To

The Managing Director,
SOUTHCO, At/PO : Courtpeta,
Dist. Berhermpur
(Reg. Office)

**Notice under Section 19(3) of the Electricity Act, 2003.**

WHEREAS your Company is a distribution licensee under licence issued vide Odisha Electricity Regulatory Commission's (OERC) order dtd.31.03.1999 passed in Case No.23/98 under the provisions of the Orissa Electricity Reform Act, 1995 and subsequently in pursuance to the Section 14 of the Electricity Act, 2003 a fresh license was issued to you as a Deemed Licensee w.e.f. 1st November, 2006 vide order dtd.27.10.2006 in Case No.21/2006 and you were allowed to operate the Licensed activity in the area comprising the Electricity Distribution Circles of Berhampur City, Berhampur, Bhanjanagar, Rayagada and Jeypore existing as on that date, excluding any cantonment, aerodrome, fortress, arsenal, dockyard or camp or any building or place in occupation of the Central Government for defence purposes;

and

WHEREAS, earlier, a proceeding under Section 24 of the Electricity Act, 2003, being Case No.35/2005 was initiated against your company for suspension of licence and the said proceeding was disposed of by Order dated 12.5.2011 (copy enclosed) wherein the performance of your company was found to have incurred liability to suspension of its licence but instead of suspending the licence your company as given another chance to comply with 24 directions listed Para 64 and the directions Para 65; and

WHEREAS in the aforesaid Order dated 12.5.2011 in Case No.35/2005, vide Para 65, the Commission has reserved its liberty to initiate action under Section 19 (revocation) or Section 24 (suspension) in the event of your company failing to make satisfactory progress towards compliance of the aforesaid directions; and

WHEREAS it appears to the Commission from the periodic reviews conducted by it and facts ascertained and set forth in Annexure A to this Notice, which may be read as part of this Notice, that

A. Your company is making prolonged and willful default in doing things required of it by or under the Electricity Act, 2003 and rules and regulations there under and

thereby appears to have incurred liability to revocation of the licence on ground stated in S.19(1)(a) of the said Act,

B. Your company has broken conditions of licence, the breach of which has been expressly declared by the licence to render the licence liable to revocation and therefore appears to have incurred the liability to revocation of the licence on ground stated in S.19(1)(b) of the said Act,

C. Your company has failed to show, to the satisfaction of the Commission, within the time allowed to it, that it is in a position fully and efficiently to discharge the duties and obligations imposed on it by the Commission and thus appears to have rendered the licence liable to revocation on ground stated in S.19(1((c)(i) of the said Act,

D. Your company's financial position appears to be such that it is unable fully and efficiently to discharge the duties and obligations imposed on it by the Commission and thus appears to have incurred the liability to revocation of the licence on ground stated in S.(19)(1)(d) of the said Act, and

E. It appears that the aforesaid licence, granted to your company ought to be revoked in public interest.

NOW THEREFORE Notice is hereby given, in terms of Section 19(3) of the said Act, to show cause, within three months after service of this Notice, why the aforesaid licence granted to your Company shall not be revoked.

**By Order of the Commission**

**SECRETARY I/c**

**Facts Appearing to the Commission in support of Notice under Section 19(3) of the Electricity Act, 2003**

1. Based on periodic review conducted by the Commission on the performance of the licensee and also its compliance with the directions contained in para 64 of the order dtd.12.05.2011 in Case No.35/2005 it appears to the Commission that far from achieving the expected improvements mentioned in para 64 of the said order, the situation has sharply deteriorated in respect of all parameters with regard to the performance of the licensee. Some of the glaring deficiencies and lack of compliance with the stipulations in the said order dtd.12.05.2011 are highlighted below:

**Energy Audit :**

2. It was clearly directed in para 64(18) of the order dtd.12.05.2011 that the DISCOM shall take up full scale energy audit so that correct technical and commercial loss can be ascertained. In the annual performance review of your company for the FY 2011-12 conducted on 25.05.2012, it was revealed that out of 163 numbers of 33 KV feeders only 42 feeders have meters and energy audit was being taken up only in 3 feeders. It is also seen that out of 449 numbers of 11 KV feeders only 82 feeders are metered and energy audit is being taken up only in 13 feeders.

