

## Chapter - III

### 3. Compliance Audit Observations on Power Sector PSUs

Important findings emerging from audit that highlight deficiencies in planning, investment and activities of the Management in the Power Sector Public Sector Undertakings (PSUs) are included in this Chapter. These include observations on avoidable/unfruitful expenditure and cases where the intended objectives of the projects were not achieved.

#### Karnataka Power Transmission Corporation Limited

##### 3.1. Unfruitful expenditure

**In spite of prior knowledge that an alternative arrangement for power supply was critical for the execution, work was awarded without a proper plan for alternative arrangement resulting in creation of idle infrastructure of ₹ 2.60 crore.**

The compliance audit of Major Works Division, Shivamogga of Karnataka Power Transmission Corporation Limited (the Company) conducted with focus on execution of lines and sub-stations. Audit test-checked ten contracts. Of these, Audit noticed a major lapse in the Contract for 'Construction of 66 kV Double Circuit (DC) line from Chickmagaluru sub-station to Balehonnur sub-station' wherein the Company awarded the work without proper plan in place for execution rendering investment of ₹ 2.60 crore idle, which is discussed below.

The Company approved (April 2004) construction of 66 kV Double Circuit (DC) line in the existing corridor of 66 kV Single Circuit (SC) line from Chickmagaluru sub-station (Mattawar village limits) to Balehonnur sub-station for a distance of 35.74 kms. The line was envisaged to improve the voltage profile, reduce line losses, save 19.13 Million Units (MU) of energy per annum and also provide quality power supply to Kalasa, Sringeri, Balehonnur and its surrounding pilgrimage areas.

The work of construction of the line was awarded (July 2006) to Bhoruka Power Corporation Limited (Contractor) on turnkey basis for ₹ 9.46 crore and was to be completed in 12 months, *i.e.* by July 2007.

The Contractor started the survey work only in November 2007, that is, five months after the scheduled date of completion, and stub concreting<sup>56</sup> work in April 2008. On 26 August 2008, the Company issued Show-Cause notice to the Contractor for not completing the work within the rescheduled date<sup>57</sup>. The Contractor, while replying (September 2008) to the notice, stated that the completion time depended on line clearance and schedule of outages for which

<sup>56</sup> Foundation for erecting poles.

<sup>57</sup> The PERT chart communicating the rescheduled date of completion was not on record.

mutual discussions were required. The Company assured (November 2008) that observing the progress of work, line clearance would be arranged. The Contractor informed (September 2009) that he expected long outages, and if long outages could not be arranged by the Company, he would like to be relieved from the contract. The Company informed (June 2011) the Contractor that line clearance would be provided for three days in a week for carrying out the work.

As at end of June 2011, the Contractor completed the work of stub concreting in 148 out of 160 locations and supplied (upto September 2009) the tower and line materials but did not erect the towers and string the conductors. As the work was getting delayed, the Company terminated (September 2011) the contract.

Based on the bills submitted by the Contractor (₹ 4.09 crore), the Company released ₹ 2.60 crore<sup>58</sup>, after retaining ₹ 1.08 crore as retention amount and ₹ 0.41 crore towards liquidated damages (as per the terms of the Contract) and encashed (February 2012) the Bank Guarantee amounting to ₹ 0.95 crore.

Aggrieved by the termination, the Contractor approached (September 2011) the Hon'ble High Court of Karnataka, who appointed (January 2013) an Arbitrator<sup>59</sup>. The Arbitrator finalised (April 2016) the award, rejecting the claim of the Contractor for compensation and allowed the counter-claim of the Company of ₹ 2.75 crore, being the amount paid to the contractor for purchase of tower and line materials. The Contractor approached the Civil Court, Bengaluru against the Arbitration Award. The amount is yet to be received by the Company (August 2018).

Audit observed that the Company was aware that the execution of work without alternative arrangement of line clearance was not possible. In fact, even before the award of work, in June 2006 itself, the Superintending Engineer (Electrical) of the Company informed Mangalore Electricity Supply Company (MESCOM), a State Electricity Distribution Company, that the work of construction of line in the existing corridor could be taken up only after MESCOM took up and completed the construction of alternative line from Muthinakoppa sub-station to Koppa sub-station to ensure an alternative source of power supply to the sub-stations during the construction of the line. Despite that the work was awarded.

