

MINUTES OF THE 28th MEETING OF THE BOARD OF DIRECTORS OF CESC LIMITED HELD ON 31st MARCH 2010 AT DSM CONFERENCE HALL, BESCOM, KR CIRCLE, BANGALORE

Members Present:

Shriyuths/Smt

1. K Jairaj : Chairman
2. M Govindappa : Managing Director
3. R Veeranna Setty : Director-Technical
4. S Sumanth : Director
5. Alok Mohan : Director
6. SC Kalasad : Director
7. Parvathy Keshavachar : Director
8. L Ravi : Director
9. M Nagaraju : Director

Leave of absence was granted to Shri C Shama Rao, Director

By invitation:

1. Devaprasad : Financial Adviser
2. M Shanthi : CEE (Mysore)
3. Gopalkrishna DS : Controller - Internal Audit
4. D Chandra Nayar : SEE (Purchase)

In attendance

- R. Balasubramanian : Authorized signatory

At the outset, the Board expressed its profound condolences on the untimely and unexpected demise of AN Ramesha, Managing Director and prayed for his soul to rest in peace. The Board remembered his services to CESC to make it a competent service provider and regretted at losing the services of a sincere and good officer. The Board desired to convey the sentiments of the Board to the bereaved family and also ensure prompt settlement of his death cum retirement benefits.

The Board welcomed Shri M Govindappa on his appointment as Managing Director.

The Board noted the need to authorize officers for the purpose of e-filing during FY 2010-11 and

Resolved that the on line returns under the Companies Act to be filed with the Department of Corporate affairs, GoI be filed under the digital signature of the Managing Director and/or any of the Directors

Item No. 28/1: Confirmation of minutes of 27th Board meetings held on 19.1.2010

28/01.01 The Board approved the minutes of the 27th meeting as circulated.

Item No. 28/2: Action taken report on the minutes of 27th Board meeting held on 19.01.2010

28/2.01 The Board noted the action taken report on the minutes of the 27th meeting.

Item No.28/3: Physical and financial progress

28/3.01 The Board was apprised of the status of progress on various system improvement works. Managing Director informed that all drinking water schemes, streetlights and gram panchayat connections are metered and bill preferred.

28/3.02 The Board discussed at length the performance in various parameters. It observed that there was very little progress in respect of reconductoring works which are significant for loss reduction. The Board desired that the Managing Director should review the distribution losses. The Board further desired to know whether payments under RGGVY are verified with reference to works carried out. It was informed that the bills are verified by Audit and also there is third party inspection for which CPRI has now been appointed with the exit of the NTPC entity.

28/3.03 The Board observed that there is a large number of transformers failing and also large addition of transformers. Financial Adviser informed that there is an issue of accounting and as per the prevailing practices, failed transformers are accounted in

the asset released list and after repairs brought under new asset. The Board felt that as this issue was common to all ESCOMS, a group of Financial Advisers from the ESCOMS may discuss the accounting issues to ensure consistency and adherence to accounting norms.

28/3.04 The Board examined the DCB analysis and observed that there has been an increase in demand of about 17.26%. This is mainly on account of tariff revision and increase in demand on account of IP sets. The Board noted that the collection efficiency has been coming down and that the receivables from the Government installations and IP sets were about Rs.988 crores out of the total outstandings of Rs.1048 crores. The Board felt that the Audit Committee could look into the revenue management aspects such as the effect of tariff revision, impact on collection and expenditure, measures for improvement of collection and realization of arrears. The Board felt that short term plan should be evolved for collection of arrears from the soft and hard categories. Similarly, it was felt that in respect of vigilance cases also there was a need to improve the collection within three months and that the penalties levied are realized. The Managing Director agreed to look into the issues of revenue management in consultation with the Audit Committee and come up with the action plan to the Board.

Item No 28/4: Capital Budget for the year 2011

28/4.01 The Board was informed of the capital budget proposals for Rs.438.40 crores including Rs.138.24 crores towards spill over works and Rs.300 crores for new works.

