ANDHRA PRADESH LEGISLATURE

(Twelfth Legislative Assembly)

FOURTH REPORT
OF
THE COMMITTEE ON PUBLIC UNDERTAKINGS
(2004 - 05)

ON

THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR 1999-2000 (Review) (Commercial)

ON

A.P. GENCO

(Review on Srisailam Left Bank Hydro Electric Scheme)

(Presented to the Legislature on 17-12-2004)

ANDHRA PRADESH LEGISLATURE (P.U.C.) SECRETARIAT
PUBLIC GARDENS, HYDERABAD - 500 004.

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ANDHRA PRADESH LEGISLATIVE ASSEMBLY

COMMITTEE ON PUBLIC UNDERTAKINGS (2004-2005)

(CONSTITUTED ON 28TH JULY, 2004)

CHAIRMAN :

1. Sri N. Uttam Kumar Reddy

MEMBERS :

2. Sri Anam Vivekananda Reddy
3. Sri D. Sridhar Babu
4. Sri Chanumolu Venkata Rao
5. Sri C. Damodar Rajanarasimha
6. Sri Gali Muddu Krishnama Naidu
7. Sri Katamareddy Vishnuvardhan Reddy
8. Smt. Konda Surekha
9. Sri M. Maheedhar Reddy
10. Sri Thota Gopalakrishna
11. Sri K. Lingaiah
12. Sri G. Syam Sunder Sivaji
13. Sri K. Harishwar Reddy
14. Sri P. Dora Babu
15. Sri Puli Veeranna

SPECIAL INVITEES :

16. Sri Yeerram Veenkateswar Reddy
17. Sri D. China Govinda Reddy
18. Sri N. Diwakar Rao
19. Sri Janga Krishna Murthy
20. Sri Gurunath Reddy
21. Smt. Padala Aruna
22. Sri P. Ranganayakulu
23. Sri Mumtaz Ahmad Khan
24. Dr. K. Nagesh

LEGISLATURE SECRETARIAT :

1. Sri K. Tuljanand Singh, Secretary
2. Smt. V. Jayakumari, Joint Secretary
3. Sri D. Siva Rao, Asst. Secretary
4. Sri K. Satyanarayana Rao, P.S. to Secretary

INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (2004-2005) having been authorised by the Committee to present the Report on their behalf, present this **Fourth Report** on the **Andhra Pradesh GENCO**, on the audit paras contained in the Reports of the C. & A.G. of India (Commercial) for the year 1999-2000.

The Committee on Public Undertakings (2003-2004) have examined the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2000 (Commercial), but could not present a report on the same due to the Dissolution of XI Legislative Assembly earlier than its original schedule.

The Committee (2004-2005) have considered and approved this Report at their sitting held on 13-12-2004.

A Statement showing the summary of principal recommendations/ observations of the Committee is appended to this Report.

A record of proceedings of the sitting of the Committee which has been maintained forms part of this Report.

The Committee wishes to express their thanks to the Principal Secretary to Government, Energy Department, the Chairman & M.D.and other Officials of the A.P. GENCO for the co-operation they have extended and for placing the required information and material before the Committee.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant General (Audit) - II, Andhra Pradesh, The Senior Deputy Accountant General (Commercial) and other Officers and staff of the Accountant General Office.

The Committee also places on the record their appreciation of the assistance rendered to the Committee by the Secretary to State Legislature and the other Officers and Staff of Legislature Secretariat, in the examination of the general working and audit paras relating to the Andhra Pradesh GENCO in preparation of this Report.

Hyderabad,
Dt. 13.12.2004

N. Uttam Kumar Reddy,
CHAIRMAN,
Committee on Public Undertakings.

RECOMMENDATIONS ON THE REVIEW CONTAINED IN THE REPORT OF C & AG OF INDIA FOR THE YEAR ENDED 31ST MARCH 2000 (COMMERCIAL), GOVERNMENT OF ANDHRA PRADESH ON "SRISAILAM LEFT BANK HYDROELECTRIC SCHEME" (AP Genco).