**AT & C Loss:**

3. It was specifically directed in para 64 of the order dtd.12.05.2011 and also in the Business Plan approved earlier that the licensee should make serious efforts to reduce AT & C loss. Your performance in this respect is given below:

**AT&C Loss (in %)**

| **Year** | **2008-09** | **2009-10** | **2010-11** | **2011-12** | **2012-13** |
|---|---|---|---|---|---|
| Target | 34.6 | 29.40 | 29.3 | 27.2 | 26.2 |
| Achievement(Audited) | 50.80 | 51.13 | 52.60 | 50.94 | - |

Instead of reduction of loss there has been increase of loss which reflects poorly on the efficiency of your organization. Equally is your performance with regard to target fixed for reduction of distribution loss appears to be unsatisfactory.

**Distribution Loss (in %)**

| Year | **2008-09** | **2009-10** | **2010-11** | **2011-12** | **2012-13** |
|---|---|---|---|---|---|
| Target | 30.14 | 27.90 | 27.80 | 26.50 | 25.50 |
| Achievement(Audited) | **47.78** | 48.03 | 48.22 | 46.43 | |

**Financial position of the Licensee:**

4. This mounting AT&C loss from year to year has resulted in huge commercial loss for your company making the entire operation unviable. The following table shows that upto the year 2012 the cumulative loss to the company is Rs.581.45 cr.

**(Rs. Cr.)**

| SOUTHCO | Total Income | Total Expenditure | Profit for the year(+)/Loss(-) | Cumulative Profit(+)/Loss(-) |
|---|---|---|---|---|
| 1999-00 | 214.76 | 297.78 | -83.02 | -83.02 |
| 2000-01 | 230.82 | 325.09 | -94.27 | -177.29 |
| 2001-02 | 262.34 | 342.31 | -79.97 | -257.26 |
| 2002-03 | 278.69 | 359.24 | -80.55 | -337.81 |
| 2003-04 | 273.16 | 344.74 | -71.58 | -409.39 |
| 2004-05 | 272.14 | 367.14 | -95.00 | -504.39 |
| 2005-06 | 294.58 | 328.47 | -33.89 | -538.28 |
| 2006-07 | 302.39 | 381.54 | -79.15 | -617.43 |
| 2007-08 | 331.04 | 356.84 | -25.80 | -643.23 |
| 2008-09 | 479.61 | 517.26 | -37.65 | -680.88 |
| 2009-10 | 353.29 | 394.74 | -41.45 | -722.33 |
| 2010-11 | 519.49 | 540.19 | -20.70 | -743.03 |
| 2011-12 | 807.15 | 830.46 | -23.31 | -766.34 |

Thus to say that the amount of share capital of Rs.37.66 cr. infused by your company at the time of grant of license has been totally eroded because of this huge loss and there has been no further infusion of capital so far.

The deteriorating financial position of your company is also reflected from the declining Networth over the years. The following table shows that upto the year 2012 the Networth of your company is negative Rs.671.63 cr.

| Financial Year ending March 31st | Net worth |
|---|---|
| 1998-99 | 81.46 |
| 1999-00 | -38.37 |
| 2000-01 | -131.64 |
| 2001-02 | -193.22 |
| 2002-03 | -266.74 |
| 2003-04 | -330.80 |
| 2004-05 | -420.07 |
| 2005-06 | -449.14 |
| 2006-07 | -526.87 |
| 2007-08 | -552.27 |
| 2008-09 | -588.90 |
| 2009-10 | -629.48 |
| 2010-11 | -649.26 |
| 2011-12 | -671.63 |

**Payment of Arrears with regard to payment of BST:**

5. Your continuous inability to reduce the AT&C loss resulting in poor cash flow appears to have landed you in a situation where you are unable to pay your power purchase bill to GRIDCO. The total arrears for the last 3 years are given in the table below:

**(Rs. Cr.)**

| Year | |
|---|---|
| 2011-12 (BST Dues) | 31.30 |
| UI dues (Upto Nov 2012) | 13.36 |

The situation appears to be really alarming because your continuous default in payment of BST bill to GRIDCO has put tremendous pressure on GRIDCO for making full payment of its power purchase bill and thus your default has a cascading adverse effect on the entire power sector. Lack of resources on your part which appears to be largely self inflicted starves you of funds to improve the quality of supply by effecting technical upgradation of the system and this has resulted in huge dissatisfaction among the consumers'. Thus the viability of the entire electricity sector in the state appears to be in jeopardy.

