



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2011-2014)**

**TWENTY SECOND REPORT**

(Presented on 2nd April, 2013)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2013

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**On**

**Kerala State Electricity Board based on the Report of the  
Comptroller and Auditor General of India for the years  
ended 31-3-2005 & 31-3-2007 (Commercial)**

646/2013.

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## INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2011-2014) having been authorised by the Committee to present the Report on their behalf, present this Twenty Second Report on Kerala State Electricity Board based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March 2005 & 2007 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31-3-2005 & 31-3-2007 was laid on the Table of the House on 13-2-2006 & 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 2008-2011.

This Report was considered and approved by the Committee at the meeting held on 7-11-2012.

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,  
2nd April, 2013.

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

## REPORT

### KERALA STATE ELECTRICITY BOARD

#### AUDIT PARAGRAPH

##### Avoidable loss

The Board entered into (March 1997) a Memorandum of Understanding (MOU) with Power Grid Corporation of India Limited (PGCIL) for the construction of 220 KV bay extension at Pallom substation at an estimated total cost ₹ 5.20 crore on deposit work basis. The work was completed (October 2000) at a total cost of ₹ 6.72 crore (including the value of material supplied by Power Grid: ₹ 83.04 lakh).

Audit noticed that against the actual expenditure of ₹ 5.76 crore incurred by the Board for the above work on behalf of PGCIL, the reimbursement made (May 2002) was to the extent of ₹ 5.28 crore only. The Board did not take further follow-up action for reimbursement of balance amount of ₹ 48.47 lakh due against expenditure incurred on behalf of PGCIL.

As per clause 6.1 of the MOU, the PGCIL was liable to pay the centage charges at the rate of 21 per cent on the cost of equipment/materials procured both by the Board/PGCIL, towards stores incidentals and supervision charges. Audit noticed that the Board, while computing the centage charges, failed to claim (January 2002) centage charges of ₹ 17.44 lakh on value of material (₹ 83.04 lakh) supplied by PGCIL, in the total value of work.

The Government stated (June 2005) that the expenditure not reimbursed by the PGCIL related to diversion works and PGCIL was not liable to pay the same. Regarding centage charges, it was stated that action was being taken to recover the amounts from PGCIL. The reply is not acceptable as the expenditure amounting ₹ 12.35 lakh actually rejected by PGCIL on the grounds of diversion works, have already been excluded by Audit while arriving at unrecovered claim of ₹ 48.47 lakh.

Further, since the final claim has already been settled the chances of recovery of ₹ 65.91 lakh are remote. Thus, the failure of the Board to take follow-up action for reimbursement of dues and omission to claim centage charges as per the terms of the MOU resulted in loss of ₹ 65.91 lakh.

[Paragraph 4.8 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2005.]

1. When enquired about the failure of K.S.E.B., in claiming the reimbursement to the tune of ₹ 48.47 lakh and centage charges of ₹ 17.44 lakh due from Power Grid Corporation of India Limited (PGCIL) despite the

provisions in the MOU (Memorandum of Understanding), the Committee was informed that the expenditure incurred in the diversification work was not eligible for reimbursement. However ₹ 63.65 lakh was erroneously claimed but the same was declined by PGCIL on the ground that they are not obliged to pay the expenditure incurred in diversification work. The modification work of 220 kV substations at Pallom and Edamon was executed exclusively for the Board's purpose using the funds of the Board which was beyond the scope of PGCIL's work. The Committee was also informed that the Board had been maintaining a harmonious relationship with PGCIL, the Board's transmission line provider. It was also informed that only centage charges amounting to ₹ 17 lakh was due from PGCIL and that the remaining dues arose on account of erroneous inclusion of another work related to K.S.E.B. in the claim. The centage charge dues were not seriously taken note of as the Board had dues both to and from PGCIL.

2. The Committee remarked that this explanation should have been furnished to the Accountant General before the audit objection. The Accountant General disclosed before the Committee that the information was submitted only on 16-2-2007, after the Audit Report was printed.

3. The Committee wanted to know whether the centage charges due had been collected. The K.S.E.B. Chairman informed the Committee that action had already been initiated to collect the 21% centage charges towards stores, incidental and the supervision of the equipments/materials procured.

