area of resource mobilisation has already been spelt out in reply to Recommendation 1.

5) In the above context it would be appropriate to draw reference to the recommendations of a Committee appointed by GOI to suggest measures for the improvement in the working of the Corporation. The recommendations of the Committee has been accepted in principle by GOI. The Committee has recommended PFC fund approx. 10% of the State Power Sector requirements. Further, the Committee has recommended that in the light of the larger role envisaged for private sector participation, PFC should, simultaneously, expand its clientele base to target funding of 5% of requirements of private sector. Towards this end, the Corporation has recently made policy changes enabling it to expand its borrower base so as to cover the Central, Joint, Municipal and the Private Sector. The Corporation has also introduced Leasing and Bill Discounting facilities.

6) The Committee summarized that PFC, is expected to make a significant contribution to the Power Sector, through disbursements of Rs. 1500 crores in the year 1996-97 and Rs. 4000 crores by the year 1999-2000. PFC has achieved Rs. 1087 crores worth of disbursement during the year 1995-96.

7) The Corporation is in the process of formulating a Corporate Plan for the period 1997—2002. and a perspective plan for a period 2002—2007.

[Ministry of Power, O.M. No. 32024/3/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 3, Paragraph 3)

As against the projected requirement of 48,000 MW capacity addition on all India basis 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 estimted to be only 20,729 MW. One of the major constraints coming in the way of capacity addition is scarcity of funds with SEBs. The Committee, however, noted 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 recieved 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.

Reply of the Government

Financial assistance to Renovation & Modernisation of thermal & hydro power plants is one of the priority areas of financing by PFC. Loan sanctioned by PFC in this area during the last 3 years i.e. 1993-94, 1994-95 and 1995-96 has continuously increased from Rs. 71.59 crores, Rs. 109.93 crores and Rs. 197.19 crores, respectively, to its various borrowers. Amounts disbursed during the same period are Rs. 73.94 crores, Rs. 82.63 crores and Rs. 61.48 crores respectively. PFC's funding is not only helping commissioning of new power units, but also bringing about improvement in the existing power units.

Again, Transmission and Distribution projects are another priority area of financing by PFC. Loans sanctioned by PFC in this area during the last 3 years, i.e., 1993-94, 1994-95 and 1995-96 are Rs. 1112.63 crores, Rs. 1346.40 crores and Rs. 936.40 crores, respectively. On an overall basis, for sound development of integrated system operation the ratio of investment, between generation and Transmission/Distribution is estimated to be 1:1. The PFC investments in Transmission & Distribution have ranged between 63% to 74% are much higher than the national average. Thus the recommendation of the committee is being implemented and would be continued by PFC.

[Ministry of Power, O.M. No. 32024/30/95-PFC, dated 6 September, 1996]

Recommendation (Serial No. 4, Paragraph 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; Renovation and 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. 211.68 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, boiling 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 emphasises that top priority should be given to providing conductors and installation of capacitors, etc. by PFC.

Reply of the Government

Financial assistance to capacitor installation and other system improvement schemes is one of the priority areas of financing by PFC. Loans sanctioned by PFC for capacitor installation during the last 3 years, i.e., 1993-94, 1994-95 and 1995-96 are Rs. 25.20 crores, Rs. 60.40 crores and Rs. 17.80 crores, respectively and amounts of disbursement during the corresponding years are Rs. 37.08 crores, Rs. 22.54 crores and Rs. 18.78 crores. Further, PFC has sanctioned Rs. 61.30 crores for system improvement and loss reduction to "LT less project for Jaipur district" to RSEB in 1995-96. During the last three years upto 1995-96, PFC has sanctioned Rs. 373.09 crores, Rs. 271.60 crores and Rs. 386.50 crores respectively for Urban distribution system/improvement projects/scheme covering distribution conductors, transformers, capacitors and accessories. Similarly, disbursements in these systems improvement schemes in last three years were Rs. 103.07 crores, Rs. 153.13 crores and Rs. 222.57 crores, respectively. Cumulatively till end March'96, PFC has sanctioned 185 loans worth Rs. 1364.10 crores for urban distribution system improvement schemes.