**NTPC Bond :**

6. Outstanding issue between the DISCOMs and GRIDCO pending for long time were finally resolved by the Commission vide its order dtd.29.03.2012, where the schedule of payment to be made by the DISCOMs was prescribed. In the said order it was stipulated that the balance amount of Rs.198.45 cr. is to be paid by the three reliance managed DISCOMs by 31.03.2013 and from May, 2012 the monthly installment should not be less than Rs.10 cr. This order has not been complied with and there has been a systematic default in payment of the installments and the total amount of default till December 12 is Rs.70.00 cr. This appears to be a clear violation of the Commission's order dtd.29.03.2012.

**Securitisation of Dues:**

7. As per the Securitisation order of the Commission dtd.01.12.2008 in Case No. 115/2004 the total dues to be paid from 2006-07 to 2012-13 is Rs.209.16 cr. The total payment for that period is Rs.36.15 leaving a shortfall of Rs.173.01 cr., as on 31.03.13. It appears that apart from non-compliance with the Commission's order dtd.01.12.2008 in Case No.115/2004 there has been a non-compliance with the direction contained in para 64(16) of the Commission's aforesaid order dtd.12.05.2011.

**Infusion of Capital:**

8. One of the major objectives of privatization of distribution business as evident from the share holders agreement is to induct private players capable of bringing in substantial amount of capital investment in the distribution sector. In the Business Plan Order for the

period from 2008-09 to 2012-13 passed by the Commission on 20.03.2010 it was directed that the three Reliance managed companies namely, WESCO, NESCO & SOUTHCO should bring atleast Rs.1556 cr. as additional equity/loan including amount generated from internal resources towards capital investment. During the proceedings in Case No.35 of 2005 and order dtd.12.05.2011 the Govt. of Odisha which owns GRIDCO which in turn owns 49% of stake in the Reliance managed DISCOMs, informed the Commission that they are not averse to infusion of additional equity in DISCOM through GRIDCO provided similar commitments from Reliance share holders are available. But apart from the initial investment not a single rupee has been invested by your company by infusing fresh equity or through loan. There appears to be a perceptible and disturbing lack of intention to revive the financial health of the company which as mentioned above has reached an incurable state.

**R&M Expenses:**

9. The Company appears to lack sincerity and commitment as is fully revealed when one analyses the expenses towards R&M.

| **Repair and Maintenance** | | |
|---|---|---|
| **Year** | **Approved** | **Audited** |
| 1999-00 | 12.63 | 13.39 |
| 2000-01 | 12.63 | 7.31 |
| 2001-02 | 15.57 | 9.29 |
| 2002-03 | 16.82 | 6.43 |
| 2003-04 | 16.38 | 9.93 |
| 2004-05 | 13.25 | 8.43 |
| 2005-06 | 18.55 | 6.07 |
| 2006-07 | 17.35 | 5.19 |
| 2007-08 | 18.38 | 5.50 |
| 2008-09 | 19.08 | 7.79 |
| 2009-10 | 20.73 | 11.6 |
| 2010-11 | 26.11 | 13.09 |
| 2011-12 | 28.47 | 8.28 |
| **TOTAL** | **235.95** | **112.30** |

The table above indicates that the expenses on R&M are far below the amount approved by the Commission. This appears to be totally unacceptable situation as it severely affects the quality of supply to the consumers which is a primary condition for grant of license.

