



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)**

FORTY EIGHTH REPORT

(Presented on 30th June, 2014)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2014

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On

**Kerala State Electricity Board based on the Report of the
Comptroller and Auditor General of India for the
year ended on 31st March, 2007 (Commercial)**

1018/2014.

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„ Lima Francis, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-2016) having been authorised by the Committee to present the Report on their behalf, present this Forty Eighth Report on Kerala State Electricity Board based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2007 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2007, was laid on the Table of the House on 26-2-2008. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2011-2014.

This Report was considered and approved by the Committee at the meeting held on 7-5-2014.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Power Department of the Secretariat and Kerala State Electricity Board for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Power and Finance Department and the officials of Kerala State Electricity Board who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

Thiruvananthapuram,
30th June, 2014.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

REPORT

KERALA STATE ELECTRICITY BOARD

AUDIT PARAGRAPH

Avoidable Payment

Board invited (June 2005) tenders for supply of two lakh sets of two line cross arms and placed (December 2005) orders on Mangal Steel Enterprises Limited (MSEL), the lowest bidder, for supply of four lakh sets at the all inclusive quoted rate of ₹ 119.98 per set. MSEL, however, withdrew (December 2005) their offer on the ground of serious mistakes in the quoted price and demanded enhancement in rates. The Board thereupon, placed (March 2006) orders on Ceebuild Company (P) Limited (CCPL), Kolkata for purchase of two lakh sets at the rate of ₹ 159.84 per set at the risk and cost of MSEL. CCPL supplied (September 2006) the material and Board released 90 per cent payment amounting to ₹ 2.89 crore. The balance amount of ₹ 31.13 lakh was withheld for re-fixation of price of the material for delayed delivery.

It was noticed that in response to the tender for two lakh sets of two line cross arms, MSEL had quoted (June 2005) for two lakh sets only. Deviating from the tendered quantity, the Board, however, placed orders for four lakh sets. Moreover, MSEL had executed (July 2005) a written document on stamp paper confirming that the offer as per their price bid shall constitute a binding contract till the formal contract was prepared and executed. Ignoring this, the Board obtained (January 2006) a revised bid from MSEL. By making a counter offer for four lakh sets and obtaining a revised rate, the Board created legal hurdles with regard to the risk and cost purchase of the material.

The Board terminated (August 2006) the orders placed on MSEL, forfeited earnest money deposit of Rupees five lakh and directed the firm to remit ₹ 74.72 lakh being price difference towards risk and cost purchase of material. MSEL, however, took advantage of the counter offer for four lakh sets made by the Board while placing the purchase order and refused (September 2006) to remit the amount of ₹ 74.72 lakh.

Thus, the decision of the Board to deviate from the tendered quantity and make counter offer after finalisation of bid resulted in non-recovery of cost of ₹ 74.72 lakh.

The matter was reported to the Government (April 2007); the reply had not been received (August 2007).

[Audit Paragraph 4.12 contained in the Report of Comptroller and Auditor General of India for the year ended 31st March, 2007.]

The Notes furnished by Government on audit paragraph is given in Appendix II.

1. The Committee sought explanation for the audit objection on avoidable payment and non-recovery of cost of ₹ 74.72 lakh from Mangal Steel Enterprises Limited. The witness informed the committee that when the Board had invited tender for the supply of two line cross arms, the lowest rate of ₹ 119.98 was quoted by Mangal Steel Enterprises Ltd. (MSEL). Though the actual requirement of the Board was four lakh sets, tender was invited only for 2 lakh sets because it was anticipated that the remaining 2 lakh sets would be made available from the Board's own Mechanical Fabrication Facility Centres at Kozhikode and Angamaly. The Committee was informed that since the bid offered by MSEL was much below the prevailing market rate and the scope of getting 2 lakh sets of two line cross arms from Board's own centres did not materialise, the Board decided to place purchase order for the supply of 4 lakh sets instead of 2 lakh sets of cross arms with MSEL. Later MSEL informed the Board that they had made a serious mistake in their quote and requested to refix the quoted rate as ₹ 161.63. Since the revised rate quoted by MSEL was higher than that of L₂, the Board had decided to place purchase order with Ceebuild Company (P) Ltd. for the purchase of two lakh sets at the rate of ₹ 159.84. The witness stated that the Board had terminated the orders placed with MSEL and directed the firm to remit an amount of ₹ 74,72,000 being price difference towards risk and cost purchase of material. Since the firm had not turned up, RR action had been initiated against them to recover the amount and they had been blacklisted.

2. The Committee observed that the Board had committed a serious mistake by inviting tender for two lakh sets of two line cross arms, when there was an urgent requirement of 4 lakh sets. The Committee also remarked that it was a legal flaw on the part of Board that it had deviated from the tendered quantity and placed orders for 4 lakh sets without inviting fresh tenders. The Committee found that the counter offer made by the Board invited legal hurdles with regard to risk and cost purchase of material resulting in non recovery of ₹ 74.72 lakh.