INTRODUCTION (2D.1) :

Srisailam Right Bank Hydroelectric Scheme with an installed capacity of 770 MW (7X110 MW) is one of the 12 Hydel Power Projects of erstwhile Andhra Pradesh State Electricity Board (Board). With a view to utilizing the surplus water of river Krishna and to generate low cost peaking power of 900 MW (6X150 MW), the Board envisaged (April 1985) implementation of Srisailam Left Bank Hydroelectric Scheme (SLBHES-Project). Consequent to reorganization of Electricity Board (Feb. 1999) the implementation of the project was taken over by Andhra Pradesh Power Generation Corporation Limited (AP Genco). The execution of the project was supervised by a Special Officer under the control of the Chairman & Managing Director, AP Genco, at Head Office.

Project Profile (2D.2) :

The project envisaged construction of an underground power house at 220 metres below the ground level for installation of reversible type pump turbine motor generating units. During peak time (6 AM to 9 AM and 6 PM to 9 PM), the units will function as generating units and during non-peak time the generating units will function as pump motors, pumping downstream water back to the reservoir for generating power during peak time. The project work comprises civil works like excavation of Head Race Tunnel (HRT) Power House, Transformer Cavern, Surge Cavern, Tail Race Tunnel (TRT) and Downstream intake structure with Gate Shaft, electrical works like Main Generating Equipment, Transformers, Gas Insulated Switchgear, Switchyard and mechanical works like Hoists, Belt Conveyor System and Electric Overhead Travelling cranes etc.

Scope of Audit (2D.3) :

The Review mainly covered the planning and execution of civil, mechanical and electrical works of the projects since inception (1990-91) to end of March 2000.

Project Planning (2D.4)

The Board prepared (April 1985) Project Report for installation of 9 X 110 MW reversible pump turbine motor generating units at Srisailam Left Bank at an outlay of Rs.370.80 crore. The Project Report was cleared (May 1986) by Central Water Commission (CWC) and Central Electricity Authority (CEA), being Principal Consultants for civil and electrical works respectively, at a revised outlay of Rs.418 crore and by Planning Commission in September 1986 for implementation during VII plan without any plan allocation. The project could not be taken up immediately due to lack of tie-up for financial assistance until the Japan Bank for International Co-operation (JBIC), Japan, came forward in 1987 to fund the project. At the instance of funding agency. M/s Electric Power Development Corporation International (EPDCI), Japan, was appointed (December 1988) as Retainer Consultant, who suggested (September 1991) installation of six units of 150 MW each of reversible type pump turbine motor generating units, instead of nine units of 110 MW each originally envisaged. This necessitated changes in layout and specifications of main generating equipment and revision in project cost to Rs.1166.66 crore, with the projected commissioning schedule of first unit by July 1996 and each subsequent unit at six monthly intervals. Due to delay in completion of work, the first unit is now proposed to be commissioned by November 2000 and the total project by May 2003.

Project Funding (2D.5) :

The Government of India (GOI) and JBIC, concluded a bilateral agreement (Feb. 88) under which the latter agreed to fund 80 per cent of project cost, ie., the entire cost of foreign equipment, civil and other local procurements, while the balance

20 percent of the project cost representing taxes, excise duties and other levies was to be mobilised by the Board. The assistance from JBIC was for 26,101 Million Yen (MY) as loan to GOI passed on by GOI to Government of Andhra Pradesh who in turn has been treating it as loan to Board. The loan carries interest at 13.5 per cent per annum, repayable in 15 annual instalments from the year following the year of drawal. Due to changes in layout, specifications for main generating equipment, escalation in prices of materials, cost of labour and fluctuations in foreign exchanges rates, the estimates were revised twice in 1991 and 1996 to Rs.1166.66 crore and Rs.2324.55 crore respectively and JBIC sanctioned through GOI further loans of 22567 million Yen (Feb. 95) and 14499 MY (Dec.97) raising the aggregate amount to 63167 MY (Dec.97) (equivalent to Rs.1902.06 crore) including a provision of 2109 MY for interest during construction (IDC) against original allocation of IDC (Interest During Construction) 1265 MY. The Board has drawn (Mar 2000) 53037.44 MY (equivalent to Rs.2018.34 Crore) of which Rs.1284.31 crore had fallen due for repayment and been repaid.