#### **Conclusion/Recommendation**

**4. The Committee finds that the audit para could have been avoided had K.S.E.B. showed some attention in furnishing the replies to queries in time. The Committee therefore recommends that earnest efforts must be taken by K.S.E.B. to furnish replies to audit objections and make sure that they have been furnished promptly so that the similar situations, can be avoided in future. The Committee desires to be furnished with the details of collection of the centage charges due from PGCIL in respect of stores, incidental and supervision of the equipments materials procured.**

#### **AUDIT PARAGRAPH**

#### **Avoidable loss**

The Board entered into (April 2000) a turnkey contract with Andrew Yule & Company Limited, Calcutta (AYL) for the design, procurement, erection and commissioning of four 33/11 kV substations (Thiruvallur, Orkattery, Melady, Ramanattukara) and bay extension at 110 kV substation, Vadakara at a total cost of ₹ 9.52 crore. Financing of the project was out of loans provided by Rural Electrification Corporation Limited (REC) and Indian Overseas Bank (IOB) in the ratio 1:2 at the interest rate of 13.5-14 per cent per annum.

As per the contract, the work was to be completed within six months from the date of handing over of the land to the contractor. The Board, however, handed over the site to AYL during the period November 2000 to January 2002 only as against the start up date of April 2000. The works in all the five substations were not completed (April 2005) by AYL on the ground of delay in making payments against works executed. The total expenditure incurred on the project as of April 2005 was ₹ 3.04 crore (₹ 2.61 crore on materials and ₹ 0.43 crore on civil works).

Audit analysis revealed that there was a delay of 6 to 20 months on the part of the Board in handing over the sites for commencement of work by AYL. Though the funds were disbursed (March 1998 to March 2001) by REC and IOB to the extent of ₹ 7.94 crore, the advance payment as well as stage payments against executed works were delayed by 1½ -16 months. These delays arising from diversion of funds contributed to non-completion of the works. Funds to the extent of ₹ 3.04 crore, invested in the Project, remained idle from August 2002 to April 2005 involving interest loss of ₹ 1.12 crore at the borrowing rate of 13.5 per cent per annum.

The contract also provided (Clause 2) for joint insurance cover in the names of K.S.E.B. and AYL against damage to works and materials. The Board, however, failed to obtain the insurance cover in its name and materials worth ₹ 15 lakh stored at site were destroyed (March 2004) by fire. In the absence of insurance cover the Board could not make good the loss.

Thus, the delay on the part of the Board in handing over of sites, making payments in time and failure to obtain insurance cover for materials resulted in avoidable loss of ₹ 1.27 crore.

Government stated (August 2005) that the Board had taken all possible follow-up action for handing over the sites and they handed over all but one site in November 2000. Acute shortage of funds and delay in rectification of defective breakers were also attributed to reason for delay. The insurance coverage was stated to have been not revalidated by AYL even after repeated instruction. The reply is not tenable since the Board had a separate land acquisition wing; the acquisition and handing over of site should have been done in time. As the project funds were provided by REC and Bank, finance cannot be considered as a constraint for delayed payments.

[Paragraph 4.10 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2005.]



5. The witness informed the Committee that Andrew Yule & Company Limited, Calcutta (AYL) could not complete the work of substation awarded to them as per the contract and hence K.S.E.B. had to complete the remaining works, except that of Orkattery substation through other contractors. The work of Orkattery substation was found not necessary since a new 220 kV substation at Vadakara came up and served the purpose. The works were reported to have been completed in 2008.

6. The Committee expressed surprise that despite expending ₹ 3.5 crore, hardly one fourth of the works, viz. Melady, Thiruvallur, Ramanattukara and Orkattery could be completed. The Committee demanded to furnish details of the total expenditure incurred for completing all the works.

7. The Committee further directed the witness to furnish a detailed report on the stage at which Andrew Yule & Company Limited was terminated from the contract, the total amount given to them and the total liability that the Board had to bear in this regard.