3. When enquired about the reason for not materialising the Mechanical Fabrication Facility at Calicut and Angamaly the witness stated that since Board's own manufacturing facility was not functional, they had opted to outsource the work using Board's machinery. But that too did not come through due to lack of adequate manpower. The Committee found that the Board had failed to utilise its own machinery effectively for the manufacture of materials for own use.

4. To a query of the Committee the witness informed that as the revised rate quoted by MSEL was higher than that of the rate quoted by Ceebuild Company (P) Limited the Board had decided to place orders with the latter which was the second lowest bidder. The Committee pointed out that the Board should not have yielded to MSEL's request for revision of quoted rate of ₹ 119.98. The Committee observed that MSEL's act of overbidding after quoting and fixing a fairly low rate, was totally unfair. The witness admitted that it was a breach of contract to increase the tender quantity from 2 to 4 lakhs, but the decision was taken in good faith to avail the benefit of lowest rate quoted by MSEL.

5. The Committee remarked that usually it has seemed that Public Sector Companies were not given due consideration for the award of work and here in this case the Committee enquired why the Steel Industrials Kerala Limited a public sector unit, was not included in the list of pre-qualified bidders. The witness replied that the firm had failed to submit the test certificate, which was a basic requirement in the tender condition within the prescribed time limit. The witness added that had the Board been deviated from the basic tender conditions the pre-qualified tenderers would have been resorted to legal remedies which would create many hurdles and thus the whole tender process would come to a stand still. The Committee observed that while strict compliance of law was seemingly enforced by Board in case of Government owned companies no such vigilant but a conspicuously lenient stand was taken towards the private companies.

6. The Committee wanted to know the criterion for fixing the Earnest Money Deposit. The Principal Accountant General pointed out that in many places EMD was fixed based on the past market price trends. By fixing a lower rate of EMD, the earnestness of the bidders could not be ensured. He added that by fixing EMD between 10 to 15% of the total tender price the withdrawal of the lowest tenderer from the bid could be avoided. The witness stated that usually one to two percentage of the total amount was fixed as EMD so that small as well as large scale firms could take part in the tender. In the case of MSEL 2.5% of the total amount limited to 5 lakh was fixed as EMD. The Committee stated that a moderate amount should be fixed as the earnest money deposit and the Board should opt to price variation clause while fixing the rate. The Principal Accountant General remarked that since the price of materials like cement, steel etc. fluctuate within two to three months, the Board should opt to the price variation formula regardless of the duration needed for the procurement of materials.

7. The Committee pointed out that all the lapses raised in the audit para had been admitted by the Board. The witness replied that the fixation of EMD at 2.5% of the total price and the non inclusion of price variation formula for short-term supply contracts were not flaws, as it was the usual procedures followed by the Board. The witness accepted that they had deviated from the tendered quantity taking into account the lowest rates quoted by MSEL and owing to the failure of Board's own manufacturing facility. The Committee was informed that the second lowest bidder was given purchase order @ ₹ 159.84 at the risk and cost of Mangal Steel Enterprises Ltd.

8. To a query of the Committee the witness disclosed that MSEL was blacklisted immediately as per the recommendation of C&AG and that firm was not holding any subsequent contracts with the Board. The witness added that at present the Board had no mechanisms to identify whether the blacklisted firms re-entered with a new name.

9. When the Committee enquired about the present position of the case pending in the court, the witness stated that MSEL had filed a counter petition against RR action of ₹ 74 lakh. Since they obtained a stay order from the court the whole proceedings were pending since 2008.

10. The Committee expressed its displeasure over the explanation furnished by the witness and remarked that all the lapses had been admitted by the Board. The Committee urged that the EMD for the contract agreements should be raised and price variation clause should be included while inviting tender and the RR proceedings should be speed up. The Committee directed that the Board should strongly adhere to the rules and should not deviate from the terms and conditions of the contract agreements, so that lapses could be avoided in future.

Conclusions/Recommendations

11. The Committee finds that the Board's deviation from the tendered quantity and making counter offer after finalisation of bid resulted in the non-recovery of cost of ₹ 74.71 lakh from MSEL, being price difference towards risk and cost purchase of two lakh sets of two line cross arms. The Committee notices that when private companies were given inadmissible level of forbearing towards the award of work, tenders from Government owned PSUs were rejected due to stringent conditions laid down by the Board. Therefore the Committee recommends that urgent steps should be taken to formulate specific guidelines for inviting tenders, their evaluation and award of work. The Committee remarks that the Boards anticipation to procure 2 lakh sets of two line cross arms from its own manufacturing units proved to be a miscalculation which in turn led the Board to deviate from the original tendered quantity. The

Board had to pay a hefty price for this injudicious decision. The Committee recommends that the Board should adhere to the tender condition and should not deviate from the terms and conditions of contract agreements in its future dealings.