It was observed that delay in commissioning of the project had increased the interest burden and reduced the availability of loan assistance to the project from 63167 MY to 61058 MY.

The Company in its explanatory notes stated that the loan component includes the provision of 2109 MY towards Interest During Construction.

Recommendation :

The Committee recommends that the Company shall take all precautionary steps to avoid cost and time over run of project of this nature, to control costs such as IDC (Interest During Construction) and other escalations, in future, to keep the total project cost under control.

Inadequate Geological Investigations (2D.6) :

Geological Survey of India (GSI) suggested drilling of seven boreholes at locations marked by them including one

borehole at the fault zone. However, during 1982-83 only one borehole was drilled in the fault zone upto depth of 68.43 metres as against the required depth of 300-400 metres. Besides, the Committee of Floor Leaders of State Legislature appointed (November 1996) by the State Government to examine the revision in cost estimates observed that the geological investigations conducted were inadequate and quite insufficient which subsequently resulted in additional payment to the contractor apart from delay in commissioning of the units.

The Company in its explanatory notes stated that GSI advised that at least 4 Boreholes at the proposed locations of structures be drilled at a depth of at least 10 metres below the sill level of the proposed structures. But these boreholes were not drilled by the State Irrigation Department (As the project was under the control of the Dept. till 1984) and subsequently the investigation of the project was transferred to APSEB. The Board also stated that eventhough tenders were called for many times, the work could not be done because of various reasons including uncertainty about clearance for the scheme from the Planning Commission. The financial assistance was tied up with M/s. JBIC (JBIC fromally known as Overseas Economic Co-operation Fund) in 2/88. Tenders for 1st package of civil works were called for in 5/89. Hence, there was no scope for conducting geologicial investigations. Besides, the Company stated that if the project had been started after completing the above job, the project work would have been delayed further, which will have a bearing on the finances.

In the oral evidence, the Consultant (Geological Survey of India) stated that the outlet points were fixed beyond the site. In order to find out which is the best alignment it may have to go in for borehole data. As fault was crossing which we wanted to avoid in the cavern of the power house so that the power house should be very safe. So probably, with the result they (GSI) wanted to know the type of rock coming in the features of the project, we shifted the power house cavern into the rock mass. So in the context in which we made recommendations it seems and that

the recommendations once made are not obligatory through out the execution of the project. They can be revised as and when the situation warranted. The consultant also stated that ariel photographs of the site were available and they can be interpreted. After delineating if it is found necessary, boreholes can be dug.

The CMD in his oral evidence stated that it was mentioned in the explanation submitted to the Committee that it was decided to take up the detailed investigation works after getting clearance from the Central Electricity Authority and then tenders were called for. It has been stated that every effort was made to carry out geological investigations at the project site but it could not be done due to the substantial cost involved. Subsequently it was stated that there was no scope of conducting investigations. Investigations conducted at the time of construction of dam had not been referred to and perhaps that is why there is certain incompleteness. While executing the works, the detailed investigations had to be carried out and the designs and drawings were updated on the results of these investigations. In many projects in spite of carrying out extensive geological investigations many surprises were met which resulted in the delay in the execution of the project and increase in the project cost.

The Hon'ble Committee directed AP Genco to submit copy of Geological Reports submitted by GSI (Geological Survey of India) to A.P. Genco for scrutiny by the Committee.

Recommendation :

As directed by the Committee AP Genco has submitted detailed geological reports as was submitted by Geological Survey of India (GSI) to AP Genco in respect of the project from time to time before and during the execution of the project. In the report GSI recommended time and again to go in for boreholes for proper understanding of the rock strata. Even then the Board has not followed the recommendations made by GSI for drilling the boreholes with the pretext that the boreholes were not drilled due to lack of time and amount of money involved in drilling them.

The Committee felt that the replies submitted by the Company were very vague and contradictory in nature. In this regard the Committee strongly viewed that non drilling of boreholes as suggested by GSI has not given scope for complete understanding of the geological aspect of the project which has resulted in cost and time overrun and extra payments made during execution of the project. Hence, the Committee strongly recommends that the Board in future shall take all necessary steps to obtain detailed geological reports before commencement/ during execution of any project of this magnitude and the suggestions/conditions stipulated therein shall be followed scrupulously to ensure economy and safety of projects which have to last for long.