**Share Holding Patten in SOUTHCO – Legal and Operational Issues**

10. It is considered necessary at this stage to analyse the present share holding pattern of in SOUTHCO because it appears that there has been a gradual & systematic violation and dilution of the original legal arrangement with regard to privatization of SOUTHCO. To

start with SOUTHCO was 100% subsidiary of GRIDCO which wanted to divest 51% of its share in SOUTHCO in favour of a strategic partner selected through a competitive bidding and also satisfying the following pre-qualification technical and commercial criteria. This is as follows:

**Technical/Commercial Criteria**

The minimum technical/commercial criteria required to be satisfied by any company submitting an SOQ (or by the Technical Member in the case of a consortium) are as follows:

- 3 years' experience in operating and managing sub-transmission systems with voltage levels of at least 33kV and connected distribution systems at lower voltage levels; and
- A customer base for such systems of at least 100,000 customers.

**Financial Criteria**

The minimum financial criteria required to be satisfied by any company submitting an SOQ (or by the Financial Member in the case of a consortium) are as follows:

- Tumover in the last financial year of each such company as set out in its latest audited financial statements I of at least US$l00 M or its equivalent; and
- Gross assets at the latest balance sheet date as set out in its latest audited financial statements of at least US$100 M or its equivalent.

11. BSES was selected to take over the business of distribution and retail supply of electricity by acquiring 51% of the share of GRIDCO in WESCO, NESCO and SOUTHCO. In pursuance of this divestment GRIDCO and BSES signed Share Acquisition Agreement and Share Holder Agreement. It was stipulated that necessary clauses of Share Holders Agreement will be incorporated in the Article of Association (AoA) of the company. It is, however, noticed that the following important clauses of the Share Holders Agreement have not been incorporated in the AoA.

*"5.6. The Investor undertakes to provide* to SOUTHCO *the technical resources and capability as may be reasonably necessary to enable the Business to operate efficiently."*

*8.1* If SOUTHCO *requires further financing, it shall use and the Investor shall procure that it uses, all reasonable endeavours to obtain such finance from a third party lender on reasonable commercial terms without breaching covenants in* SOUTHCO*'s loan documentation at the time of such further financing provided always that nothing shall oblige a Shareholder to provide any guarantee or security in respect thereof.*

*8.2 If and to the extent that it is not possible to obtain debt finance in accordance with clause 8.1 or by any other reasonable means, then such further financing may be sought by an issue of ordinary share capital at a price agreed with the Auditors as being a fair and reasonable price. Any such issue of ordinary share capital shall be offered on a pre-emptive basis to the existing Shareholders and subject to clause 3.2 shall include a right of renunciation by Shareholders."*

**Purpose of disinvestment**

12. In the Shareholder's Agreement relating to Purpose of the agreement the following has been mentioned

*"2. Purpose*

*2.1 The Investor recognizes that GRIDCO's principal objectives in selling a majority stake in* SOUTHCO *to the Investor are to:*

*2.1.1 Improve the quality of service to customers by improving the security and reliability of the supply system and make available electricity at a competitive price;*

*2.1.2 Improve operational efficiencies and reduce losses;*

*2.1.3 Contribute to the increased economic growth in Orissa through the provision of superior electricity supply;*

*2.1.4 Attract private investment into the distribution business;"*

13. The reason for non-incorporation of these provisions of Share Holders Agreement into the AoA may be furnished because Article 61 of AoA provides the following:

*"61. The provisions of the Shareholders Agreement to be signed by GRIDCO, the Investor and the Company, a copy of which is attached to the resolution marked Appendix A, shall be read as part of these Articles and in case of any conflict or inconsistency between the provisions of that Agreement and the provisions of these Articles, the provisions of that Agreement shall prevail."*

It is seen that the Articles of Association of the Company have not been amended by addition of the above as Article 61, provided in the Share Holders Agreement.