#### **Conclusion/Recommendation**

8. **The Committee finds that failure on the part of the K.S.E.B. in keeping the contractual obligations with Andrew Yule & Company Ltd., Calcutta (AYL) in an agreement for the work of Commissioning of 33/11 kV substations in the State had resulted in the loss of ₹ 1.27 crore. The Committee is surprised to note that in spite of the spending of ₹ 3.5 crore, hardly one fourth of the works could be completed. The Committee therefore wants to have a detailed report on the total expenditure incurred for all the works, the manner in which and the stage at which Andrew Yule & Company Ltd. had terminated the contract. The Committee also desires to have a detailed report on the total amount given to the company and the loss incurred to the Board in the deal.**

9. **The Committee recommends that K.S.E.B. should comply with the terms and conditions of the contract so that avoidable losses incurred due to the delay in handing over sites, in making payments etc. can be checked in future.**

#### **AUDIT PARAGRAPH**

##### **Undue benefit to a Contractor**

With a view to reduce line length loss by direct evacuation of power from the Kayankulam Power Plant to 220 kV substation at Kundara, the Board awarded (May 2001) the 220 kV line construction work of 23 km. length to TATA Projects Limited, Hyderabad (TATA) on turnkey basis at a cost of ₹ 8.57 crore (excluding taxes). The work was to commence in May 2001 and to be completed by May 2002.

Owing to delays in completion of tree-cutting along line routes, approval of profile and tower schedules, foundation designs, etc. by the Board, the work was not started even after the scheduled completion date. The contractor, thereupon, demanded revision in scope of work for quantities not envisaged, revised schedule of unit prices and extension of completion period by 18 months. Since large variation in the quantity of work involved huge costs, the Board should have re-tendered the work. Instead, a revised price of ₹ 36.69 crore was negotiated with the same party which was also accepted by a high level committee constituted (July 2003) by the Government. After exclusion of a few items the final contract price of ₹ 31.64 crore was fixed and supplementary agreement executed (December 2003).

Audit analysis revealed that the work was originally awarded (May 2001) without properly estimating the quantities and the contract indicated the quantities as 'provisional' and subject to variation. Even though the Board had been contracting similar line works on a regular basis, the quantities in the work awarded to TATA were provisionally estimated. The increases provided at the time of supplementary agreement in respect of 16 items ranged between 4.35 and 395 per cent indicating that either the original estimation was wrong or the revised quantities estimated by TATA and accepted by the Board were exorbitant. The Board, however, had not investigated the matter.

As per the original contract the agreed rates were to be applied for quantity variations. The Board, however, revised the prices for quantity variations in the supplementary agreement and the increases granted ranged between 69 and 1686 per cent.

It was noticed in audit that the high level committee constituted by Government failed to take into account the prevailing market prices of materials while negotiating and finalising the revised contract price of ₹ 31.64 crore. Due to this the rates allowed in respect of 11 items were higher than the market rates by 36 to 183 per cent and resulted in undue benefit of ₹ 5.80 crore to the contractor.

The matter was reported to Board and Government in June 2005; their replies are awaited (September 2005).

[Paragraph 4.14 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2005.]

10. The witness explained to the Committee that the Board had entered into a contract with the TATA Project Limited, Hyderabad for the construction of line work of 23 km. length from Kayamkulam Power Plant to 220 kV substation,

Kundara to reduce line length loss on turnkey basis at a cost of ₹ 8.57 crore. As per the tender conditions, tree-cutting, profile survey material supply, foundation design and execution were to be done by the Board. But the work could not be completed in time because the scope, design, profile survey, tower spotting, foundation, etc. of the work were totally changed which resulted in the cost escalation. When the project was completed its cost was escalated to ₹ 34.64 crore. Later scope of line was changed and needed to replace the Kundah conductors with heavier Double Moose conductors, which necessitated nearer towers and hence change in tower profile. The use of Double Moose Conductors was not familiar with the Board, till then as the Board was using 'Kundah Conductors' in their work. Hence the Board did not then have the competency to design such a line. Though an approximate amount of ₹ 8.57 crore was set aside for the work, it became insufficient to carry out the design.

11. The witness justified the decision of the Board's Expert Committee to entrust the work to TATA projects despite going in for a re-tender. They also informed the Committee that the construction of transmission line had to be done in a hurry, to get the line 'through' before the power generation, since the work of Kayamkulam Power Plant was progressing on a war-footing basis. The Board had only verified the project, which was designed by a reliable design wing of TATA.

12. The Committee then enquired the reason for not re-tendering and condemned the action of granting the re-designed project to TATA, who got the work in initial tender. Other participants of the tender were deprived of the chance to try for the same.