Economic viability of the project (2D.7) :

As per the original estimates prepared in 1985, the viability of the project was assessed by adopting average sale rate of energy ie., 60 paise per KWH, whereas in revised estimates (October 1996) HT tariff rate of 282 paise per KWH was adopted. Viability projections made by the Board with higher revenue and lower cost of generation were defective and unrealistic as the power generated would be sold to all categories of consumers and not to HT consumers alone. The State Government had also observed (August 1997) that the economic viability of the project was not clearly analysed and understood by the Board.

In the explanatory notes the Company stated that in the absence of Peak Power tariff at that time, the HT tariff rate was considered. Considering the present tariff rates there will be positive surplus revenue generated for paying back the investment in the scheme. The CMD in his oral evidence stated that earlier we did not go with reference to peak power tariff. Now we are going by peak power tariff.

Recommendation :

The Committee felt that the evaluation of cost done in respect of the project was not realistic. Hence, the Committee

recommends that henceforth while computing the viability of the project, cost assessment should be done on realistic lines to be more practical in affecting the economic viability of projects.

Time overrun (2D.8) ;

As per the Revised cost Estimates (1991) the first unit was to be commissioned in July 1996 and subsequent units in 6 monthly intervals. However the first unit was proposed to be commissioned in November 2000. Due to this delay, an anticipated potential revenue of Rs.627.83 crore from 1996-97 to 1999-2000 was not achieved.

The Company in its explanatory notes stated that the layout was finalised by the consultants (EPDCI, Japan) in June 1989, site for Groups I, II and III were handed over by December 1990 and planning commission has accorded approval to the revised estimates in September 1991. Works were delayed at various stages because of faulty zones heavy seepage, labour strikes, financial difficulties faced by the Board at various stages and complex nature of work involved in the project. The Company also stated that considering the quantum of work, even for ideal conditions, the contract periods mentioned are not sufficient for completing respective works. The first 3 units were commissioned on 26-4-2001, 12-11-2001 and 19-4-2002 respectively.

Cost Overrun (2D.9) :

The Board estimated Project cost at Rs.418 crore in 1986-87 and Rs. 2324.55 crore in 1996-97. This had impact on the cost of generation per KWH at Rs.209.54 paise. The Company in its explanatory notes stated that the increase was due to price escalation, increase in quantities, inclusion of new items and variation in exchange rates.

The Company in its oral evidence stated that some of the aspects were beyond their control. These aspects would have contributed for the delay.

Recommendation :

The Committee recommends that all practical aspects shall be foreseen and taken into account while preparing estimates for completion of the project to avoid unnecessary over run of cost and time.

Execution of Civil Works (2D)

Loss due to restructuring of rates (2D, 10.2.1)

M/s. PEC Ltd. the main civil contractor requested (Aug.92) for restructuring of the rates of works of HRT, Group I, II and III on par with rates accepted for Group IV works from December 1991 on various grounds. The committee appointed to examine the issues recommended (July 1995) restructuring of rates for the above works by 2.26 times of the rates originally accepted for the respective works on grounds of inadequate field geological information mentioned in tender document and unworkable rates quoted by the contractor. The Board negotiated with the contractor to pay 2.25 times of the rates originally agreed to in the respective agreements for all the works remaining unexecuted as on 1-9-1992 to complete the work by July 1998 and to avoid delay in commissioning of first unit beyond July 1998.

The enhancement in rates was not justified as the contractor himself requested for revision of rates on par with the rates of group IV works and the agreed rates were firm during the currency of the contract period and should hold good even in the extended period of contract subject to escalation clause. Besides, the first unit has remained not commissioned, and the civil works were not completed till March 2000 as mentioned while revising the rates.

The Company in its explanatory notes stated that the committee appointed to study revision of rates concluded that the rate structure in the project (even after revision) would be less than the rates prevailing in the other two projects namely Koyna Hydro Electric Scheme and Nathpa Jhakri Power Corporation. After careful examination by the Board, the rates

recommended by the Committee were agreed to and implemented. The Board also felt that instead of calling for fresh tenders which was time consuming, it was better to accept the rates recommended by the Committee.