14. Failure to incorporate these important legal and operational issues in the Share Holders Agreement into AoA of the company gives an unauthorized handle to the present share holders to abdicate their responsibility with regard to infusion of capital, improvement of quality of service, improvement of operational efficiency and reduction of loss.
15. BSES was later taken over by Reliance Infrastructure Ltd. which gradually diluted its shares in favour of other reliance controlled companies. The present share holding pattern of SOUTHCO as on 31.03.2013 is as follows:

| Sl No. | Name of the Holders and Their Address | No. of Shares Held | % of Shares Held |
|---|---|---|---|
| 1 | Ms. Gridco Ltd. C/o. Dv. Company Secretary Janapath, Bhubaneswar-22 | 18453400 | 49% |
| 2 | Reliance Infrastructure Limited, H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai -400710 | 100 | 0.0003% |
| 3 | Reliance Infrastructure and Consultants Limited., H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai - 400710 | 7531992 | 20.000% |

| | | | |
|---|---|---|---|
| 4 | BSES Kerala Power Limited., 165, MW Combined Cycle Power Plant, Udyogmandal, Post - Kochi, Pin 683501, Ernakulam, Kerala | 100 | 0.0003% |
| 5 | Sonata Investment Limited, 304, Chartered House, 297/299, Dr. Cawasji Hormasji Street, Near Marine Lines Church, Mumbai 400002 | 7908308 | 20.999% |
| 6 | Spice Commerce and Trade Private Ltd | 1205220 | 3.200% |
| 7 | Space Trade Enterprises Pvt Ltd | 1355760 | 3.600% |
| 8 | Skyline Global trade Pvt Ltd | 1205120 | 3.200% |
| | Total | 37660000 | **100%** |

This indicates that the parent company Reliance Infrastructure Ltd. which took over BSES holds only .0003% of shares. It is not known whether other Reliance controlled companies fulfill the original technical and financial pre-qualification criteria or not.

16. The present share holding pattern and also the failure to incorporate vital clauses of the Share Holders Agreement into the AoA of the company as envisaged in Article 61of the AoA gives rise to a legitimate doubt that the present share holding pattern is a flawed legal arrangement which runs counter to the original mandate of dis-investment. <u>It also appears to be hit by S.17(3) of the Electricity Act, 2003, in as much as part ownership of the utility has been transferred to other companies, by way of sale of shares, without permission of the Commission</u>.

**Construction and Startup Power**

17. It has come to the notice of the Commission that a large number of industries and Generators have come up within your area of operation who have used substantial amount of construction and start up power from you but no billing or collection has been made from them thereby resulting in huge loss which are totally avoidable. In this connection you are required to furnish a data of all the industries having CD above 100 KW and IPP/CGP above 5 MW established after 2003 onwards indicating the name of the industries, total amount of construction and start up power enjoyed by them and the revenue realization on such account. You should also mention what action has been taken on erring officers and officials who have failed to collect energy dues from such industries.

**Liability towards Terminal Benefits**

18. You have the obligation towards payment of Pension, gratuity and all other applicable terminal benefits to the employees of your company mandated under Orissa Electricity Reform (Transfer of Assets, Liabilities, Proceedings and Personnel of GRIDCO to Distribution Companies) Rules 1998. For meeting such terminal obligations a corpus is to be maintained, which was transferred by GRIDCO while divesting its distribution business to your company. GRIDCO while divesting its distribution business to your company on 31.03.1999 transferred fund towards pension corpus to the tune of Rs.67.36 cr. to meet the obligation of pension, gratuity and leave encashment. Subsequently Commission in successive tariff orders from FY 1999-2000 till FY 2011-12 have allowed

further Rs 243.01 cr. towards funding of corpus. Accordingly as on 31.03.2012 the expected funds in such corpus should be to the tune of Rs.310.40 cr. However on scrutiny of your ARR filing for FY 2013-14 it is seen that you have only combined corpus of Rs.59.92 cr. in the pension and gratuity corpus which is only one third of the expected corpus.

19. You therefore appeared to have failed to carry out the statutory obligation towards the employees of the company, by not maintaining the requisite corpus in spite of the provisioning of corpus liability in the approved ARRs by the Commission. This appears to be breach of the license conditions and also of Orissa Electricity Reform (Transfer of Assets, Liabilities, Proceedings and Personnel of GRIDCO to Distribution Companies) Rules 1998.