In the pre-revised as well as revised operational policy (under reference to MOP/WB/ADB) of PFC, the first priority is given to system improvement projects. Further, PFC is charging less interest rate for loans sanctioned to system improvement schemes. Again, to give a boost to capacitor installation, PFC has relaxed loan conditionalities so that even SEBs earning less that 3% ROR could also avail PFC's loan assistance.

Thus, PFC is giving and would continue to give top priority to capacitor installation and system improvement schemes/projects as advised by the Committee.

[Ministry of Power, O.M. No. 32024/30/95-PFC, dated 6 September, 1996]

Recommendation (Serial No. 5, Paragraph 5)

Renovation and 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 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.

Reply of the Government

In line with the recommendation of the Committee, PFC during 1995-96, reviewed its operational policy and relaxed loan conditionalities so that SEBs earning less than 3% ROR could also avail financial assistance for R&M schemes of hydro and thermal power plants. This will lead to a maximum number of power utilities availing benefits of PFC financing. Again, PFC is providing loan assistance for feasibility studies and life extension studies to promote speedy implementation of R&M schemes.

The non-eligibility of the SEBs in most of the cases emerge out of their inability to achieve 3% ROR or default in payments/repayments to PFC. Each of the SEB availing financial assistance from PFC has drawn up an Operational Financial Action Plan (OFAP) for implementation with acceptance of the State Govts. concerned. Under the OPS one of the obligations of the State Govt. is to pay subsidy to SEBs to achieve 3% ROR. PFC, through the instrument of OFAP is working in close coordination with SEBs and State Govts. concerned to get the subsidy released and also to get the tariffs revised, so that State Govts. and SEBs meet their obligation to ensure their eligibility. Inspite of such efforts some of the SEBs become ineligible due to non-payment of subsidy by the State Govt. concerned or the SEB becomes a defaulter making SEBs ineligible for PFC loans.

PFC during 1995-96 reviewed its loan conditionalities and as such is not insisting for 3% ROR for R&M and capacitor installation schemes. For environment upgradation schemes the elgibility criteria of 3% ROR and OFAP had already been relaxed.

The Committee's recommendations have thus been implemented.

[Ministry of Power, O.M. No. 32024/30/95-PFC, dated 6 September, 1996]

Recommendation (Serial No. 7, Paragraphs 8 & 9)

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 had 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 and 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.

Though the scheme which are being implemented by PFC with a view to encouraging involvement of the 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 dependent mainly on State Government 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 inadequancy 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.

Reply of the Government

PFC was set up as a developmental FI committed to the balanced growth and development of the Power Sector. This is reflected in the broad ambit of the Objects Clause contained in MOA. In its 9 years of operations, PFC's focus has been the State Power Sector (SEBs/SGCs/ ED) and, has, so far, disbursed loans totally for power projects in various States.

PFCs decision to expand its present borrowers' base to include private power projects, is in line with the GOI policy on private sector power development. In fact, PFC has adopted a very cautious approach all along, towards private sector power funding. PFC will continue to give priority to State utilities as well as Central Utilities, and funding to private sector will not be at the cost of State Utilities. Initially PFC would fund smaller private sector projects in co-generation, captive generation, R&M life extension, T&D etc. The lending for any one project would not be more than 20% of the project cost and PFC's exposure to a borrower will not exceed 15% PFC would also explore opportunities for considering consortium funding with the FIs.

Thus PFC's entry into private power funding does not reflect a dilution in its present role *vis a vis* the State power sector, but rather as a move aimed at encashing emerging opportunities in line with GOI policy.

TAP & PIF

As part of PFC's developmental activity, PFC has established Technical Assistance Project for Private Power Development (TAP-PPD) a US $ 20 million loan with World Bank assistance, under which PFC is financing the consultancy services being hired by power utilities for (i) evaluating outstanding project proposals, review proposed contractual arrangements and negotiate power purchase and other related agreements with private/ joint venture power promoters; (ii) the preparation, solicitation and evaluatioin of proposals and negotiations with selected bidders for the implementation of new power projects; (iii) the preparation, solicitation and evaluation of proposals and negotiations for privatisation of power projects.