Enhancement in rates for Group IV works : (2D. 10.2.3) :

Even though, as per the contractual agreement, group IV works are to be completed by January 1999, and no revision would be allowed, Board allowed an escalation of 10.5 per cent. This resulted in additional expenditure of Rs.12.72 crore on remaining Group IV works.

The Company in its explanatory notes stated that the rates were increased as the reasons for delay in completion of the works were beyond the control of the contractor and also to avoid further delay in completion of the works.

In the oral evidence the Director (Technical) stated that it was not the fault of the contractor but it was due to delay in removing rock block between I & P Department and APSEB. For the removal of this block the entire gate had to be rectified which in turn took a considerable amount of time. As a matter of fact this was supposed to be taken up after exhausting the water ie., before commencement of the first unit. (This reply was not furnished by AP Genco while submitting explanatory notes to Hon'ble Committeé/AG, which was taken as objection by the Hon'ble Committee). The CMD in his oral evidence expressed that the Company ought to have furnished all the necessary information as sought by Hon'ble Committee/AG and also stated that it was lapse on the part of the Company and promised that it would not recur in future.

Recommendation :

The Committee observed that in respect of the above two aspects, the Management/Government has not furnished replies to the Audit objections, in complete shape to the Committee. Hence, the Committee directs the Management/

Government that replies in complete shape to Audit Paras together with key documents shall be furnished to the Committee/ AG for meaningful/complete discussion of the Audit objections by the Committee.

Undue benefit to the contractor on dewatering (2D.10.3)

The estimated/agreed rates with the contractor for excavation in hard rock in respect of all the civil contracts (except Group IV works) included cost of dewatering at Rs.25 per cum. with no separate payment except that electricity was to be supplied free of cost for dewatering. At the request of the contractor, the Committee on restructuring of rates, recommended payment for dewatering at Rs.3.50 per KWH from July 1995 separately in addition to free supply of electricity with metering equipment. The payment for dewatering separately besides payment of agreed rates for Group I, II and III works resulted in undue benefit of Rs2.36 crore to end of March 2003.

The Company in its explanatory notes stated that since the dewatering component was not available in the restructured rates, separate payment was allowed for dewatering as recommended by the Committee and the same was approved by Board. The Director, AP Genco in his oral evidence stated that as part of restructuring of rates, the Committee concerned had recommended for payment and accordingly payment was made. As there was large scale seepage which was not expected and as the contractor concerned had incurred a huge amount for dewatering, considering all these aspects, the Committee recommended for payment for dewatering. To a query by the Hon'ble Committee Director explained that it required approval by Board.

Recommendation :

A detailed note on the entire issue of payments made for dewatering shall be submitted to the Committee.

Infructuous expenditure on excavation of inclined adit tunnel (2D.10.4 (1)) :

To dispose of about 8 lakh cum. of muck excavated in the initial reaches of TRT the Surge Cavern below Crown Spilway Tunnel, Power House Cavern, draft Tube Manifold and Draft Tube Gate, a belt conveyor system was to be installed in inclined adit tunnel to be excavated as part of Group II works. The site for these works was handed over to the contractor in January 1991, with April 1992 as the scheduled date of completion. The tunnel was actually completed in January 1995 at a total cost of Rs.2.40 crore. The belt conveyor system was procured and installed at a cost of Rs.3.00 crore later in may 1998 and could therefore be utilised for only around nine months for disposing of about 0.80 lakh cum. of muck. In the meanwhile, 7.20 lakh cum. of muck was transported through the contractor during April 1996 to April 1998 at an addditional cost of Rs.2.27 crore for manual transportation of muck.

The Company in its explanatory notes stated that inspite of planning well ahead, the installation of belt conveyor was delayed due to reasons beyond control and could be used for a limited extent. This second adit tunnel could be utilised as second emergency exit to meet safety standards in case of fire in the Power House or Transformer Cavern. Also stated that M/s Singareni Collieries Co. Ltd. has shown interest for taking the Belt conveyor system and the same will be issued to them at a mutually agreed price.