13. The witness clarified that a re-tender would have taken minimum six to seven months to get ready and such a delay would have been costlier. It was admitted before the Committee that K.S.E.B. then lacked the competence to design the transmission line. The Board could have, in such a situation, prepared a realistic estimate and then gone for the tender. However due to time constraints, the Board had to opt for insisting tender for a design-cum-construction contract, though Board had taken the decision to award the work to TATA in the light of the emergency to get the transmission line installed. The Committee opined that the Board ought to have monitored the utilization of the public fund when estimation as well as execution was entrusted to TATA.

14. The Committee pointed out that as the high level committee constituted by the Government failed to take into account the prevailing market rates while negotiating and finalizing the revised contract price, the rates paid for 11 items of materials was higher than the market rates by 36 to 183% giving an undue benefit of about ₹ 5.80 crore to the contractor. The witness informed the Committee that the matter would be verified and details would be submitted without delay.

### Conclusion/Recommendation

15. The Committee observes that due to the delay on the part of the K.S.E.B. in completing work of tree-cutting, approval of profile and tower schedules, foundation designs etc. envisaged in the tender conditions, the construction work of 220 kV line at Kundara could not be started even after the scheduled completion date. The Committee understands that the scope, design, profile, survey, tower spotting, foundation, etc. of the work have been totally changed and because of these large variations in the quantity of work involved, has resulted in the huge escalation of cost to ₹ 34.64 crore.

16. The Committee does not agree with the explanation submitted by the witness to justify the decision of the Board's expert Committee to entrust the work to TATA projects without going in for a re-tender. The Committee wants to know the reason for not re-tendering the work and expresses its displeasure over the action of granting the redesigned project to TATA again depriving the other participants of their chances to participate in the initial tender. The Committee expresses dissatisfaction over the fact that the Board showed least interest in monitoring the utilization of public funds while estimation and execution of the project awarded to TATA.

17. The Committee finds that though the agreed rates were applicable against variations, the Board had unreasonably revised the prices against quantity variations in the supplementary agreement. The Committee also notices that the High Level Committee constituted by the Government had failed to take into account the prevailing market rates while negotiating and finalising the revised contract prices. Lack of planning, absence of proper estimation and execution of the project led to an undue benefit of ₹ 5.80 crore to the contractor. The Committee therefore recommends that the matter should be enquired into by the Finance Department and submit a detailed report in this regard without delay.

#### AUDIT PARAGRAPH

#### Undue benefit to a contractor

The Board decided to implement Lower Meenmutty Small Hydro Electric Project (a run of the river project) with an installed capacity of 3.5 MW for generating 7.63 MU of energy per annum. Agreement for the implementation of the project involving construction, supply, installation, testing and commissioning as a single package was entered into (July 2003) with Asian Techs-VA Tech Joint Venture (AT-VA) at a cost of ₹ 12.38 crore. As per the terms of the agreement, AT-VA was to commence the work within 30 days from the date of award of contract and complete the same on or before 13th February 2005.

The agreement provided for imposition of liquidated damages for delay in completion of civil works at the rate of one per cent of estimated value for each day of delay subject to maximum of five days and for mechanical and hydro-mechanical portion at the rate of 0.5 per cent for every week's delay, limited to 5 per cent of the contract value. Consequent on failure of AT-VA to complete the work (February 2005), extension was granted up to 30th November 2005 subject to imposition of liquidated damages after the scheduled completion period.

Scrutiny revealed that AT-VA could not complete the work even within the extended period and a further extension up to 31st May 2006 was granted on the same terms and conditions. The work in its entirety was completed (31st May 2006) and units synchronised to the grid (12th March 2006 to 28th April 2006). Reasons for delay in completing the work were over excavation in hard rocks by the contractor and resultant refilling of the over-excavated area at extra cost, excess concreting and changes in design quantity, etc. Owing to delayed synchronisation of units, the Board lost revenue of ₹ 3.13 crore on 81.96 MU of potential generation of power based on average daily generation of 21015 kwh during post-commissioning period (8th May 2006 to 27th July 2006). The liquidated damages payable by AT-VA was ₹ 61.91 lakh. Despite consequential loss of revenue to the tune of ₹ 3.13 crore, the Board waived liquidated damage of ₹ 46.91 lakh and recovered (May 2006) only ₹ 15 lakh.