Another developmental activity undertaken by PFC is to finance the Pre-invesment activities of the power utilities under the Pre-Investment Fund (PIF), a US $ 20 million component of the Power Utilities Efficiency Improvement Project; World Bank Loan No. 3436-In. Financial assistance under PIF is provided for (i) Preparation of feasibility or identification of power expansion or improvement schemes; (ii) preparation of feasibility studies for power schemes: (iii) preparation of detailed engineering for power schemes: (iv) preparation of studies of institutional nature and those necessary to improve the managerial, financial or operational efficiency of power sector or power utilities: (v) technical assistance and training necessary to implement actions recommended in the studies mentioned in (iv); (vi) studies necessary for system integration at regional or national level and for improved and efficient integrated operation; (vii) studies of a sectoral nature leading to improved sector-wide policies and efficiency. Status of these loans as on 30th June, 1996 is given below:

Under the TAP-PPD, against the allocation of US $ 20 million, PFC has sanctioned 13 loans amounting to US $ 20.107 million. However, three loan proposals, one each sanctioned to OSEB, WBSEB and RSEB were cancelled at their request. The value of these loans is US $ 3.632 million. Thus the effective sanctioned amount is US $ 16.475 million. The beneficiaries are APSEB, HSEB, TNEB, MESEB, GPCC, NVDA, GEB, KEB.

PIF

As regards PIF, PFC has sanctioned 27 schemes amounting to Rs. 104.96 crores against the PIF (World Bank resources) against the original allocation of Rs. 73.5 crores approximately. The beneficiaries are, APSEB, WBSEB, OSEB, RSEB, MESEB, KSEB, MPSEB.

PFC organised a workshop in which the borrowers were apprised about the availability of TAP and PIF loans and the benefits that would accrue to them by utilising the services of consultants. PFC is encouraging the utilities to utilise these loans for early cross-fertilisation of the benefits to be derived out better project preparation; improvement in the managerial, financial and technical fields of the power utilities, assisting power utilities in negotiating fair and equitable Power Purchase Agreements (PPAs) with Independent Power Producers (IPP) to ensure that SEB's risk in the projects developed by IPPs are minimised and they get most reasonable tariff for purchase of power from IPPS. PFC has waived off the conditions of applicability of OFAP for these loans. Moreover, to makes these loans soft, PFC is charging interest at highly concessional rates *viz.* 10% for TAP and 15% for PIF. PFC has been helping the borrowers in preparation of Terms of Reference (TOR), the bid documents comprising of Letter of Invitation, Data Sheet, Sample Contract for hiring the services of consultants and providing the information about the Data Bank on consultants etc. PFC has even been helping the power utilities in obtaining the requisite clearance from Reserve Bank of India, Income Tax clearances etc. for expeditious settlement of the bills of the consultants. PFC has also been helping borrowers to evaluate the bids received. However, the inertia prevailing within the SEBs to implement the Govt. of India's Private Power Initiative has been the main reason for slow progress of the Y.A. loan. Despite the best efforts made by PFC, SEBs are not coming forward to utilise this loan. PFC has been constrained to take the decision to short close the loan at the level of US $ 10 million; as it is expected that even by extended loan closing date (if agreed to by World Bank viz 31.12.1997), the anticipated utilisation would be US $ 12 million only . However, in case power utilities come forward to seek financial assistance for hiring the consultancy services, for the above objectives, PFC could consider to finance the same out of its own resources as and when the need arises. A step in this direction has been the establishment of the Pre-Invesment Fund out of PFC resources, PIF (PFC), by setting apart an amount of Rs. 5 crores to finance such activities. As on date, 8 schemes valued at Rs. 3.73 crores have been sanctioned. The beneficiaries are, APSEB, TNEB, GPCL. The progress acheived is quite satisfactory. In case need be, additional allocation of funds could be made under the PIF (PFC) to meet the financing requirements of the borrowers for the objectives listed under PIF loan.

[Ministry of Power, O.M.No. 32024/30/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 8, Paragraph 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 availaing 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 *ihter 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 in 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.