Unfruitful expenditure on belt conveyor system (2D.10.4 (ii)) :

The work of design, fabrication & installation of belt conveyor system (BCS) was awarded (Sept. 1990) to M/s Bulk System International Limited (BSIL), Bangalore for Rs.2.31 crore. After supplying some of the items (Rs.1.45 crore), the supplier stopped supplying the items as the civil works which are required to be completed were not completed (Nov. 93). As the contractor

requested for revision of prices, the contract was terminated (March 95) and fresh tenders were called for and the contract was issued to M/s. APHMEL, Vijayawada and work was completed (May 98) for Rs. 1.55 crore as against the scheduled completion date fo September 1995. The improper planning and delay in installation of the BCS resulted in an additional expenditure of Rs. 41.90 lakh and loss of interest of Rs.1.68 crore. Action was yet to be taken to dispose of the system (March 2000)

The Company in its explanatory notes stated that the supply of the system was sub-contracted to M/s. NIRLON by the BSIL, Bangalore. Due to financial problems faced by BSIL the system could not be supplied in time. An amount of Rs.1.18 crore pertaining to BSIL was available with AP Genco.

The Company in its oral evidence stated that an amount of Rs.38 lakh was due from the contractor. The Bank guarantees were freezed. The case was in the High Court.

Recommendation :

The Company is advised to expedite the court case to settle the issue early .

Inadmissible payment for excavation of adit to TRT (2D. 10.5) :

M/s. PECL the lowest tenderer for Group III works had quoted Rs. 300 per cum. for excavation of adit as against Rs.210 per cum. quoted for the same item under Groups I and II, tenders for which were also invited simultaneously in December 1989. The extra rate was quoted by the contractor for excavation of additional adit at extra cost. The contractor excavated the additional adit and claimed Rs.49.69 lakh for this item. Although the Board initially rejected (May 1992) the claim, it subsequently accepted (May 1994) it on the ground that the length of the adit was more when compared to other groups and at a reach at EL+170 meters, dewatering charges would be much higher. The Company it its explanatory notes stated that the additional adit

being executed as per the requirement given by CWC, payment of Rs.49.69 lakh for this work carried out was justified.

The Director (Hydel) in his oral evidence stated that the contractor had repeatedly and emphatically contended that the tunnel was not as per his requirement but a separate item. This was referred to the Board and Board has approved it. The Central Water Commission and Committee of experts felt it was necessary to open one more tunnel to expedite work.

On this, The Hon'ble Committee ordered to furnish further information in detail regarding date of commencement of work, date of issue of CWC drawing incorporating the additional adit in the revised plan etc.

The A.P. Genco on the above direction, has furnished the following information :

Date of issue of tenders for Group III works which includes the excavation of adit to TRT	27-10-89
Date of issue of Letter of Intent	25-9-90
Date of commencement of the work	28-12-90
Date of issue of CWC drawing incorporating the additional adit	January 1991
Date of representation of the contractor for extra payment	15-11-91
Length of additional adit executed as on 15-11-1991	120 M length against the total length of additional adit of 417 M

Recommendation :

The Committee directs that the date of request made by AP Genco to CWC regarding the necessity of the aditional tunnel shall be furnished to the Committee.

Under utilisation of civil construction machinery (2D.11)

Out of the civil construction machinery valued at Rs.34.30 crore machinery valuing Rs. 5.40 crore could not be put to effective use for various reasons as mentioned below:

Alimak Raise Climber (2D 11.1)

The Board placed an order (Feb.93) on M/s. Alimark AB Sweden, for supply of one Alimark Raise Climber at a cost of Rs.1.39 crore for use in excavation in pressure shaft tunnel glory holes in power house and surge cavern in Group IV works. The order for the climber was placed four months after commencement of work and there was further delay of six months in handing over the machine to the contractor. The machine was commissioned and worked hardly for excavating 34 out of 748 metres long pilot tunnel. Thus, the machine procured at Rs.1.39 crore was not at all used.