The Government forwarded the reply (December 2018) of the Company that continuous line clearance was not possible but with power shut down from morning to evening on alternate days and also by arranging manpower, the work could be completed. Hence, the Company planned to give continuous line clearance upto three days after completion of the Muthinakoppa-Koppa line work by MESCOM. However, due to delay in completion of work by MESCOM and delay caused by the contractor, the entire work could not be

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<sup>58</sup> ₹ 2.14 crore towards supply of towers and line material, ₹ 0.04 crore towards erection of stubs and ₹ 0.42 crore towards civil works.

<sup>59</sup> Conditions of Contract provided for appointment of Arbitrator.

completed. It was also stated that the balance work has been awarded to another firm in August 2018.

The fact remains that the infrastructure created at a cost of ₹ 2.60 crore is idle from June 2011 as the Company did not have a proper execution plan for alternative arrangement for power supply in spite of the knowledge that such a requirement was critical to the execution of the work.

Thus, awarding the work without a proper plan for alternative arrangement for power supply resulted in creation of idle infrastructure of ₹ 2.60 crore. The delay in completion of the work also resulted in foregoing the energy savings of 19.13 MU's per annum and deprived Kalasa, Sringeri, Balehonnur and surrounding areas of quality power supply for more than ten years.

### **Bangalore Electricity Supply Company Limited**

#### **3.2. Extra payment to the Contractor**

##### **Award of contract by modifying tender conditions resulted in extra payment of ₹ 1.61 crore to the Contractor.**

The compliance audit of 40 purchase orders placed (2016-17) by Bangalore Electricity Supply Company (the Company) for procuring various materials, viz. Transformers, Concrete Poles, Ring main units, SMC meter boxes and Aerial Bunched Cables was conducted to verify the compliance to the provisions of the Karnataka Transparency in Public Procurement (KTPP) Act, 1999 and KTPP Rules, 2000 for procurement of goods and services and compliance to other relevant conditions of purchase agreements concluded with the suppliers. Audit observed certain non-compliances to KTPP Act/ Rules and contract terms and conditions in procurement of these materials such as, allowing less number of days than that prescribed for submission of bids, award of contract for single bidder without retendering, acceptance of security deposits from the bidders beyond the stipulated period in the contract and amendment to price variation clauses after award of contract. The significant audit finding amongst them with financial implication of extra expenditure of ₹ 1.61 crore as a result of amendment to price variation clause after awarding the contract in respect of purchase of Aerial Bunched Cables, is discussed below.

The Company invited (February 2015) a tender for supply of 700 kms of Low Tension Aerial Bunched Cable (AB Cable) at an estimated cost of ₹ 24.21 crore. The AB Cables were for replacement of the existing overhead lines for the purposes of safety of the public and to avoid theft of power.

On scrutiny, Audit observed that:

- The Company allowed only 21 days<sup>60</sup> for submission of tenders (short-term tenders) as against a minimum period of sixty days' time provided

<sup>60</sup> Tender invitation date (27.02.2015) to tender closing date (19.03.2015).

by KTPP Rules<sup>61</sup>, for submission of tenders in excess of rupees two crores. The KTPP Rules permit relaxation of this condition by an Authority higher than the Tender Inviting Authority by recording the reasons for such reduction. In this case, though approval of the higher authority (Managing Director) is available, the reasons for reduction in time to 21 days were not recorded.

- Two bidders participated in the tender of which one bidder did not meet the qualification requirement. The other and sole qualified bidder, M/s. SBEE Cables India Limited (Contractor), quoted (March 2015) ₹ 4.33 lakh per km., which was 25.24 *per cent* above the amount put to tender.
- The tender conditions *inter alia* stipulated that prices were to remain *firm* throughout the period of the contract. The Company negotiated (June/ July 2015) and the contractor agreed for reduction of price from ₹ 4.33 lakh to ₹ 4.10 lakh per km (18.53 *per cent* above the estimate cost). The contractor informed (July 2015) that his revised offer was considering the base rate of Aluminium in June 2015. Further, in the negotiations it was also agreed for (i) extension of delivery schedule upto 12 months as against six months stipulated in the tender document, and (ii) allow price variation in respect of Aluminium component of the cable as per IEEMA<sup>62</sup> / CACMAI<sup>63</sup> formula in view of the extended delivery schedule. The Board approved (September 2015) the procurement of Cables at the negotiated price, with amended terms regarding price variation. The BoD also directed (September 2015) to ensure that the delivery schedule is only upto 12 months for 350 kms and 24 months for 700 kms.