Reply of the Government

The Committee suggest that the lending policies of the Corporation should be more positive, pragmatic and flexible. The Corporation has already started taking steps in this direction. The Corporation has already relaxed condition of achieving 3% rate of return in the case of environmental, R&M Schemes, schemes for installation of capacitors.

PFC has brought about a number of changes in its lending policies as under

(i) Eligibility criteria for Environment upgradation, capacitors and R&M shceme have been relaxed by the PFC Board as follows:-

(a) Environmental Upgradation Scheme:

(i) The condition regarding formulation and acceptance of OFAP need not be insisted upon.

(ii) Achievement of stipulated Rate of Return (ROR) need not be insisted upon but the borrower should undertake to open ESCROW A/C in favour of PFC and should also provide State Govt./Bank guarantee.

(b) R & M Scheme:

The Eligibility condition of 3% ROR has been relaxed and accordingly not to be insisted upon.

(c) Capacitor Scheme:

(i) Capacitor installation scheme shall be considered for PFC assistance on the same manner as applicable to R&M scheme.

(ii) The Board of Directors in its 110th meeting held on 19.04.96 has approved that borrowers may be given option to pay upfront free of 1% of loan amount sanctioned in lieu of commitment charges as is being charged in other financial institutions.

(iii) The Corporation has revised its loan documents i.e. Memorandum of Agreement, State Govt. Guarantee deed and sanction letter alongwith terms and conditions for loan to SEBs/SGCs etc. The revised term & conditions include following revision regarding commitments charges and penal interest:—

(a) Commitments charges are being charged on quarterly drawal schedules instead of annual drawal schedules.

(b) Penal interest is being charged on quarterly rests instead of daily compounding basis.

(iv) The Board of Directors in its 103rd meeting held on 09.10.95 and approved that penal interest charged from borrower shall be subject to rebate of different rates, provided the repyament of dues is received in the following manner:—

(a) In case the payment is received within one month of the date on which the repayments became due 50% of the penal interest due from the date of default till the date of receipt shall be given rebate.

(b) In case the payment is received within two months of the date on which the repayments became die 30% of the penal interest due from the date of default till the date of receipt shall be allowed as rebate.

(c) In case of payment is received within three months of the date on which repayments become due: 10% of the penal interest due from the date of default till the date of receipt shall be allowed as rebate.

(d) No rebate shall be given in penal interest in case of default of over three months.

PFC approach has been customer oriented in its operation. As part of this, the Corporation did take initiatives at regular intervals to organise meetings at the level of Chairman SEBs/Secretary (Power), State Govts., with CMD, PFC. Some of the decisions to relaxed the conditionalities/ streamlining of procedures have been as a result of such meetings.

Adopting a pro-active role to cut down the delays, the Corporation set up a working group in July, 1993 to review the procedures connected with loan sanctions and disbursements. Based on the recommnedations made by the working group a simplified procedure for loan appraisal, documentation and disbursement has been implemented. Loan application formats have also been prepared.

[Ministry of Power O.M. No. 32024/30/95-PFC, dated 6 September, 1996]

Recommendation (Serial No. 9, Paragraph 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 application. 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 disbursal 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.

Reply of the Government

In order to expedite processing of loan proposals, PFC has already carried out revision in its procedure for processing of loan proposals, execution of loan and loan disbursements as per the recommendations of the working group set up for simplification and streamlining of existing procedures for processing loan proposals from SEBs, loan execution and loan disbursements.

Further, CMD/PFC organised meetings with the chairmen of all State Power Utilities and Energy Secretaries of State Govts., one in Oct.'95 &

second in April, 1996, in order to better understand the expectations which the State Power Utilities may have from PFC and to evolve a common strategy to reorient our operations.

Keeping in view the Committee's recommendations, PFC has set targets and all efforts are being made by PFC to sanction the loan proposals within one month after the receipt of all informations on loan proposals, and to release disbursement of claims within seven days of receiving the claims with complete documentation. PFC is already working with the above targets in its day to day operations.