**Non Implementation of Recommendation of the Enquiry Team on Distribution System**

20. The Commission conducted enquiry through Expert Committees appointed by it during 2007-08 and 2008-09 regarding the quality of supply and status of maintenance of distribution system network by the four distribution companies including the Reliance managed distribution companies. Your company was directed to comply with the directions and stipulations given by the Commission from time to time. The enquiry team had given recommendations on distribution system both short term and long term to be adopted by the distribution company for improving the distribution network. The Commission has been following up with regard to implementation of such recommendations of the enquiry team and have been addressing this issue in successive tariff orders. The Commission while approving the ARR for 2012-13 at para 500 gave following directions in this regard.

    *"500. The licensees are directed to ensure full compliance of both short term and long term recommendation of the Expert team latest by 30.09.2012. The Commission will continue to engage a team of professionals for carrying out technical audit on status of compliances to the recommendations/directions with reference to the earlier enquiries during the year 2012-13".*

    On review of the implementation of the recommendations of the enquiry report it is seen that though some action has been taken regarding short term recommendations, no long term recommendations have been implemented so far. You have also appear to have failed to explain satisfactorily within the stipulated time, the steps taken to comply with the findings of the enquiry team in totality.

**Non Compliance of Commission's directions**

21. There appears to be number of instances of violation of Commission's directions by your company and instances of such violations against the directions in RST orders and Performance review are highlighted below:

**A) Directions in RST order 2012-13**

In the RST Order for FY 2012-13 Commission at Para 510 directed all DISCOMs for certain measures to be taken for improvement of the existing infrastructure relating to installation /upgradation along with replacement of burnt transformers, load balancing, earthing, installation checking, provision of breakers, boundary walls with gates in all

distribution substations, DT metering and energy audit. Commission also observed that the licensees are well behind the target set by the Commission and the DISCOMs are too callous in their approach in submitting the progress in the System Improvement Works. The targets for such System Improvement were set out in the table 105 of the RST Order. Separate targets were also given Collection of arrears, Installation of pre paid meters, and installation of Pillar box meters given in para 517, 527 and 528 respectively.

In your compliance and other submissions it is revealed that you have achieved poorly in meeting these targets. The summary of your compliance is as follows:

1. Against the target for up-gradation and installation of new 750 DTRs (out of the total 23348 DTRs), you have not upgraded as on 31.10.2012.
2. Against the target of completing energy audit of each DTR by the end of 31.10.2012, you have conducted energy audit of only 19 nos. of DTRs which is same as for FY 2011-12. You have not added any DTR for energy audit during 2012-13.
3. Against target for conversion of 100 km single phase line to three phase line you have not undertaken such conversion even for single Km as on 31.10.2012.
4. Against the 100% target for providing 33& 11KV circuit Breakers, you have not provided any circuit breaker (221) in 33 KV and (629) in 11KV lines.
5. Against the target for collection of arrears of Rs. 125 cr during 2011-12 you have not collected any arrear during 2012-13.
6. No installation of pillar box metering has been done during 2011-12 and 2012-13 (upto Oct 2012) in violation of the directions in RST orders.
7. No installation of pre paid meters have been done (upto Oct 2012)

**B) Directions in performance review**

There have been instances of non compliance of the Commissions' directions in many fronts however few instances are quoted below:

1. Outstanding Arrears:

The Commission conducted the annual performance review for 2011-12 of your company on 25.05.2012 and communicated to you vide this office Letter No. DIR (T)-371/09/3641 dtd.04.07.2012. During the year a total arrear of Rs.61.11 cr. has been added against collection of Rs.48.33 cr. The collection of Rs.61.11 cr. mostly includes the collection under OTS scheme and the actual arrear collection is quite low. The cumulative arrears therefore during 31.03.2012 stands increased to Rs.458.19 cr. from Rs.445.41 cr during 31.03.2011. Your performance on collection arrears, appears to have added to the huge cumulative arrears which now stands to nearly one thousand crores.