28/4.02 The Board perused the proposals for capital budget. It noted that substantial provision has been made for civil engineering works. It was clarified by the Managing Director that the civil works included building of offices and quarters. Shri Nagaraju observed the need for quarters in most of the places where the offices are located. It was informed to the Board that KPTCL is retaining its hold over the quarters and it had not yet transferred them to ESCOMS. The Board felt that provision of good staff quarters would be an incentive for people serving outside in far flung locations. It is necessary that Director (Technical) and Managing Director should build up a staff quarter policy plan for being

implemented over the next three to four years. Area wise, the number and type of quarters to be built up could be assessed and suitable action taken. Grouping of officials could also be done to minimize the number and type of quarters to be built.

28/4.03 The Board also felt that the spillover works must have a time frame for completion and these should be attended to on priority if they are in the nature of improvement works which would lead to loss reduction.

28/4.04 The Board after discussions felt that in the context of financial constraints, it would be prudent to prioritize the capital works to be undertaken. Only the essential works such as Ganga Kalyan schemes, drinking water supply works, DTC metering and 11 Kv feeder improvements could be taken up on priority. The Board noted that GoK has been releasing funds by way of grant or equity. Regarding funding for NJY works, the position will be known in the near future. As such, the Board felt that an interim budget of Rs.150 crores could be approved and the balance budget could be reviewed in June when the position regarding financial support from the Government becomes clear. In the mean time, Managing Director could endeavor to complete the spill over works by June. The Board therefore

Resolved that an interim budget of Rs.150 crores be approved and the Managing Director authorized to take up the spill over works of NJY, Ganga Kalyan, water supply schemes DTC metering and 11 Kv improvement works on priority

Item No.28/5: Financial tie up with M/s PFC Ltd., New Delhi for implementation of Part 'B' of R-APDRP

28/5.01 The Board was informed of the scope of R-APDRP project being undertaken in 12 towns, the total estimated cost of DPRs amounting to Rs.103.14 crores, sanction of 25% of the project cost as loan through PFC, the terms and conditions of the loan, documentation sought by M/s PFC, the need to raise balance 75% of the cost of the project through loan from FIs/Commercial Banks and the proposals.

28/5.02 The Board noted the proposal was in line with the project already covered under R-APDRP and that it was necessary to provide the approvals as sought by M/s PFC. The Board after discussions

Resolved that the Company do accept the offer of Power Finance Corporation Ltd. (PFC) to provide to the Company financial assistance of Rs. 25.79 Crores (Rs. Twenty five crores and seventy nine lakhs only) in terms of its sanction letter No. 02:10: R-APDRP(P-B): 2010:CESC, Karnataka, dated: 19.03.2010 and formally convey the same to PFC;

Resolved further that the Company do execute the agreements, Power of Attorney, undertakings, deeds of hypothecation, and also any further agreements, documents, deeds and/or undertakings as may be necessary for availing of the said financial assistance and any disbursement (s) interim disbursement(s);

Resolved further that Superintending Engineer(E), Projects of CESC, Mysore be and are hereby authorized to agree to and accept any changes and modifications in the terms and conditions contained in the said letter of sanction and Memorandum of Agreement and to accept and execute any amendments to any deeds, documents and other writing including the Agreement as and when necessary

Resolved further that the company do accept to secure the loan by creating a charge on assets (Movable/immovable) situated/located within the jurisdiction of the company in favour of PFC;

Resolved further that Superintending Engineer(E), Projects of CESC, Mysore be and is hereby authorized to execute such deeds, documents and other writings as may be necessary or required for the purpose aforesaid;

Resolved further that the loan sanctioned by PFC shall be secured by creation of charge in favour of PFC on the assets (Movable/immovable) of the Company situated within the jurisdiction of the company/by Guarantee to be issued by the State of Karnataka

Resolved further that:

- a. The Borrower shall not sell/transfer or abandon the project at any stage in any manner whatsoever without prior written consent of the Corporation;
- b. In case of sale/transfer/abandonment of the project or assets, the Borrower shall pay to PFC the entire outstanding dues in one installment or in a manner as may be agreed between PFC and the Borrower before such transfer is affected.