12. The Committee further recommends that the Board should fix a moderate amount as EMD and should strictly exercise price variation formula regardless of the duration of supply of materials. The Committee also recommends that urgent steps should be taken to speed up the proceedings of RR action to recover the amount of ₹ 74.72 lakh, which was the price difference towards risk and cost purchase of materials.

AUDIT PARAGRAPH

Avoidable loss due to payment of inadmissible claims

Mention was made in paragraph a 3.A.5.3 of the Report of the Comptroller and Auditor General of India for the year ended 31st March, 1998 (Commercial), Government of Kerala regarding claim of SEMT Pielstick, France (SEMT), the contractor for supply, erection and commissioning of 5 X 20 MW diesel generating units at Brahmapuram for supervision charges during the extended period, which was not justifiable, as the extension was necessitated due to delay in supply of equipment by SEMT.

As per the terms of the agreement with Kerala State Electricity Board (KSEB), SEMT was to supply operating spares for scheduled maintenance up to 12000 hours of operation and also spares required for overhauling of engines on completion of 12000 ±750 hours of operation free of cost. 'Connecting rod bearing shell' (shell) was one such spare item, which was to be replaced at the time of engine overhauling. The firm supplied (August 2000 and March 2003) 56 shells for generating units I, II and V without any extra cost. The firm, however, refused to supply free of cost the remaining 34 shells required for units III and IV. Instead, the firm requested the Board to make payment for these spares and adjust the amount against their pending (July 1997) claims towards supervision charges for the extended period of the agreement. The Board issued (February 2003) the purchase order to SEMT and released (July 2003) payment of ₹ 33.31 lakh towards cost of spares subject to the condition that the amount so disbursed would be adjusted against ₹ 1.58 crore assessed as supervision charges for the extended period. The claim of SEMT for ₹ 1.58 crore has not been settled so far (May 2007).

Thus the Board had made payment for free spares against the inadmissible claim for supervision charges; the same was unjustified and resulted in avoidable loss of ₹ 33.31 lakh.

The matter was reported to the Government (June 2007); the reply had not been received (August 2007).

[Audit Paragraph 4.16 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2007.]

Notes on Audit Paragraph furnished by Government is given in Appendix II.

13. The Committee sought explanation for the payment of ₹ 33.31 lakh made by the Board for free spare parts against inadmissible claims for supervision charges by SEMT. The witness replied that as per the agreement between SEMT and KSEB for the supply, erection, testing and commissioning of the equipments for the 100 MW Brahmapuram diesel generating units, the spare parts for scheduled maintenance were to be supplied free of cost along with the engines. The 'bearing shell' which was a vital spare part was not included in the list of items to be supplied free of cost, but later it was included by SEMT in the list of free spares. On the request of the Board the firm supplied 56 numbers of bearing shell without any extra cost for the maintenance of generating units I, II and V. But, for the remaining 34 shells needed for the maintenance of units III and IV the firm demanded payment as their claim of ₹ 1.58 crore towards the supervision charges for the period exceeding 508 man weeks duration was kept pending by the Board. As the Board refused to pay additional amount towards supervision charges claimed by SEMT the firm demanded payment for 34 shells. The witness disclosed that the bearing shell being an essential part to be replaced, not effecting its payments would lead to a shortfall in the production of power by one million unit per day, which in turn would cause a loss of ₹ 2 million a day. The witness informed the Committee that they had decided to go in for the payment in the best interest of the Board.

14. The Committee remarked that had the 'bearing shell' been attached to the original agreement as a vital spare part to be supplied free of cost, the Board should not have to pay for 34 shells. The Committee pointed out that the Board, instead of deviating from the terms and conditions of the agreement, should try to implement it firmly. The Committee also noticed that the Board was flexible in invoking the conditions of the agreement.

15. The Committee enquired whether the list of free spare parts was provided along with the agreement, the witness disclosed that since the installation of 100 MW diesel-generating unit was a maiden project in Kerala, the Board was completely ignorant about the equipments required for the project. The Committee was of the view that the Board had not conducted any detailed study about the execution of the work and was unaware about the spare

parts needed, before entering into the agreement. The Committee expressed its displeasure over the reply furnished by the witness that they were unaware that 'bearing shell' was an essential spare part to be replaced during maintenance. The witness informed the committee that they had cross-checked all the items supplied, with the firm's maintenance manual which was later revised in order to include the 'bearing shell' as a free spare part.

16. The Committee found that it was a serious lapse on the part of the Board that it had failed to identify even the essential items needed for the execution of the work as proper study was not conducted before venturing into new project. The Committee also directed that the Board should seek technical expertise from its Engineers and other experienced officials before executing a contract agreement.

17. The Committee wanted to know how the supervision charges claimed by the firm CDE got linked with the payment demanded by SEMT, the witness stated that both firms were sister concerns, wherein machines were supplied by SEMT and supervision was provided by CDE. The Committee desired to be furnished with the details of documents showing the relationship between the two firms.