2. Energy Audit

The annual performance review of your company for FY 2011-12 was conducted on 22.05.2012 and was communicated to you in this office Letter No. No. DIR(T)-371/09/3641 dtd.04.07.2012. Regarding Energy Audit it is revealed that out of 163 nos. of 33 KV feeders Energy Audit is being taken in 03 feeders during 2011-12. You have not added any new feeders for energy audit since same 03 nos. of feeders were undertaken for Energy Audit for the year 2010-11. It is also seen that out of 449 no, 11 KV feeders, Energy Audit is being taken out is only 13 feeders. You have, therefore,

appear to have failed to undertake the Energy Audit activity in spite of various directions of the Commission.

In para 64(18) of the Commission's order dated 12.5.2011, Commission had directed the DISCOMs to take up full scale energy auditing in order to properly assess losses - both technical and commercial in the system and to take necessary remedial measures to plug such losses. DISCOMs should file separately on or before 31.7.2011 a plan of action for energy audit programme in their area of operation. It was however noticed that except floating a notice inviting tender on 30.07.2011 no worthwhile progress on this account has been made.

In view of the above facts, your compliance in undertaking full scale Energy Auditing appears to be un-satisfactory and violation of the Commission's Order dated 12.5.2011.

**Security Deposit**

22. During the hearing proceedings for FY 2013-14 it was pointed out by the objectors that no investments have been made by your company and the Security deposit and Capital contributions from consumers have far exceeded the initial amount invested by BSES (now R-Infra) of Rs. 37.66 crore while acquiring 51% stake in SOUTHCO. As revealed from your audited accounts as on 31.03.2012 your security deposits stands at Rs. 96.45 cr and Capital contributions from consumers stands at Rs 98.02 cr. Objectors have shown apprehension that your company is only surviving on security deposit and capital contributions of the consumers by not investing any additional equity. Objectors have also shown doubts regarding actual physical availability of such security deposit with your company. You have further projected Security Deposit for FY 2013-14 to go upto Rs 118.11 crore. You are therefore required to furnish in what form such security of Rs. 118.11 cr is available with you.

**Breach of Licence Conditions Rendering Licence Liable to Revocation**

23. (i) In case No.21 of 2006 dtd 27.10.2006 the Commission approved the license conditions for your company effective from 1st November 2006 continuing your deemed distribution license of 01.04.1999. In the said license condition at para 14.2 (2)(b) pertaining to the revocation of licence of the licensee for the breach of the licence condition, the following conditions are stipulated:

14.2 REVOCATION

(1) XXXXXX

(2) The Commission may also revoke the license of the licensee for the breach of the following license conditions.

(a) XXXXX

(b) Where the licensee fails to implement its Business Plan submitted under condition 10.9 of these conditions.

(c) Where the licensee fails to comply with the provisions of Conditions 11.2 of these licence conditions with regard to investment to be made in the Distribution Business.

(ii) Licence Condition 11.2 stipulates that "the licensee shall duly comply with Regulations, Guidelines, directions and orders the Commission may issue from

time to time in regard to the investments to be made in the Distribution Business. The Commission has given direction in the Business Plan order dtd. 20.03.2010 to bring in additional equity/loan from different sources including internal resources towards capital investment during the period 2010-11 to 2012-13 for system improvement to the tune of Rs.1556 crore for three Reliance managed companies including your company. You have failed to bring in any additional equity/loan in compliance with the Commission's direction thereby causing breach of the license condition 11.2. The Commission is therefore entitled to proceed against your company for revocation of license as provided under license condition 14.2 (2) (b) for having failed to implement its Business Plan submitted under condition 10.9 of these conditions.

(iii) Further license condition 7.1 stipulates that the "The Licensee shall develop and maintain an efficient, co-ordinated and economical distribution system in the area of distribution and effect supply of electricity to consumers in such area of supply in accordance with the provisions of the Act, the State Act, Rules, Regulations, Orders and Directions of the Commission."

(iv) As analysed in the foregoing paragraphs it appears that you have failed to maintain an efficient and economical distribution system in your area of operation by failing to reduce losses., adopting best management practices of billing and collection, curbing of theft and pilferage, live upto the consumers' satisfaction and have also failed to bring in investment to improve the network.

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