[Ministry of Power O.M. No. 32024/30/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 10, Paragraph 12)

From 1990-91 to 1994-95 the total amount of loan sanctioned by PFC was Rs. 7943 crores and the amount disbursed was Rs. 5309 crores. While the sanctions, which declined from Rs. 1347.52 crores in 1990-91 to Rs. 620.11 crores in 1992-93, went up to Rs. 1684.38 crores in 1994-95, the disbursements which stood at Rs. 894.86 crores in 1990-91 increased to Rs. 920.05 crores in 1991-92, but continued to remain low in the subsequent years viz. Rs. 612.97 crs. in 1992-93, Rs. 707.51 crores in 1993-94 and Rs. 792.41 crores in 1994-95. From a scrutiny of loans sanctioned to Power utilities it is observed that there is 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 is 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 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 that 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 into 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.

Reply of the Government

As pointed out in reply to Recommendation 1 PFC does not pre-allocate funds to the State. As a Financial Institution, PFC funds project on the basis of techno-economic viability and credit worthiness of the borrowers. Borrowers to qualify for loan assistance, have to meet certain eligibility criteria, which have been drawn up keeping in view the interest of PFC as also the borrowers overall financial health and debt servicing capability. For instance, OFAPs a key eligibility criteria aims at improving the operational, financial and managerial performance of the borrowing utilities. The eligibility criteria laid down by PFC thus provides the framework for the borrowers to improve and perform better and qualify for higher level of assistance. As such the eligibility criteria need not be viewed as a deterrent on PFC's lending operations. .

PFC fixes ceiling for borrowing for individual utilities on the basis of their debt servicing capability and the quality of security cover provided in the form of ESCROW A/cs/State Govt./Bank Guarantee etc. One of the key element impacting on PFC's lending operation is incidence of defaults by the borrowers. As per the operational policy statement of PFC, defaulters would not qualify for further sanctions/disbursement. This is a practice normally followed by all Financial Institutions.

Dip in the Disbursement in 1992-93

The Hon'ble Committee has referred to the dip in the disbursement level during the year 1992-93. In this regard it may be pointed out that the operational policy statement adopted by PFC in November, 1990 provided for certain eligibility conditions which had to be met by the borrowers by 30th June, 1991, so as to qualify for further loan. However, there was delay on the part of the borrowers (SEBs/SGCs) in this regard and as a result sanctions, disbursement during the subsequent year in the 1992-93, took a dip. However there has been a gradual improvement since then, with sanctions reaching Rs. 1657 crores and disbursements attaining Rs. 1087 crores for the year 1995-96, representing a 40% average growth in sanctions and 20% growth in disbursement. Since 1990-91 disbursement is linked to actual implementation of the financed project. To cover more

States for funding PFC has also relaxed some of the eligibility conditions as pointed out in reply to Recommendation No. 8.

Interaction with State Govt.

PFC does on a continuous basis interact with the borrowers (SEBs/SGCs) and their respective State Govts. for resolving various outstanding problems. The Corporation has recently started organising face to face 'Customer Meet' which have been highly useful from PFC as well as borrowers point of view.

The Corporation has been restructured to lend a customer focus to its operations. Under the revised structure the project appraisal group has been reorganised on a regional basis and a focussed approach adopted by putting into place, a coordinator for each State.

PFC as a Nodal FI

PFC is making continuous effort to emerge as a nodal agency in power sector. Towards this end the following initiatives have been taken.

- Expansion of lending portfolio to include joint, central, municipal and private sector.
- Commencement of lease financing and bill discounting operations.
- Modification of lending policies.
- Simplification of loan documentation.
- Organisational restructuring.
- Improved decision-making systems through integrated computerised network.

Apart from tapping the domestic financial market the Corporation is also actively exploring mobilisation of funds from multilateral agencies, Overseas Banks and other agencies in the debt and capital markets. The Corporation would actively seek opportunities through consortium financing, loan syndication etc. The Corporation is already working on the development of the Corporate Plan which envisages a nodal role for PFC in the Power Sector.

[Ministry of Power O.M. No. 32024/30/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 11, Paragraphs 13 & 14)

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.

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 not reason to be complacent about whatever little have been achieved in view of much that remains to be done. They find that the impact of PFC as a 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.