- c. If the project fails to take off for any reason whatsoever or project cost after bidding works out to be less than the advance released, PFC will have right to ask the borrower to return the outstanding loan including interest/other charges, if any.
- d. The borrower shall ensure that ring fencing shall be completed and the baseline AT & C loss level shall be verified within six (6) months from the date of sanction.
- e. The borrower agreed that all un-metered consumers are metered.
- f. The borrower shall submit previous year's (as of 31st March) AT&C loss figures of identified project area as verified by TPIEA-EA .
- g. The borrower shall also submit the completion certificate for Part-A project of RAPDRP as verified by TPIEA-IT
- h. The borrower shall implement the project in line with R-APDRP guidelines and orders (issued from time to time).
- i. The borrower shall furnish the declaration as per DPR format duly signed.
- j. The borrower shall maintain separate account head and bank account for R-APDRP funds i.e. disbursements/recovery of loans and/or grant.
- k. The Utility shall ensure that the balance funds of Part B Project (to be raised from PFC/ REC / multi-lateral institutions and/ or own resources) will be fully tied up within two months of the sanction of a Project.

Resolved further that the Common Seal of the company be affixed on the security documents, and any other documents, as may be required by PFC in the presence of MD/DT or SEE (Projects) CESC, Mysore

Resolved further that the Company do specifically note and confirm that unless and until the Memorandum of Agreements is/are entered into by the Company with PFC after compliance by the Company of all the requisite formalities and conditions to the satisfaction of PFC, the letter of sanction does not give rise to any binding obligation on the part of the PFC nor is PFC under any obligation or commitment to advance any moneys to the Company

Resolved that the Company do approach Power Finance Corporation Ltd. (PFC)/or any other financial institutions/commercial banks to provide to the Company financial assistance of Rs. 77.35 Crores (Rs. seventy seven crores and thirty five lakhs only) on mutually agreed terms;

Resolved further that the Company do execute the agreements, Power of Attorney, undertakings, deeds of hypothecation, and also any further

agreements, documents, deeds and/or undertakings as may be necessary for availing of the said financial assistance and any disbursement (s) interim disbursement(s);

Resolved further that Superintending Engineer(E), Projects of CESC, Mysore be and are hereby authorized to agree to and accept any changes and modifications in the terms and conditions contained in the said letter of sanction and Memorandum of Agreement and to accept and execute any amendments to any deeds, documents and other writing including the Agreement as and when necessary

Resolved further that the company do accept to secure the loan by creating a charge on assets (Movable/immovable) situated/located within the jurisdiction of the company in favour of PFC;

Resolved further that Superintending Engineer(E), Projects of CESC, Mysore be and is hereby authorized to execute such deeds, documents and other writings as may be necessary or required for the purpose aforesaid;

Resolved further that the loan sanctioned by PFC/FIs/commercial banks shall be secured by creation of charge in favour of PFC/FIs/commercial banks on the assets (Movable/immovable) of the Company situated within the jurisdiction of the company/by Guarantee to be issued by the State of Karnataka

Item No.28/6: Continuation of the sanctioned posts of SEE Projects, EE-Vigilance & EE - Technical on permanent basis

28/6.01 The Board was informed of the need to continue the posts of SE (Projects) and EE (Vigilance) and EE (Technical) on permanent basis to ensure smooth functioning of technical and vigilance activities.