Thus, the decision of the Board to waive liquidated damages despite consequential loss for delay on the part of contractor resulted in undue benefit of ₹ 46.91 lakh to the contractor.

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

[Paragraph 4.13 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March 2007.]

18. The Committee observed that in the work of Lower Meenmutty Small Hydro Electric Project, the decision of the Board to waive liquidated damages despite consequent loss for delay on the part of contractor resulted in undue benefit of ₹ 46.91 lakh to the contractor. The Committee sought explanation from the witness present in this regard. The witness informed the Committee that as per the agreement though the work was to be completed on 13-2-2005, it was delayed up to 31-5-2006 and generation of energy started only from March 2006 onwards. The reasons attributed to delay of the work were unexpected heavy rains, flash floods, shortage of sand, thickness of the plate for penstock in the fabrication work, shortage of labourers etc., which were beyond the control of the Board. The Board had charged ₹ 15 lakh as liquidated damages and had fully recovered the amount from the contractors for the delay of the work.

19. The Committee enquired the reason for effecting a recovery of only ₹ 15 lakh in the place of ₹ 61.91 lakh as LD from the contractor. The witness clarified that the contractors could not complete the work within the originally agreed time of 13-2-2005 due to natural causes which were beyond their control and under these circumstances they were not held responsible for the same. Hence the Board after taking stock of circumstances and peculiar situations, had decided to settle all the claims of contractor and to deduct lump sum amount of ₹ 15 lakh as liquidated damages. The witness explained that the Kallada river being perennial in nature concrete works were possible only after diverting its natural flow. The bund provided for diverting water was washed away 4 times during the construction period. The unusually heavy summer rains, early and prolonged monsoon, flash floods etc. interrupted the project work. The intake pool area, machine bay, trailrate pool etc., were inundated resulting in loss of working days. The labourers were to be deployed for sludge removal and clearing and hence concrete works were delayed.

20. The Committee found that the work of the project in its entirety was completed only on 31st May 2006 and its units synchronised to the grids on 12th March, 2006 and on 28th April, 2006 as against the agreed period on 13-2-2005. Owing to this delayed synchronization of units, the total loss of Revenue to the Board was ₹ 3.13 crore on 81.96 MU of potential generation of power based on average daily generation of 21015 kwh during post commissioning period. The Committee sought clarification on this aspect. The witness submitted that, the work contracted to be completed in February 2005 was officially commissioned only by May, 2006 and thus the loss mentioned in the Audit para, due to the non-generation of power during 1¼ years, was only a presumptive loss which has nothing to do with any actual monetary loss to the Board on rejecting the plea of the witness, the Committee expressed its opinion that the loss accrued was not a presumptive loss but actually accrued in terms of the target of the project which was not achieved as envisaged.

21. To a query of the Committee as to whether the contractor had not considered the possibility of heavy rains and floods while bidding a two year contract, the witness informed that in 2003-04 a letter dated 7-10-2003 was sent by project Manager to the Chief Engineer, Constructions informing that due to heavy rains and flash flood, they could not proceed the work further under trying circumstances. The Committee also viewed that if the work had been completed in time and generation started, the loss due to non-generation of power for a period of 1¼ years cannot be considered as presumptive but actual loss to the Board. The Committee enquired the reason for over excavation of hard rocks. The Executive Engineer informed that the nature of rock was not as expected and excavation

started on the basis of samples tested earlier and that it can differ from one place to another. The Principal Secretary informed that the breaking process had been done purely on the directions given by experts of the Geological Survey and that the excavation can be done up to 20 metres and the extra work had to be done due to subsoil conditions. The Committee opined that it was lack of proper investigation that led to extra excavation of work and resultant refilling of over excavated area at extra cost. The Committee strongly suggested that due to the findings of much variation in the excavation work, the pattern of sample examinations pursuing in all cases should be changed into a more realistic manner.

22. To another question of the Committee regarding the statement that there was shortage in sand supply which was also stated as a reason for delay in completion of the work, it was informed that draining of sand from river beds of forest area was prohibited by the forest department at that time.

23. The Committee observed that it was lack of proper investigation and planning that led to the delay in the completion of the work for a period of 1¼ years and hence a loss due to non-generation of power for that period.