18. The Committee enquired whether the claim of CDE towards the supervision charges for the extended period of the contract was settled. The witness informed that SEMT had made a demand for the payment of the remaining 34 bearing shells as its claim for ₹ 1.58 crore was not settled by the Board. The Committee was informed that the Board had released a payment of ₹ 33 lakh towards the cost of 34 bearing shells in order to avoid shortfall in the generation of power. The Committee remarked that since SEMT was responsible for the revision of maintenance manual and inclusion of a new spare part in the list of free spares, the Board need not have to go for payments. The Committee expressed its disagreement with the witness's justification that they released payment towards the obstinate claim of the company for the best interest of the country and pointed out that the loss incurred to the organisation could be considered equivalent to the nation's loss. The Committee opined that the Board had neither conducted detailed study nor had taken any necessary precautions before venturing into a new project.

19. The witness from Finance Department informed the Committee that a detailed study should be conducted before adopting price variation clause in the contract agreements. He added that a proper mechanism should be formulated in order to tackle the upward as well as downward trends in the market price, so that the whole work could be completed within the running contract period.

20. The Committee directed that a thorough study should be conducted on the application of price variation clause in the contract agreements and details about its possibility, feasibility, merit and demerit should be furnished to the Committee.

Conclusions/Recommendations

21. **The Committee finds that the failure of the Board to identify and include connecting rod bearing shell, one of the essential spare part required for scheduled maintenance of diesel generating unit, in the list of free spares points to the inefficiency, laxity and lack of technical knowledge of officials of K.S.E.B. As per the agreement, the firm SEMT was bound to supply all spares for scheduled maintenance free of cost and hence it was breach of contract to demand payment for 34 bearing shells. The injudicious decision of the Board to release payment towards 34 bearing shells, which the firm SEMT claimed against pending payment to another firm for extra supervision charges, resulted in avoidable loss of ₹ 33.3 lakh. The Committee observes that it is unbecoming on the part of the Board to yield to SEMT's inadmissible claim of ₹ 33.31 lakh. The Committee also urges that it should be furnished with details about the linking of CDE's claim for supervision charges of ₹ 1.58 crore with SEMT's claim for payment of free spares.**

22. **The Committee finds that the Board had failed in conducting proper feasibility studies and utilising technical expertise effectively before executing contract agreement. Therefore the Committee recommends that the Board should conduct a detailed study about various aspects of a project before venturing into it. The Committee also directs that urgent steps should be taken to study the merits and demerits in exercising price variation clause in contract agreements and intimate the committee about it at the earliest.**

AUDIT PARAGRAPH

Avoidable extra expenditure due to price revision

In order to meet the requirements of Vadakara and Malapparamba substations the Board issued (April 2005) orders on Transformers and Electricals Kerala Limited (TELK) for supply of four 100 MVA, 220/110 KV transformers at the lowest all inclusive rate of ₹ 2.65 crore per transformer. As per the terms of the purchase order, the price was firm and taxes and duties were payable as per actuals. TELK was to supply the first unit within four months (October 2005) from the date of approval of drawings and the balance at the rate of one unit per month thereafter. Meanwhile, the Board revised (January 2006) the unit rate to ₹ 2.84 crore in order to incorporate VAT (12.5 per cent) introduced by the

State Government with effect from April 2005. TELK could not supply the transformers within the schedule delivery period (January 2006) and extension sought was granted up to 31st March, 2006 without any price revision and penalty. TELK completed the delivery within the extended period. Thereafter based on the request (July 2006) of TELK, the Board revised (March 2007) the price to ₹ 3.12 crore per transformer to compensate for the unprecedented increase in raw material cost even though the contract prices were firm. Consequently, the Board incurred an additional expenditure of ₹ 1.12 crore*.

The Board had earlier issued (30th July, 2004) a purchase order to TELK for supply of twenty 12.5 MVA, 110/11 KV three phase transformers at the unit rate of 45.89 lakh. As per the terms of the purchase order, the price was firm and TELK was also to supply, if so required, an additional 25 per cent of the quantity on the original terms and conditions. Accordingly orders were placed (April 2005) for supply of five transformers. The transformers were supplied during March 2006.

The Board however ignored the provisions of the purchase order and enhanced (January 2006) the unit rate to ₹ 60.63 lakh for the additional five transformers (25 per cent quantity) incurring extra expenditure of ₹ 56 lakh†. Payment at enhanced rate was made during March-April 2006.

Thus, the decision of the Board to allow price revision in violation of the provisions of the purchase orders resulted in avoidable extra expenditure of ₹ 1.68 crore in respect of two purchase orders.

The matter was reported to the Government (June 2007); the reply had not been received (August 2007).

[Audit Paragraph 4.17 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2007.]

23. The Committee sought explanation on the avoidable expenditure due to price revision in the purchase of transformers from TELK. The witness informed that KSEB had issued purchase orders to Transformers and Electricals Kerala Ltd. (TELK) for the supply of transformers on firm price basis, but there occurred an unprecedented hike in the cost of CRGO electrical steel which was an important component for transformers. The Committee was also informed that the price of CRGO Steel which was ₹ 86,634 at the time of quoting the tender reached a maximum of ₹ 1,61,000 by April (2005). The firm being a sick

* (₹ 3.12 crore - ₹ 2.84 crore) X 4.