Reply of the Government

Adopting a pro-active role PFC is in close inter-action with the SEBs and State Govt. for making efforts to see that more and more SEBs become eligible for PFC funding. As on June 1996, 14 SEBs, 7 SGCs, 1 Deptt. run utility, 1 Joint Sector and 1 Municipal run undertaking have signed OFAP with the PFC duly approved by the State Govt. PFC has relaxed eligibility conditions for environmental upgradation schemes, technical assistance for pre-investment studies etc. under pre-investment fund for private power development under technical assistance project, renovation and modernisation scheme, Schemes for capacitor installation. In the revised Operational Policy Statement (under reference to Mop/ WB/ADB) OFAP relaxation is provided for schemes involving procurement o' energy meters. Also utilities seeking PFC assistance for the first time, even when they could not achieve 3% ROR, could be considered provided they commit under the OFAP improvement in performance levels for achieving this said ROR within a period of 3 years.

In order to expedite the process for formulation of OFAP, PFC has been considering financial assistance on softer term under pre-investment fund for hiring of consultants for carrying out diagnostic study. Similarly departmental utilities of North-eastern region have been offered grant for carrying out diagnostic study.

[Ministry of Power O.M. No. 32024/30/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 12, Paragraph 15]

In recent times environment pollution by power projects has been an area of considerable concern. The Environmental Assessment and 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 Precipitators (ESPs). 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 by, more funds should be earmarked for environmental upgradation schemes.

Reply of the Government

PFC gives high priority to environmental upgradation schemes of power sector. In order to identify the environmental upgradation activities and to assist in formulation of cost effective schemes for environment protection, Environmental assessment & monitoring unit (EAMU) of PFC has carried out environmental review of 26 Thermal Power Stations. So far, PFC has sanctioned loans worth Rs. 229.63 crores for environmental upgradation of Power Sector.

To assist ineligible Utilities also, for availing loan for environmental upgradation activities, PFC has relaxed several loan conditionalities (*viz.* fromulation of OFAP, 3% ROR). PFC is also charging lesser interest rate for loans sanctioned to its borrowers in this area.

The PFC is giving and would continue to give priority to environmental upgradation schemes as advised by the Committee.

[Ministry of Power O.M. No. 32024/30/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 13, Paragrph 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 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 the mechanism.

Reply of the Government

There is a separate monitoring and MIS Group comprising of presently two Senior Managers besides other executives reporting directly to the Director (Projects) for ensuring monitoring of the progress of the Projects financed by PFC. The monitoring function has thus been separated from the Project Appraisal function which is divided on geographical basis among four regional groups. The experience after segregation of the monitoring function from the project appraisal activities has been found to be encouraging as the monitoring group is regularly seized of the feedback of project implementation status.

[Ministry of Power O.M. No. 32024/30/95 PFC dated 6 September, 1996]

Recommendation (Serial No. 14, Paragraph 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 31st 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.

Reply of the Government

Although the manpower budget sanctions for the year 1990-91 was pegged at 307, the Board of Directors had engaged M/s. ID Associates, Consultants to carry out an organisational study while deliberating on the manpower budget sanction for the year 1993-94. After the submission of the organisational study report and on further assessment of the manpower requirements on the basis of existing and emerging areas of operations, the Board of Directors revised the said sanction of manpower to 240 for the period till 31.7.97. Currently PFC has 207 employees on its own. The budget manpower strength has been rationalised keeping in view the current context of operation. PFC subscribed to the philosophy that a Development Financial Institution should be executive oriented and should remain lean and compact organisation to become commercially vibrant and responsive. The implementation of organisational restructuring undertaken after the organisational study by M/s. ID Associates has contributed to delaying and consequent delegation of responsibility and accountability to different levels and layers in the organisation hierarchy and has thus increased the client orientation and professional efficiency.

[Ministry of Power O.M. No. 32024/30/95-PFC dated 6 September, 1996]

Recommendation (Serial No. 16, Paragraph 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 non-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.

Reply of the Government

The recommendation of the Committee has been noted. The appraisal of the performance of the Corporation is being held quarterly.

[Ministry of Power O.M. No. 32024/30/95-PFC, dated 6 September, 1996]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES.