#### **Conclusion/Recommendation**

**24. The Committee finds that the implementation of Lower Meenmutty Small Hydro Electric Project, a run of river project, with a view to generate 7.63 MU of energy per year in the state, could not be materialised in time due to the reasons of natural factors which are beyond the control of the Board or the contractor of the project Asian Techs-VA. The project, which is delayed for a period of 1¼ years, could only be taken place on 31st May, 2006 and its units synchronised to the grid during the period from 12th March to 28th April, 2006. Because of this delayed synchronisation of units the Board has to bear ₹ 3.13 crore as revenue losses. Moreover the liquidated damage though payable by the contractor was ₹ 61.91 lakh the Board had realised only ₹ 15 lakh from them giving undue benefit by way of waiving ₹ 46.91 lakh. The Committee considers this action totally unjustifiable.**

**25. The Committee does not agree with the stand taken by the Board that the estimated revenue loss is only something presumptive one and not anything related to actual situation. The Committee opines firmly that the loss is actually accrued to in terms of the targets envisaged in the project. It is estimated in the potential generation of power based on average daily generation of 21015 kwh during the post commissioning period of the project.**

**26. The Committee thinks that the Board had started the work without any proper investigation and planning done by a competent agency, that ultimately led to the delay in its commissioning and thus, the non-generation of power during the delayed period of 1¼ years resulted in huge loss.**

**27. The Committee, therefore, recommends that whenever power generation projects, minor or major, are to be commenced in the State, the Board should have to conduct a proper down-to-earth study and investigation relating to all aspects of the projects as preliminary measures. With regard to the excavation work, the sample examination pursuing in all cases should be changed into a more realistic manner. The Committee recommends that liability for the loss of ₹ 46.91 lakh should be fixed and to recover the amount from the officials responsible for the same.**

AUDIT PARAGRAPH

**Avoidable additional liability**

For the Railway electrification of Ernakulam-Thiruvananthapuram section, the Board agreed (February 2002) to undertake the work for supply of 110 kV three phase power to the Railway Traction substations at four\* locations, on deposit basis. For Chingavanam 110 kV power supply line works, the Board estimated (July 2004) a cost of ₹ 3.43 crore, including ₹ 1.48 crore for construction of 110 kV line. The Board thereafter, revised (April 2004) the estimate to ₹ 90 lakh and issued (December 2004) work order for construction of the 110 KV line to Emgee Constructions (EC) at the lowest quoted rate of ₹ 89.48 lakh (one per cent below the net estimated cost). As per work order, the value of cement and tor steel supplied by the Board would be recovered. There was, however, a lack of clarity on the part of the Board in respect of specification given under item 8 of the tender schedule due to which EC demanded (December 2004) a price increase of ₹ 7.03 lakh stating that the mistake in the specification given by Board made them believe that the items 5 & 6 of tender schedule was exclusive of concrete work. Even though the work was of emergent nature, the Board, instead of negotiating with the contractor, terminated (December 2005) the contract at the risk and cost of EC.

The work was subsequently awarded (March 2006) to Steel Industrials Kerala Limited (SILK), the second lowest bidder who had quoted 55 per cent above the estimate. SILK, however, refused (May 2006) to undertake the work. Thereupon, the Board invited (May 2006) fresh tenders and awarded (November 2006) the work to Shri D. Ajayakumar (DA), the lowest bidder, at ₹ 1.89 crore (189 per cent above the net estimate cost). The agreement for the work was executed (December 2006) and the work was in progress (June 2007).

It was noticed (April 2007) that the line work to the traction substation of Railways, awarded to the Board in July 2002, had a completion period of nine months only and its early completion involved public interest. The work awarded to EC in December 2004 was also one per cent below the estimated cost

\* Kazhakuttom, Perinad, Chingavanam and Punnapra.



and their claim for price increase of ₹ 7.03 lakh was a fall-out of the Board's mistake in the tender schedule. The Board, however, did not avail of the advantage of very low rates quoted by EC, and took the imprudent decision of inviting fresh tender and awarding contract to DA involving additional expenditure of ₹ 88 lakh\*.

Thus, the imprudent decision of the Board to ignore the extra claim for ₹ 7.03 lakh from the existing contractor despite lack of clarity in tender schedule, and award the work at exorbitant rates to a new contractor resulted in avoidable additional liability of ₹ 88 lakh.

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

[Paragraph 4.19 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2007.]