† ₹ 60.63 lakh - (₹ 45.89 lakh + ₹ 3.52 lakh additional tax on account of introduction of VAT and Cess on original ex-works price) X 5 transformers.

Government owned Public Sector Company could not bear heavy losses, the Board had decided to revise the unit price of transformers. Though the cost of CRGO Steel which constituted 28% of the cost of transformer was increased by 120% the Board had made only 6% increase in the quoted rate. The witness disclosed that the unprecedented raise in CRGO Steel price resulted in the extra payment of ₹ 1.12 crore by the Board. The Committee agreed with the explanation forward by the witness and decided to drop the audit objections raised in the paragraph 4.17.

Conclusions/Recommendations

24. **No comments.**

Thiruvananthapuram,
30th June, 2014.

K. N. A. KHADER,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	11	Power	The Committee finds that the Board's deviation from the tendered quantity and making counter offer after finalisation of bid resulted in the non-recovery of cost of ₹ 74.71 lakh from MSEL, being price difference towards risk and cost purchase of two lakh sets of two line cross arms. The Committee notices that when private companies were given inadmissible level of forbearing towards the award of work, tenders from Government owned PSUs were rejected due to stringent conditions laid down by the Board. Therefore the Committee recommends that urgent steps should be taken to formulate specific guidelines for inviting tenders, their evaluation and award of work. The Committee remarks that the Board's anticipation to procure 2 lakh sets of two line cross arms from its own manufacturing units proved to be a miscalculation which in turn led the Board to deviate from the original tendered quantity. The Board had to pay a hefty price for this injudicious decision. The Committee recommends that the Board should adhere to the tender condition and should not deviate from the terms and conditions of contract agreements in its future dealings.
2	12	„	The Committee further recommends that the Board should fix a moderate amount as EMD and should strictly exercise price

(1)	(2)	(3)	(4)
			variation formula regardless of the duration of supply of materials. The Committee also recommends that urgent steps should be taken to speed up the proceedings of RR action to recover the amount of ₹ 74.72 lakh, which was the price difference towards risk and cost purchase of materials.
3	21	Power	The Committee finds that the failure of the Board to identify and include connecting rod bearing shell, one of the essential spare part required for scheduled maintenance of diesel generating unit, in the list of free spares points to the inefficiency, laxity and lack of technical knowledge of officials of K.S.E.B. As per the agreement, the firm SEMT was bound to supply all spares for scheduled maintenance free of cost and hence it was breach of contract to demand payment for 34 bearing shells. The injudicious decision of the Board to release payment towards 34 bearing shells, which the firm SEMT claimed against pending payment to another firm for extra supervision charges, resulted in avoidable loss of ₹ 33.3 lakh. The Committee observes that it is unbecoming on the part of the Board to yield to SEMT's inadmissible claim of ₹ 33.31 lakh. The Committee also urges that it should be furnished with details about the linking of CDE's claim for supervision charges of ₹ 1.58 crore with SEMT's claim for payment of free spares.
4	22	„	The Committee finds that the Board had failed in conducting proper feasibility studies and utilising technical expertise effectively before executing contract

(1)	(2)	(3)	(4)
			<p>agreement. Therefore the Committee recommends that the Board should conduct a detailed study about various aspects of a project before venturing into it. The Committee also directs that urgent steps should be taken to study the merits and demerits in exercising price variation clause in contract agreements and intimate the committee about it at the earliest.</p>

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

<i>Serial Number</i>	<i>Audit Paragraph</i>	<i>Reply furnished by Government</i>
(1)	(2)	(3)
1	4.12 (2006-07)	<p>As on 30-5-2005 a total of 584712 Nos. of two line cross arms were urgently required for the offices within the jurisdiction of the Chief Engineer, Distribution North and the Chief Engineer, Transmission North. These were mainly required for the construction of 1148.7 KM LT single phase line (normal), 829 KM LT single phase line (normal) for RGGVY scheme and 132186 Nos. were needed for OH service connection (normal) and RGGVY scheme.</p> <p>The Board as per B.O. (FM) No.547/2005 (MG/Genl./2003) dated 16-2-2005 accorded sanction to set up Mechanical Fabrication Facility at Kozhikode and Angamaly and anticipated about two lakh cross arms would be made available from these centers when it commences production.</p> <p>Purchase was to be arranged for 494712 Nos., considering availability at C.M. Division, Pallom. Purchase of 13750 Nos. (11000+25% additional quantity) have already been arranged. Accordingly two piecemeal tenders were invited for the supply of two lakh number of two line cross arms with clamp, bolt and nut vide tender No. CE (D-N)/35/2005-06 dated 2-6-2005 on firm price basis. Wide publicity was given to the tender notice as per the norms. The period of sale of tender forms was from 21-7-2005 to 27-7-2005. Six tender forms were sold within the stipulated time and five tenders were received back from:</p>