The Company in its explanatory notes stated that the delay was due to delay in clearance by CEA/CWC, change of place of port from Visakhapatnam to Madras for importing the machinery. Besides, if the item was not supplied to the contractor that amounts to breach of contract as the item was included in the agreement. It is also stated that the contractor has not used the equipment and the Board sold it to the highest bidder for a value of Rs.75.06 lakh.

To a query by the Hon'ble Committee, the Director (Technical) in his oral evidence stated that the machinery was sold by calling open tenders.

The Hon'ble Committee directed AP Genco to submit a detailed note on (i) when the order for machinery was placed on the supplier (ii) when the machinery was actually received by AP Genco (iii) when the machinery was supplied to the contractor (iv) how much work was completed by the contractor at the time of supply of the machinery to him and (v) whether any compensation was paid to the contractor for delayed supply of the machinery?

In the supplementary reply submitted by AP Genco, it was stated that the contractor has not claimed any thing on this ground.

Recommendation :

The Committee directs the Company to submit replies to the items from (i) to (iv) mentioned above. Even if any claim is made, no payment should be made to the contractor.

Concrete Pump (2D.11.2)

The Board imported (June 94) a concrete pump valued at Rs.1.11 crore from Japan and kept in store till December 1996, and issued in January 1997. As against its estimated life of 10000 hours, the pump was actually utilised for only 268 hours upto September 1997. As it has developed some problems, spares worth Rs.18.60 lakh were replaced. As guarantee period was over, the Board could not contemplate any action against the supplier. Procurement of pump without synchronisation with the time of its usage has resulted in idle investment of Rs.1.30 crore with consequential loss of interest. The pump was lying in stores with out repairs. (Aug. 2000).

The Company in its explanatory notes stated that due to delays in excavation works caused by adverse geological conditions etc., the pump could not be used till January 1997.

The Director (Technical) in his oral evidence stated that the pump was in use at VTPS.

Recommendation :

The Hon'ble Committee observed that in the explanatory notes submitted to the Committee the Company stated that the pump has worked for 268 hourse but in oral evidence it was explained that the pump was put to use at VTPS. The Committee directs AP Genco to submit a detailed note on (i) how much amount was spent on repairs to the pump? (ii) How many hours it has worked in VTPS and other places after repairs?

Wheel Loaders (2D.11.3)

Four items of wheel loaders procured during 1993 at a cost of Rs.1.54 crore were put to use for very limited period as they were not suitable for under ground operations.

The Company in its explanatory notes stated that the items were procured after getting clearance from the CEC/CWC. The investment can not be termed as idle, since the purchase was made to meet the contractual obligation.

The Company in its oral evidence stated that the machine was procured basing on the recommendation made by expert committee, which was appointed for this purpose. Besides this, as per the obligatory terms and conditions with the contractor at the time of finalisation of the tenders, the machinery was supplied to the contractor.

Recommendation :

The Committee opined that the machinery was put to use for minimum hours only. The Committee recommends that, AP Genco should analyse the necessity of specific purpose machinery and their usage before finalising any procurement of machinery of this nature which costs heavily to avoid wastage of money.

Procurement of mechanical equipment (2D.12.1)

Procurement of High Tensile strength steel plates :

Extra high tensile strength steel plates for penstocks of the project were procured from a Japanese Company at a cost of 219.982 million Japanese Yen for material and Rs.64.69 lakh for inland transportation. Eventhough the items were received in Visakhaptnam Port during March 96 the material was released during April 1997 after paying the amounts due. This has resulted in extra payment on demurrages amounting to Rs.1.25 crore and on transportation to Rs.7.24 lakh.

The Company in its explanatory notes stated that due to extreme financial stringency beyond the control of the Board, the finances could not be arranged to release the goods.

The Director (Technical) in his oral evidence stated that Board has encountered various other unforeseen problems which could not be predicted and due to delay in carrying out those works, this order could not be placed in time.

Recommendation :

The Committee opined that improper planning of procurement has led to unnecessary problems particularly in the instant case. When the item is inevitable for the project the Company should plan properly for procurement of equipment. Hence, the Committee recommends that the Company in future shall plan properly for the procurement of important and inevitable items of materials of this nature and avoid last minute problems in respect of finance etc.