28. The Committee sought explanation regarding the Audit paragraph "Avoidable additional liability" in connection with the construction work of 110 kV line at Chingavanam location of Railway Traction substation as part of the agreement between the Board and the Railway for the electrification work at four locations in the Ernakulam-Thiruvananthapuram Railway section. The witness explained that the work had been awarded to M/s Emgee Constructions at their quoted rate of 1% below estimated rate of ₹ 90 lakh. The detailed work order was issued to the contractor in 12/2004 and the agreement was executed in 2/2005. The work was to be completed within a period of 5 months from the date of detailed work order. Further the contractor delayed the work unnecessarily raising objections from the beginning itself with the result that the Board had taken steps to terminate the work on 12/2005, after twice the time allotted for the completion of the work. It was also arranged to entrust the work to another contractor as decided in the meeting held on 5-11-2005 with Kerala State Electricity Board and Railway Department. The work was re-tendered and awarded to Shri D. Ajayakumar, the lowest bidder at ₹ 1.89 crore who had completed the work at his risk and cost. The Emgee Constructions had approached the court to be declared them as pauper, but however a vigilance enquiry was still continuing. The witness clarified that the Board had not suffered any loss financially as it was a deposit work. The Committee enquired how much amount came in excess in the case of the second estimate. The witness informed that an excess of 189% came in this regard. Since it was a deposit work K.S.E.B. got the money from the Railways and the Board did not suffer any loss. At the same time he had admitted that there was public loss due to delay in the work of

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\* New contract price ₹ 1.89 crore – ₹ 1.01 crore (the original offer of EC ₹ 89.48 lakh + additional claim of EC ₹ 7.03 lakh + earnest money of ₹ 4.47 lakh withheld from EC).

construction of 110 kV SC tap line to Traction substation. The Committee enquired the reason for delay in awarding the contract to another contractor after its termination with the first contractor Emgee Constructions. The witness clarified that the contractor had demanded ₹ 7.03 lakh more for the work of pile foundation as payment for concrete under item (8). As per the work agreement, piling work had to be done from his side. Since the contractor was not willing to do it, the tender was cancelled at his risk and cost, When the same portion of the work was re tendered, it went on to ₹ 88 lakh more. Even if the work was continued after negotiation for ₹ 7.03 lakh the problem would have been amounted to double payment for the same work which would attract adverse remarks from the audit itself. It was decided to go in for a re-tender on the contractor's risk and cost, and work was awarded to another contractor Shri D. Ajay Kumar at 189% above the net estimate amount. The Committee observed that it was the lack of clarity and mistake on the part of the Board in the specification given in item Nos. 5 & 6 of the tender schedule that led the contractor to raise his additional claim of ₹ 7.03 lakh in the work.

29. The witness differed on this point and informed that it was an agreement put forward by the contractor and was not a mistake on the part of the Board. The Contractor had been informed that the work was to be carried out by the contractor as per the agreement in the specification under item (8) of the schedule. This was clarified to the contractor on November 2004. The Contractor had however misinterpreted that the work on the proposed "pile cap" did not include concrete work. The contractor had to work as per the condition of agreement without additional payment and the same was clarified to him before he executed the agreement. The Committee enquired whether the Board had requested the Government to intervene in the case of M/s SILK, a public sector undertaking who were not willing to undertake the work though they were the second lowest bidder. The witness answered that M/s SILK who was the 2nd lowest bidder had not forwarded their confirmation of acceptance of the work order. These facts were revealed in the records available with the Board.

30. The Committee enquired about the present position of the work. The witness informed that the work has been completed.

#### **Conclusion/Recommendation**

31. **No Comments.**

Thiruvananthapuram,  
2nd April 2013.