28/6.02 The Board noted that in the context of vigorous vigilance activities and the improvement works being undertaken, it would be in the best interest of the company to continue the posts . Hence, after discussion, the Board

Resolved that the proposal to continue one post of SEE (Project), one post of Executive Engineer (Ele)-Tech, one post of Executive Engineer (Ele)- Vigilance on permanent basis in the Corporate Office be and is hereby approved and the Managing Director authorized to take necessary action in the matter

Item No.28/7: Approval for the payment of salary paid to Shri T Prabhakar, EE(Ele) at an extra cost

28/7.01 The Board was informed that since there was no vacant post of Executive Engineer (Ele) for the period from 26.09.09 to 12.10.09 an amount of Rs.27,438/- on account of salary payable has been paid to one Shri T. Prabhakar to relieve him of his duties from CESC for the administrative reasons.

28/7.02 The Board noted the circumstances under which payment had to be released to Shri T Prabhakar and concurred with the same as a special case.

Item No.28/8: Approval to revise the fees payable to Board panel of Advocates

28/8.01 The Board was apprised of the existing arrangement for dealing with litigation, the present scale of fees being paid, the request of the advocates for enhancement of the fees, the revision in rates in BESCOM and MESCOM and the proposal to adopt the same in CESC.

28/8.02 The Board noted the request for revision of fees payable to the panel of advocates and concurred with the same. The Board

Resolved that the proposal to revise the fee payable to the Company nominated advocates to adopt the rates already approved in BESCOM and MESCOM Board and as at annexure to the agenda note be and is hereby approved

Item No 28/9: Extension of TRM contract period

28/9.01 The Board was apprised of the existing arrangement for total revenue management, the expiry of the contract period, the need for extension of the existing contract period, the need for extension of the existing contracts in view of cancellation of tenders, the decision to put on hold the tender in view of R-APDRP project and examination of the compatibility of the soft ware.

28/9.02 The Board noted that the present service providers' contracts are on extension pending examination of the software compatibility. It was informed to the Board that elsewhere also the

same issue had cropped up and decision was taken to continue the service providers for short period pending finalization of tenders invited at short notice. It is possible to migrate the data from the service providers to the new agency and hence the issue of compatibility need not be a ground for not to go in for tender. The Board felt that the same approach could be adopted in CESC also. Accordingly, the Board

Resolved that in the matter of TRM contracts in CESC the existing contracts may be extended for a further period of 3 months during which short term tenders shall be floated and evaluated for fresh TRM arrangements for a period of one year or operationalisation of R-APDRP project whichever is earlier; fresh TRM tenders to be finalized by June end

Item No.28/10: Enhancement of Authorized Share Capital from Rs.150.00 crores to Rs.250 crores

28/10.01 The Board was apprised of the increase in share capital by way of conversion of a sum of Rs.70 crores out from out of the amount of Rs. 70.52 crores released towards payment of high cost power purchase, consequent need for increase in authorized capital to accommodate the conversion of loan into share capital and the proposal for amendment of the Articles of Association by the General body.

28/10.02 The Board took on record the interest free loan of Rs.70.52 crores released vide GO No. EN 86 PSR 2008/30.03.09 & conversion of Rs.70 crores from out of it to equity vide G.O No.EN 391 NCE 2008/31.03.09. The Board after discussions

Resolved that the proposal to convert the interest free Government loan of Rs.70 crores into equity be and is hereby taken on record and the Managing Director authorized to issue shares for an equivalent amount after enhancement of the authorized share capital through suitable amendment in the Articles of Association with the approval of the General body and to issue necessary shares to GoK, remittance of stamp duty to GoK/GoI and to comply with the statutory requirements including online filing of necessary returns; the authorized signatory is hereby authorized to convene the EGM for obtaining the approval of the General body

Item No.28/11: Enhancement of the borrowing limits from Rs.600 crores to Rs.1000 crores

28/11.01 The Board was informed of the present borrowings, the proposed borrowings for major projects like NJY, R-APDRP, DTC metering. The total borrowing likely to exceed the limit of Rs.600 crores fixed by the General body and need to increase the limit with the approval of the General body.