(1)	(2)	(3)
		<ol style="list-style-type: none"> 1. M/s Ceebuild Company (P) Ltd. 2. M/s Alsteel Industrials. 3. M/s Mangal Steel Enterprises. 4. M/s Aster Teleservices (P) Ltd. 5. M/s Steel Industrials Kerala Ltd.
		<p>The pre-qualification Committee meeting held on 29-8-2005 decided to pre-qualify the following firms:</p>
		<ol style="list-style-type: none"> 1. M/s Ceebuild Company (P) Ltd. 2. M/s Alsteel Industrials. 3. M/s Mangal Steel Enterprises. 4. M/s Aster Teleservices (P) Ltd.
		<p>M/s Steel Industrials Kerala Ltd. was also pre-qualified on condition that they shall submit the required test certificate within the time limit prescribed by Chief Engineer (Distribution North). M/s Steel Industrials Kerala Ltd. in their letter dated 2-9-2005, informed that test certificate will be produced prior to the award of the work.</p>
		<p>The price bids of the pre-qualified bidders were opened at 12 Noon on 3-9-2005 and examined. The lowest rate of Rs. 119.98 was offered by M/s Mangal Steel Enterprises Ltd., Howrah, with an Entry Tax @ 4%. This company further informed on 3-9-2005, that they had quoted 4% Entry Tax based on the norms published in the Government Gazette notification and whatever may be the Entry Tax at the time of Purchase Order, it shall be borne by the Board.</p>
		<p>Unfortunately the Mechanical Fabrication Facility did not operate and commence production in time and the scope of getting two lakh No. two line cross arms did not materialize. Hence, Purchase</p>

(1)	(2)	(3)
		<p>Committee was requested to consider the proposal for placing purchase order with M/s Mangal Steel Enterprises Ltd., Howrah for the purchase of 476450 No. of two line cross arms with a total financial commitment of Rs. 5,71,64,471. The Board vide B.O. (FB) No.3436/2005 (TC5/Prch-2 line X arms/05-06) dated 7-12-2005 accorded sanction to place the purchase order with M/s Mangal Steel Enterprises Ltd., Howrah for the supply of 400000 sets of two line cross arms with clamps, bolts and nuts @ Rs. 119.98 per set. Accordingly, purchase order was placed with the firm on 20-12-2005 informed that they made a serious mistake in their quote for two line cross arms and hence they cannot accept the Purchase Order. They requested for enhancement of quoted rate and if it is not acceptable to the K.S.E.B., they would likely to withdraw their offer. The firm was informed that their request for enhancement of rate was not acceptable, and requested to show cause why the Purchase Order could not be terminated, forfeiting the EMD and arranging the work at their risk and cost, on or before 2-1-2006. The firm as per letter dated 2-1-2006 replied that Indian Contracts Act, 1872, laid down the provision vide clause 5, Revocation of Proposals and Acceptances—"a proposal may be revoked at any time before the communication of acceptance is complete" and hence requested to return EMD. The matter was placed before the Purchase Committee, and the firm did not execute any agreement.</p> <p>The Purchase Committee after extensive deliberations held on 18-1-2006 decided that M/s Mangal Steel Enterprises may be requested to submit their enhanced rate. The revised rate quoted by M/s Mangal Steel Enterprises were higher than that of, M/s Ceebuild Company (P) Ltd.</p>

(1)	(2)	(3)
		<p>Thus the latter company became the lowest tenderer. The revised rate of M/s Mangal Steel Enterprises was Rs.161.63 and that of M/s Ceebuild Company (P) Ltd. was Rs. 159.84.</p> <p>The matter was again placed before the Board and it was decided to place Purchase Order with M/s Ceebuild Company (P) Ltd. for the supply of 400000 sets of two line cross arms with clamps, bolts and nuts @ Rs.159.84 with a total financial commitment of Rs.6,39,36,000 at the risk and cost of Mangal Steel Enterprises [vide B.O. (FB) No.602/2006 (PS5/Purchase-2 Line X-arm) 05-06 dated 27-2-2006].</p> <p>Since the tendered quantity was only for 200000 sets, M/s Ceebuild Company (P) Ltd. requested to place orders for 200000 sets only and hence Purchase Order was placed for 200000 sets instead of 400000 sets @ Rs.159.84 with M/s Ceebuild Company (P) Ltd. at a total financial commitment of Rs. 3,19,68,000. The Board has ratified the action in placing Purchase Order for 200000 sets instead of 400000 sets @ Rs. 159.84 with M/s Ceebuild Company (P) Ltd.</p> <p>Kindly note that the Board placed Purchase Order for 400000 Nos. in good faith for purchasing the item at a very low rate. The EMD (Rs. 5 lakh) submitted by M/s Mangal Steel Enterprises Ltd. was forfeited. As per the letter dated 4-8-2006 the firm was requested to remit an amount of Rs. 74,72,000 and RR action was initiated vide letter dated 18-6-2008. It was also ordered to blacklist M/s Mangal Steel Enterprises Ltd.</p> <p>Considering the above facts the Audit Para may please be dropped.</p>
2	4.16 (2006-07)	The supply, erection, testing and commissioning of the equipments for the 100 MW, BDPP was