-NIL-

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 6, Paragraphs 6 & 7)

The Transmission and Distribution (T&D) System in the country is overloaded 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 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 in only about 10 to 12% and the remaining is on account of commercial loss including pilferage, faulty meter, etc.

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 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.

Reply of the Government

Transmission, Urban distribution, capacitor installation and other system improvement schemes which have been assigned high priority by PFC, result in loss reduction and energy conservation in the power system. World Bank loan no 3436-IN and ADB loan no. 1161-IND is being utilised in funding schemes aimed primarily at loss reduction and system improvement. Energy efficient measures such as installation of capacitors to reduce losses, reduction of LT/HT ratio by way of adoption of LT less distribution system are being encouraged by PFC.

Installation of high accuracy trivector electronic meters on all the 11 KV and above voltage substations and for HT consumers for metering are being encouraged for reduction in commercial losses and improvement in revenue collection.

Keeping in view the observation of the Committee, PFC is giving and would continue to give greater thrust and encouragement to the various Power Utilities in formulation and financing of schemes aimed at reducing both technical and commercial losses in T&D systems.

[Ministry of Power, O.M. No. 32024/30/95-PFC, dated 6 September, 1996]

CHAPTER V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Serial No. 15, Paragraph No. 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 13th July, 1994 resigned on 25th April, 1995. Another proposal for appointment of three non-official part-time Directors was sent to DPE on 20th September, 1995 and till 23rd 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 decision 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.

Reply of the Government

Out of the 3 non-official Directors appointed by GOI on the Board of Directors of PFC, one Director resigned on 25.4.95. Thereafter, a fresh proposal for appointment of another 3 non-official Directors was sent for concurrence of Deptt. of Public Enterprises in September, 1995. It has not been concurred to, so far. However, MOP is making all out efforts to strengthen the Board of PFC.

[Ministry of Power, O.M. No 32024/30/95-PFC, dated 6 September, 1996]

NEW DELHI;
17 *December*, 1996
26 *Agrahayana*, 1918 *(S)*

G. VENKAT SWAMY,
Chairman,
Committee on Public Undertakings.

APPENDIX I

MINUTES OF SEVENTH SITTING OF COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 10TH DECEMBER, 1996

The Committee sat from 15.00 hrs. to 15.30 hrs.

CHAIRMAN

Shri G. Venkat Swamy

MEMBERS

2. Shri Parasram Bhardwaj
3. Shri O. Bharathan
4. Shri Banwarilal Purohit
5. Shri Manabendra Shah
6. Smt. Sushma Swaraj
7. Prof. (Smt.) Rita Verma
8. Shri Kishore Chandra S. Deo
9. Shri Deepankar Mukherjee

•SECRETARIAT

1. Dr. A.K. Pandey — *Addl. Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri P.K. Grover — *Deputy Secretary*
4. Shri Cyril John — *Assistant Director*

2. The Committee considered the draft report on Action Taken by Government on the recommendations contained in the 50th Report of the Committee on Public Undertakings (1995-96) on Power Finance Corporation Limited and adopted the same.

3. The Committee authorised the Chairman to finalise the Report on the basis of factual verification by Ministry/Undertaking concerned and to present the same to Parliament.

The Committee then adjourned.

APPENDIX II

(*Vide* Para 3 of Introduction)

Analysis of the Action Taken by Government on the recommendations contained in the 50th Report (10th Lok Sabha) of the Committee on Public Undertakings (1995-96) on Power Finance Corporation Limited.

I.	Total number of Recommendations	16
II.	Recommendations/Observations that have been accepted by the Government (*vide* recommendations at Sl. Nos. 1 to 5, 7 to 14 and 16)	14
	Percentage to total	88%
III.	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	Nil
	Percentage to total	0%
IV.	Recommendations/Observations in respect of which reply of Government have not been accepted by the Committee (*vide* recommendation at Sl. No. 6)	1
	Percentage to total	6%
V.	Recommendations/Observations in respect of which final replies of Government are still awaited (*vide* recommendation at Sl. No. 15)	1
	Percentage to total	6%