28/11.02 The Board felt that while the borrowing limit could be increased, it is also necessary to review the loan structure and compare the terms and conditions such as tenure, interest payment, repayment of principal and interest and explore the possibility of switch over to lower cost loans. Financial Adviser informed that presently the loans are in the range of 9% to 10%. With the infusion of fresh equity, the debt equity ratio would improve. But however the problem of debt servicing remains as the revenues are not adequate to meet the power purchase cost and establishment expenses besides debt servicing. The Board felt that the financial restructuring aspects would need to be studied further. However, in order to implement the programmes of the Government, it was necessary to go in for borrowings and accordingly

Resolved that the proposal to increase the borrowing limit from Rs.600 crores to Rs.1000 crores be and is hereby approved and the authorized signatory authorized to convene the EGM for obtaining the approval of the General body

Item No. 28/12: Concept of Niranthara Jyothy Scheme

28.12.01 The Board noted the concept paper relating to NJY scheme, highlighting the Gujarat example of Jyothi Gram Yojana and pilot experience of Malavalli taluk. The Board also noted that the NJY scheme has already been implemented as a pilot in Malur in BESCO and the studies have shown promising results by way of increase in voltage, higher availability of power and higher revenue collection.

28/12.02 The Board further noted that the total project cost of NJY scheme in CESC could be about Rs.496.24 crores for covering 24 taluks with total of 341 new 11 Kv feeders connecting 6798 villages.

The Board noted that proposals for implementing Phase-I had already been examined by the Board in its earlier meetings and approvals accorded for procurement of materials required for Phase-I. However, tenders for partial turnkey works to implement the Phase-I in 10 taluks were put on hold pending negotiations by the Purchase Committee and also funds tie up. The Board felt that now as GoK has come forward to provide some equity support and also several commercial banks have come forward to support the project, effort should be made to implement the scheme in a cost effective and time bound manner.

Item No.28/13: Cancellation and retendering of Partial Turn key works for implementation of NJY project

28/13.01 The Managing Director apprised the Board of the status of the partial turnkey tenders invited in 17 lots for 10 taluks, the negotiations carried out by the Purchase Committee as per the directions of the Board, the examination of the proposals and outcome of negotiations by the Purchase Committee, the recommendation of the Purchase Committee to cancel the tenders and to call for fresh tender.

28/13.02 The Board noted with regret the circumstances under which the partial turnkey tenders had to be cancelled. The Board noted that certain discrepancies had cropped into the tender enquiries despite following the normal practices and processes of preparation of DPR followed by tender processes. The Board felt that several inconsistencies observed by the Purchase Committee indicating significant variation in quantities would not reflect well on the technical capability of the organization. The Board observed that in the case of NJY works, the initiative was taken by BESCO and the ESCOMS had to respond and coordinate with BESCO and utilize the services of a service provider for e-tendering. In the present case, the re-tendering may not have impacted the progress of the project as such but has resulted in wastage of executive time which scarce. It is necessary that the Managing Director conducts a detailed enquiry to look into the short comings. The above case shall serve as an eye opener and provide insights into the checks and balance required to ensure minimum standards of work and to see that work is carried out efficiently, effectively and productively.

28/13.03 Managing Director/ MESCOM indicated that based on the exercises carried out in CESC it was possible to remedy certain deficiencies in BESCOM for award of works under NJY scheme and this has resulted in significant savings to an extent of Rs. 3 to 4 crores. The case of partial turnkey tenders highlights the need to follow procedures scrupulously and to ensure proper participation of technical, finance and audit units to ensure foolproof processes. The Board desired the Managing Director to submit his report by 30.6.2010

28/13.04 The Board after discussion took on record action taken to cancel the partial turn key tenders invited vide enquiry Nos. CESC/SEE/EEE/Proj/NJY/09-10/001, 002, 003 & 004 dated 23.11.2009 for 17 lots and to retender the same as recommended in the 42nd Purchase Committee meeting held on 20.03.2010.

Item No.28/14: Financial tie up for Niranthara Jyothy Project

28/14.01 The Board was apprised of the authorization given to Managing Director to enter into financial tie up with banks for funding the Nirantara Jyothi Scheme, the likelihood of loan offer from M/s Canara Bank and the desirability of accepting the offer to implement the scheme.