(1)	(2)	(3)
		<p>carried out by M/s, SEMT Pielstick, vide agreement No.71/93-94, dated 16-12-1993. As per this agreement, the spares for scheduled maintenance including 12000 hrs overhauling, as detailed in Annexure-5 of the agreement, are also to be supplied free of cost along with the engines. The 'bearing shell' was not an item to be supplied as per Annexure-5 of the agreement.</p>
		<p>For supply and transportation of equipments purchased or manufactured in India and for providing specialist Technical Personnel for supervision of erection, testing and commissioning for the BDPP project, another agreement No. 72/93-94 dated 16-12-1993 was executed between M/s Central Diesel Export (CDE) and Kerala State Electricity Board. As per this agreement, the schedule of supervision was for 508 man weeks, with 370 man weeks by foreign personnel and 138 man weeks by Indian personnel. The project was commissioned in February, 1999. By this time the number of man weeks supervision required was increased by 215 man weeks by foreign personnel and 155 man weeks by Indian Personnel than that provided in the agreement schedule. Accordingly M/s, CDE raised two invoices against Kerala State Electricity Board amounting to Rs. 1.58 crore towards supervision charges for the extended period. The Kerala State Electricity Board has not admitted the same so far and the claim is still pending.</p>
		<p>Meanwhile, M/s SEMT Pielstick revised the maintenance manual and included connecting rod bearing shell also as a part to be replaced during 12000 hrs scheduled maintenance and informed the same vide fax MR 0803, dated 11-10-2000. On the request of Kerala State Electricity Board, M/s SEMT Pielstick supplied, free of cost, the</p>

(1)	(2)	(3)
		<p>“bearing shell” (56 Nos.) for the scheduled maintenance of Unit # 1, 2 & 4 carried out during the year 2000 and 2002.</p>
		<p>But when Kerala State Electricity Board requested to supply free of cost the ‘bearing shell’ for the scheduled maintenance of Unit # 3 & 5, in the year 2003, M/s SEMT Pielstick vide letter No. MR 2602, dated 4-2-2003 informed that, the supply of ‘bearing shell’ is attached to the original contract and in spite of the pending payments (to M/s CDE) pertaining to the original contract, they have supplied the ‘bearing shells’ free of cost for Units # 1, 2 & 4 and they can’t supply the ‘bearing shells’ for Units # 3&5 free of cost. They proposed to place orders with them for supply of ‘bearing shells’, and to realize payment to this order by bank transfer before delivery or by irrevocable documentary credit, which can later on be deducted from the long pending payment due to them.</p>
		<p>The machines # 3 & 5 were due for the 12000 hrs. overhauling during the first quarter of 2003 and the machines would have to be kept under forced shut down if overhauling is not done. At that critical situation, the options before the Board was either to make payment, get this particular spare and complete the maintenance or keep both the machines idle till the issue is resolved. If the machines were kept idle, there would have been a reduction of 42 MW in maximum demand capacity available in the Kerala Power System and a loss of generation capability to the tune of 1 million units per day. Based on the power position prevailed in Kerala during that period, keeping these machines idle, due to lack of spares worth Rs. 33 lakh, was not at all advisable considering the economical and social</p>

(1)	(2)	(3)
		<p>aspects involved. Hence Board had taken the best option available at that time that, to get the spares immediately by payment and to adjust the amount while settling the accounts of M/s CDE, vide B.O. No. 843/2003, dated 28-6-2003 and No. 959/2003, dated 17-7-2003.</p> <p>As per the first option, if the Board would have to wait till the settlement of the pending payment issue for extended Supervision with M/s SEMT and get bearing shells free of cost, then along with the loss due to short fall in production by 40% of the plant capacity for long period, the Board would have to incur fixed expenditure such as Wages/Salary of personal working in the plant, and other general maintenance cost without any income in return during the shutdown period. The risk of obsolescence of machinery due to idleness and additional cost that may be required to make them in working condition on re-opening of the plant are also to be taken into account in order to assess the financial effect of shutdown of the plant.</p> <p>The audit observation that 'the claim for supervision charges during the extended period was not justifiable' is also not as per facts. An amount of approximately Rs. 1.58 crore is under dispute between Kerala State Electricity Board and M/s CDE. Even if the same is not admitted by Board, the contractor has the option as per agreement, to settle the issue under the rule of conciliation and arbitration of the International Chamber of Commerce at Geneva. Moreover the extension of time was necessitated not only due to M/s CDE but also due to the delay of Civil works, Infrastructure facilities, etc. Hence the claim of M/s CDE can't be considered as unjustifiable and is still pending for decision.</p>