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

## APPENDIX I

**Summary of Main Conclusion/Recommendation**

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusion/Recommendation</i>
(1)	(2)	(3)	(4)
1	4	Power	The committee finds that the audit para could have been avoided had K.S.E.B. showed some attention in furnishing the replies to queries in time. The Committee therefore recommends that earnest efforts must be taken by K.S.E.B. to furnish replies to audit objections and make sure that they have been furnished promptly so that the similar situations, can be avoided in future. The Committee desires to be furnished with the details of collection of the centage charges due from PGCIL in respect of stores, incidental and supervision of the equipments/ materials procured.
2	8	”	The Committee finds that failure on the part of the K.S.E.B. in keeping the contractual obligations with Andrew Yule & Company Ltd., Calcutta (AYL) in an agreement for the work of Commissioning of 33/11 kV substations in the State had resulted in the loss of ₹ 1.27 crore. The Committee is surprised to note that in spite of the spending of ₹ 3.5 crore, hardly one fourth of the works could be completed. The Committee therefore wants to have a detailed report on the total expenditure incurred for all the works, the manner in which and the stage at which Andrew Yule & Company Ltd. had terminated the contract. The Committee also desires to have a detailed report on the total amount given to company and the loss incurred to the Board in the deal.

(1)	(2)	(3)	(4)
3	9	Power	The Committee recommends that K.S.E.B. should comply with the terms and conditions of the contract so that avoidable losses incurred due to the delay in handing over sites, in making payments etc. can be checked in future.
4	15	„	The Committee observes that due to the delay on the part of the K.S.E.B. in completing work of tree-cutting, approval of profile and tower schedules, foundation designs, etc. envisaged in the tender conditions, the construction work of 220 kV line at Kundara could not be started even after the scheduled completion date. The Committee understands that the scope, design, profile, survey, tower spotting, foundation, etc. of the work have been totally changed and because of these large variations in the quantity of work involved, has resulted in the huge escalation of cost to ₹ 34.64 crore.
5	16	„	The Committee does not agree with the explanation submitted by the witness to justify the decision of the Board's expert Committee to entrust the work to TATA projects without going in for a re-tender. The Committee wants to know the reason for not re-tendering the work and expresses its displeasure over the action of granting the redesigned project to TATA again depriving the other participants of their chances to participate in the initial tender. The Committee expresses dissatisfaction over the fact that the Board showed least interest in monitoring the utilization of public funds while estimation and execution of the project awarded to TATA.

(1)	(2)	(3)	(4)
6	17	Power	<p>The Committee finds that though the agreed rates were applicable against variations, the Board had unreasonably revised the prices against quantity variations in the supplementary agreement. The Committee also notices that the High Level Committee constituted by the Government had failed to take into account the prevailing market rates while negotiating and finalising the revised contract prices. Lack of planning, absence of proper estimation and execution of the project led to an undue benefit of ₹ 5.80 crore to the contractor. The Committee therefore recommends that the matter should be enquired into by the Finance Department and submit a detailed report in this regard without delay.</p>
7	24	„	<p>The Committee finds that the implementation of Lower Meenmutty Small Hydro Electric Project, a run of river project, with a view to generate 7.63 MU of energy per year in the state, could not be materialised in time due to the reasons of natural factors which are beyond the control of the Board or the contractor of the project—Asian Techs-VA. The project, which is delayed for a period of 1¼ years, could only be taken place on 31st May, 2006 and its units synchronised to the grid during the period from 12th March to 28th April, 2006. Because of this delayed synchronisation of units the Board has to bear ₹ 3.13 crore as revenue losses. Moreover the liquidated damage though payable by the contractor was ₹ 61.91 lakh the Board had realised only ₹ 15 lakh from them giving undue benefit by way of waiving ₹ 46.91 lakh. The Committee considers this action totally unjustifiable.</p>

(1)	(2)	(3)	(4)
8	25	Power	The Committee does not agree with the stand taken by the Board that the estimated revenue loss is only something presumptive one and not anything related to actual situation. The Committee opines firmly that the loss is actually accrued to in terms of the targets envisaged in the project. It is estimated in the potential generation of power based on average daily generation of 21015 kwh during the post commissioning period of the project.
9	26	„	The Committee thinks that the Board had started the work without any proper investigation and planning done by a competent agency, that ultimately led to the delay in its commissioning and thus, the non-generation of power during the delayed period of 1¼ years resulted in huge loss.
10	27	„	The Committee, therefore, recommends that whenever power generation projects, minor or major, are to be commenced in the State, the Board should have to conduct a proper down-to-earth study and investigation relating to all aspects of the projects as preliminary measures. With regard to the excavation work, the sample examination pursuing in all cases should be changed into a more realistic manner. The Committee recommends that liability for the loss of ₹ 46.91 lakh should be fixed and to recover the amount from the officials responsible for the same.
11	31	„	No Comments.