28/14.02 The Board noted the possibility of tie up with M/s Canara Bank. Under the circumstances explained, the Board

Resolved (i) that the Managing Director be and is hereby authorised to accept the term loan offer of Rs.250 crores or more from M/s Canara Bank/other commercial banks/financial institutions on mutually agreed terms and conditions;

(ii) Further the Managing Director and the Director (Technical) be and are hereby authorized to approve the loan documents and to execute the same under the common seal of the company and also to make necessary E-Filing with the Ministry of Corporate Affairs in respect of mortgage of Assets of the company;

Item No.28/15: Entrusting of annual maintenance contract of GIS

28/15.01 The Board was apprised of the salient features of the GIS contract awarded in August 2007, the decision to extend the contract up to February 2010 and subsequently to invite tenders for the

annual maintenance, the award of works under R-APDRP to M/s Infosys Limited. GIS becoming part of the M/s Infosys scope of work and the need to examine the issue of extension of annual maintenance contract till the IT implementing agency takes over the work.

28/15.02 The Board felt that as of now the licenses were valid up to 25.8.2010 and meetings have been held with M/s Infosys and Reli-e-marg software consultants Pvt. Ltd., Mysore in the matter of adoption of the software of latter by M/s Infosys. Pending a final decision in the matter, the maintenance of the software could be continued for a further period of six months until August 2010 by which time the position would be clear regarding continuation of the GIS under the IT implementing agency or the existing service provider. Shri S Sumanth, Director suggested that the GIS could be used to check/verify the estimates proposed under NJY. The Board therefore desired the Managing Director to continue the services till the period of validity of the licenses. In the meantime, the Board desired the company management to quantify the benefit and also provide feed back of the impact of GIS to the Board including the NJY estimates at its next meeting.

Item No. 28/16: Cancellation of tender invited for disposal of scrap materials

28/16.01 The Managing Director explained the outcome of the tender for disposal of scrap materials held at different stores, the outcome of the tender and the decision to scrap the tender in view of the low quotes. The Managing Director informed that it is proposed to go for tendering through MSTC, a Govt. of India agency as is being done by other utilities.

28/16.02 The Board desired the Managing to take effective steps for disposal of the scrap after ensuring that the scrap does not contain any valuable material.

Item No. 28 /17: Survey and GIS mapping of LT Net work on pilot basis in Hassan District

28.17.01 The Managing Director apprised the Board of the expression of interest called for surveying GIS mapping of LT network on pilot basis, the salient features of the tender process and

the decision to drop the pilot in view of the implementation of GIS on both HT and LT net work under R-APDRP in selected downs in Hassan district. The Board noted the same.

Item No. 28 /18: Review of HVDS pilot project implementation

28/18.01 The Board was apprised of the action taken under HVDS scheme to procure 15 KVA transformers, the difficulties encountered in executing the project, the non desirability of continuing with HVDS in the light of the NJY scheme and the feasibility of HVDS scheme and the alternative uses for which transformers procured under HVDS could be utilized.

28/18.02 The Board felt that the HVDS scheme was discussed at length in previous Board meetings and in the MMR meetings. Since there was a strong technical bias in favour of the project, the Board had approved the decision to procure 2500 numbers of 15 KV copper wound distribution transformers. Now, there is a view that it is appropriate to utilise the 15 KV transformers for Ganga Kalyan works, water supply works and other system improvement works in view of the implementation of NJY. Since the Board had approved the HVDS earlier on certain premises, it is but fair that HVDS approach on load management is also implemented on pilot basis in a jungle free environment feeder so that a proper feed back could be obtained about its feasibility before considering alternatives. The Board, after discussions

Resolved that the working group comprising MD/BESCOM, MD/MESCOM and MD/CESC could examine the proposal of HVDS, evaluate its impact through a pilot study and to make best use of the transformers by putting them to alternative use, if found surplus.

**(K Jairaj)
Chairman**