ANNEXURE - A

Terms of Reference for Evaluation of HESCOM

1. **Title of the study**: 'Evaluating the performance of HESCOM'.

2. **Department/Agency implementing the scheme/programme:** HESCOM is a part of Ministry of Energy, Government of Karnataka. Being a public sector Company, it is subject to oversight by the Department of Public Enterprises, Government of Karnataka. The present evaluation study has been sponsored by the Department of Public Enterprises.

3. **Background information**: HESCOM is a Company incorporated in the year 2002 with head quarters at Hubli-Dharwad. It was formed as a part of the reforms in the Energy Sector undertaken during the early part of last decade. The assets of erstwhile KEB related to seven districts in the northern western Karnataka were transferred to HESCOM and the Company was given exclusive power distribution rights for 48 taluks in the seven districts (except Hukkeri taluk). It has a customer base of about 38 lakh electricity consumers. It holds assets worth Rs. 2540 crore. Although the sanctioned strength is more than 13000, only 7250 employees are working for the Company. It has annual revenue of about Rs. 4000 crore and an equal amount of expenditure. Being a public sector Company, it has social obligations in terms of implementing certain State Government policies like free power to the irrigation pump sets, supporting drinking water supply schemes, providing lighting for the streets in habitations, providing electricity connection to remote villages under the ongoing Government schemes etc. However, the Company gets reimbursement of the cost incurred towards infrastructure and the quantum of energy supplied from the State Government. The Company has completed nearly one decade of its existence and has taken up several reforms in the form of establishing 24/7 Call Centers, holding Vidyuth Adalaths, constituting Vidyuth Salaha Samithis, getting Energy Audits done, promoting energy efficient equipment, organizing extensive training to its staff, creating awareness among the public about optimizing energy use etc. A few activities and even procurements have been outsources to contractors and consultants. As a result, its bill collection efficiency has gone upto 97%. The Company intends to meet 100% of the power requirement at the most economic price in the long term.

4. **Evaluation scope, purpose and objectives:** The Company inherited assets from the erstwhile KEB which have nearly completed their working life. The demand for power has been growing consistently because of the expanding economy as well as the growing population and their needs. In the last ten years the Company more than doubled the power supply (from 4173 million units in 2003-04 to close to 10,000 million units in 2013-14) but still there is a severe shortage of power. Transmission loses and power theft amount to nearly 20% of the power purchased. It purchases power mainly from Karnataka power Corporation and also a number of Independent Power Producers and sells the same on retail to its consumers.

Purchase price is regulated by the Power Purchase Agreements while the retail sale price is regulated by the Karnataka Electricity Regulatory commission. Consequently the Company does not have the freedom of altering the purchase and sale price. The cumulative effect of transmission losses, power thefts, regulated price mechanisms, capital investments for infrastructure renewal as well as replacement etc., put the Company in a tight spot. For nearly ten years, the Company was in loss. The accumulated losses amount to Rs. 650 crore as of today. Only in the last financial year, it could make a modest profit of Rs. 40 crore. Outstanding power purchase bills to tune of over Rs. 1500 crores are due for payment. There are secured loans to tune of Rs. 1000 crore which the company has to repay @ Rs. 250 a year. There are also outstanding bills and other short term liabilities which are due for payment. Receivables like tied grants from Central as well as State Government reach the Company with a time lag. Its monthly cash outgo is in the range of about Rs. 250 crore while the inflow is only of the order of Rs. 150 crore. The company finds meeting its monthly cash needs hard. To prevent power thefts, the Company introduced a new scheme called Nirantara Jyothi which requires a parallel system of transmission lines involving massive capital investment in the order of thousands of crore rupees over the next few years.

The objective of the evaluation study is to analyze the performance of HESCOM on key performance indicators with a view to reduce the operational costs and accumulated losses on one hand and suggest ways and means to mobilize the required long term capital for creating the necessary infrastructure on the other hand. Overall, the study should help in the healthy working of HESCOM and ensure its financial sustainability.

5. **Evaluation questions:** Following are the list of evaluation questions:

   i. Is the performance of HESCOM optimal in Key Performance Areas?
   ii. Is the financial model followed by HESCOM at present sustainable?
   iii. What additional measures HESCOM can take to improve its performance?
   iv. Can HESCOM find alternative sources of capital which are less expensive and easily available on long term basis?

6. **Evaluation methodology:** The Evaluator is required to analyses the secondary data of the Company for the last five years, cross check the data validity appropriately, examine its business model and draw broad inferences. A few key installations may be visited and their performance efficiency assessed. Similarly, interviews may be held with a few officers to understand their views and get some suggestions. Based on the data and information gathered, a comparative analysis of the performance of HESCOM shall be made with another ESCOM in Karnataka and one other best performing ESCOM in any other State in India. Performance of HESCOM shall be benchmarked with reference to these two ESCOMs.

A separate and detailed financial analysis of all the major transactions of HEACOM of last three year shall be made for understanding the overall financial efficiency. Evaluator should examine monthly cash inflows and outflows and suggest ways to match them. Finally the evaluator should do a market survey & analysis for mobilizing long term capital at a cheaper cost from pension funds, PF funds, equity funds etc., for HESCOM and suggest the feasibility.

7. **Deliverables and time schedule:** HESCOM will provide the required information and data to the Consultant who is expected to adhere to the following timelines and deliverables:

   a. Work Plan for the proposed study should be submitted within one month after the release of first installment of the contract sum.
   b. Primary data collection should be completed within two months after the work plan is approved by KEA.
   c. Draft evaluation report should be submitted within one month after completing field data collection for approval by a joint team of KEA and Line Department/Agency officers.
   d. Final evaluation report should be submitted within one month after the draft report is approved.

Thus excluding the time taken for approval, the evaluation study should be completed in five months' time.

8. **Cost and schedule of budget releases:** Department of Public Enterprises fixed the consultancy cost at Rs. 4.95 lakh. Money is already placed at the disposal of HESCOM. Output based budget release by HESCOM schedule shall be as follows:

   a. 30% of the contract cost will be released on signing of the MoU.
   b. 30% will be released after the Work Plan is approved by KEA.
   c. 20 % will be released after the draft evaluation report is approved by KEA & HESCOM.
   d. 20% will be released after the final report is submitted to HESCOM.

Income tax @10% will be deducted from each payment. In addition, the consultant is expected to pay service tax @12.36% at their end.

9. **Contact person to get further details about the study:** General Manager (Technical) and the Financial Advisor of HESCOM will be the contact persons for getting further information and details for this study.

10. **Other general conditions:** The evaluation report and its findings must demonstrate highest professional standards. Karnataka Evaluation Authority will provide the required oversight for the study.

****

Chief Evaluation Officer
Karnataka Evaluation Authority
Bangalore-560001