(1)	(2)	(3)
3	4.17 (2006-07)	<p>Considering the above facts, the action of the Board was in the best interest of the Board and the State. Hence the Audit Para may kindly be dropped.</p> <p><i>I. Purchase of 100 MVA 220/110 KV transformer for Vadakara and Malaparamba Substation</i></p> <p>K.S.E.Board invited tenders for the purchase of 100 MVA 220/110 KV transformer on firm price basis, observing on the general conditions of tender procedures prevailing at that time. M/s TELK Angamally a Government of Kerala Public Undertaking quoted the lowest rate of Rs. 2.15 crore per transformer. Purchase order was placed with them on condition that they shall commence the supply by 23-10-2005 and complete within 23-1-2006. Within the schedule delivery period Government of Kerala enacted and imposed VAT @ 12.5% w.e.f. 1-4-2005. Hence the all inclusive rate of the transformer was revised with the unit rate to 2.84 crore including the VAT. As per the terms and condition of the purchase order the price was firm, taxes and duties were payable as per actuals, during the delivery period. M/s TELK could not complete the supply within the delivery period and extension of delivery time was sought by the firm up to 31-3-2006.</p> <p>The request of TELK for delivery extension for all the four units and spares up to 3-3-2006 was allowed without imposing penalty considering the following valid grounds:</p> <ol style="list-style-type: none"> 1. M/s TELK had already supplied two transformers to 220 KV substations. Malaparamba within the scheduled delivery period while the construction was going on. 2. The Balance two 100 MVA transformers were intended for Vadakara substation for which site was getting ready.

(1)	(2)	(3)
		<p>Hence, no loss was sustained to K.S.E.Board on account of extension of delivery period by two months.</p> <p>The Board revised the price to Rs. 3.12 crore per transformer to compensate for the unprecedented increase in raw material cost even though the contract price was firm. K.S.E.Board decided to allow price escalation subject to the limit of 10% and offered with an increase of 6.72% which is less than the unit price quoted by the second lowest tenders.</p> <p>Purchase Committee held on 13-12-2005 discussed the unprecedented increase in the price of CRGO Electrical steel which is an important component for transformers and decided that the suggestions mooted by IEEMA to grant appropriate compensation based on IEEMA price variation clause for tender conditions; as firm price in such a situation where raw material prices are highly volatile; may be considered depending upon the merits of the individual cases.</p> <p>It was only after the completion of the supply, the Board considered the request for Price variation and to update the unit price of 100 MVA 220/110 KV transformers as Rs. 2,60,60,731 (Firm) subjected to a limit of 10% price variation considering the following:</p> <ol style="list-style-type: none">1. The Price offered by the firm at the time of quoting the tender during October 2004 anticipating an increase of 6.72% only.2. Applying PV as per IEEMA for the 4 nos. 100 MVA transformers from the date of tender up to the scheduled delivery period is 37.31% to 45.92%.

(1)	(2)	(3)
		<p>3. The Unit basic price quoted by the unsuccessful tenderer M/s BHEL was Rs. 2.7 crore.</p> <p>4. Rates of similar rating transformers procured by other Electricity Boards are very much higher than the rate quoted by M/s TELK.</p> <p>5. The firm being a Kerala Government public sector company presently working on a revival package under BIFR and a regular supplier of power transformers to K.S.E.Board.</p> <p>6. Even though the price variation of 4 transformers as on the scheduled delivery date was more than 37%, board had allowed a price variation of +10% only and the updated price is lesser than the price of the second lowest bidder by Rs. 33.5 lakh.</p>

Hence, no loss could be attributed in the aforesaid purchase allowing price variation with a ceiling of 10%. The timely and apt decision the Board paved the way for completion of two major 220 KV substations in time, otherwise the investment of the Board would have been idling for a long time due to the non-availability of power transformers in the appointed time.

II. Purchase of 5 numbers 12.5 MVA, 110/11 KV transformers:

Purchase order for the supply of additional 5 nos. of 12.5 MVA transformers against the original order was placed with M/s TELK, Angamally at their original quoted FIRM rate of Rs. 49,41,165 (all inclusive). M/s TELK had requested for price variation for the additional order due to the increase in price of the raw material by nearly 40%. They also intimated that, if they execute the order at the firm rate they would sustain heavy fiscal loss, which they could not tolerate.

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The request for price variation was considered based on:

1. The letter dated 8-6-2005 from the Assistant Secretary General, IEEMA addressed to the chairman, K.S.E.Board explained the reasons for the increase in price of electrical equipments.
2. The transformers were urgently required for completing the transmission works. Purchase Committee meeting held on 13-12-2005 decided to consider the request for price variations depending on the merit of the case. Based on the negotiations held with the firm the Board decided to revise the price to Rs. 60,62,756 (All inclusive) with a view to procuring transformer urgently for the targeted works for 2005-06.

Considering the facts stated above, the Audit Para may please be dropped.