The Company placed (November 2015) a Purchase Order for the supply of AB cables with 350 kms of supply in the first year (month-wise supply was stipulated) and 350 kms in the second year. Also, the Purchase Order (November 2015) mentioned that the price variation clause was applicable as per IEEMA/ CACMAI formula, but did not mention the base date of its applicability. As per IEEMA formula, the base date for calculation of price would be the price one month prior to the date of tender, *i.e.* February 2015.

Meanwhile, on 16 November 2015, the Contractor requested to consider base date for price variation as October 2015. The Managing Director approved (21 November 2015) the base date of October 2015. The Company issued (24 November 2015) amendment to the Purchase Order with the base date for price variation as October 2015.

It was seen from the available records that the price of Aluminium showed a downward trend between February 2015 (₹ 1.55 lakh per MT) to June 2015 (₹ 1.39 lakh per MT) to October 2015 (₹ 1.16 lakh per MT). The MD had

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<sup>61</sup> Every Government Company had to comply with the Karnataka Transparency in Public Procurement Act, 1999 and KTPP Rules, 2000, for procurement of goods and services.

<sup>62</sup> Indian Electrical & Electronics Manufacturers' Association.

<sup>63</sup> Cable and Conductor Manufacturers Association of India.

neither been apprised of this decrease in rates, nor the fact that as per IEEMA formula the base date was one month prior to opening of tender (February 2015). He was also not made aware that the contractor made his offer considering price of Aluminium as of June 2015 while seeking approval for the amendment to the base date as October 2015.

The Company amended (February/May 2017) the Purchase Order indicating month-wise supplies for the second year. The Contractor completed supplies of the AB Cables between January 2016 and July 2017 as per the delivery schedule in the Purchase order and its amendments. The Company paid (between March 2016 and November 2017) ₹ 30.11 crore (including price variation of ₹ 1.09 crore) for the supplies.

Audit observed that not fixing of base rate as per IEEMA formula (February 2015) or the quote of the Contractor (June 2015) had a significant impact on the price of AB Cables. Had the Company accepted the rates (₹ 4.10 lakh per km.) offered in July 2015 after negotiation, and allowed price variation with base date as February 2015 as per IEEMA formula, the total payment to the Contractor would have been only ₹ 27.00 crore. Alternatively, if the price as offered by the Contractor in July 2015 (₹ 4.10 lakh per km. with base rate of Aluminium in June 2015) was allowed, the total payments would have been ₹ 28.50 crore, due to negative price variation as a result of fall in prices of Aluminium.

Thus, the exercise of allowing price variation with base date as October 2015, instead of February 2015/June 2015, as stated above, tantamounted to unduly favouring the Contractor to at least ₹ 1.61 crore (₹ 30.11 crore *minus* ₹ 28.50 crore).

The Government replied (December 2018) that:

- The short term tender was invited as there was urgent requirement of materials. The bidders had not requested for extension of time for submission of bids in the pre-bid meeting and hence it was construed that the time given was sufficient.
- Base price was not decided at the time of initial negotiations held in July 2015. During second negotiations held in October 2015, the base price was fixed as October 2015, *i.e.* one month prior to the date of purchase order. The excess payment assessed by audit was due to market price fluctuations which was beyond the control of the Company.

The reply is not acceptable as:

- The urgency of material requirement as stated in the reply was not kept on record while approving the short-term tender. Allowance of sixty days for submission of bids was not dependent on request from the bidders, but was mandatory for the Company as per KTPP rules to ensure fair participation in the tender. Hence, the action of the Company to reduce the number of days to 21 for submission of bids was in violation of KTPP Rules.

- The excess payment to the contractor was because of the Company considering ‘October 2015’ for the purpose of base rate, instead of ‘June 2015’ as per negotiations held in July 2015 or ‘February 2015’ as per IEEMA formula. The decision to consider October 2015 for the purpose of base rate was not in the financial interest of the Company, which ultimately benefitted the contractor by ₹ 1.61 crore.