Electrical equipment (2D.13)

Advance procurement of main generating equipment (2D.13.1)

The Board placed (January' 91) orders for main generating equipment on a Japanese firm and on BHEL, Bhopal amounting to 26.822285 Billion Yen and Rs.92.80 crore respectively. The equipment received during 1994-95 to 1996-97 had not been checked and taken to stock till March 2000. It was also not stocked as per manufacturers guidelines resulting in damages. Insurance premium to a tune of Rs.5.96 crore was also paid till the equipment was commissioned.

The Company in its explanatory notes stated that necessary claims with respect to the equipment damaged during transport, handling, erection, testing and commissioning were lodged with insurance under writers.

The CMD of the Company in his oral evidence stated that the police report has not yet been received and as and when it is

received the same would be submitted to the Insurance Company to settle the insurance claim. It was also replied that as there was theft to some extent, the police report would be submitted before the Court for settlement of the claim.

Recommendation :

The insurance claim shall be settled early and the fact intimated to the Committee.

Missing equipment valued at Rs.25.36 crore (2D.13.3.b)

On joint inspection (Dec.99) of the equipment by the representatives of suppliers and APGenco, equipment valued Rs.25.36 crore was found missing from the stockyard and a police complaint was lodged in July 2000. To meet the requirements for commissioning of the first unit, a purchase order for some of the missing equipments was placed in March 2000 for Rs.79.86 lakh. No departmental enquiry was conducted to fix the responsibility for the missing equipment as of July 2000.

The Company in its explanatory notes stated that the total value of the equipment purchased along with taxes and duties etc., worked out to around Rs.9.72 crore, insurance claim for Rs.9.72 crore was preferred and police complaint was also lodged and investigation was under progress.

The Director (Technical) AP Genco in his oral evidence stated that police enquiry in this regard was under progress.

Recommendation :

The Committee recommends that the Company shall pursue the case with the investigating authority to settle the issue early and to pursue with the insurance Company to obtain the claimed amount early.

Avoidable payment of interest on customs duty (2D.13.4)

Material valued at Rs.319.96 crore was stored in bonded warehouse between February and June 1997 against 19 bonds.

However, material valued at Rs. 198.48 crore against 17 bonds was cleared only in September 1998 i.e., 2-6 months after the bond period of one year, due to lack of funds. This resulted in additional interest burden of Rs. 37 crore on the customs duty of Rs.44.09 crore.

Further, though the bonded warehouse facility was available from September 1996 onwards, certain material received during November 1995 and three invoices were cleared from port only in March 1997 and April 1998 resulting in additional payment of interest to the tune of Rs.4.97 crore.

The Company in its explanatory notes stated that due to paucity of funds, the customs duty and port charges could not be paid. The Company has requested the Customs Department for reimbursement of interest on customs duty and the matter was under consideration by the Customs Department.

The Director (Hydel) APGENCO in his oral evidence stated that the Commissioner, Customs Department has the power to waive interest on customs duty for power plant. The Company was pursuing with the Customs Department for waiver of interest and hopefully the reimbursement would be received from the Customs Department.

Recommendation :

The Committee recommends to pursue the matter with the customs authorities to get the reimbursement early and the fact of reimbursement shall be intimated to the Committee.

SUMMARY OF RECOMMENDATIONS

1. The Committee recommends that the Company shall take all precautionary steps to avoid cost and time over run of project of this nature, to control costs such as IDC (Interest During Construction) and other escalations, in future, to keep the total project cost under control. (Paragraph No.2D.5).

2. As directed by the Committee AP Genco has submitted detailed geological reports as was submitted by Geological Survey of India (GSI) to AP Genco in respect of the project from time to time before and during the execution of the project. In the report GSI recommended time and again to go in for boreholes for proper understanding of the rock strata. Even then the Board has not followed the recommendations made by GSI for drilling the boreholes with the pretext that the boreholes were not drilled due to lack of time and amount of money involved in drilling them. The Committee felt that the replies submitted by the Company were very vague and contradictory in nature. In this regard the Committee strongly viewed that non drilling of boreholes as suggested by GSI has not given scope for complete understanding of the geological aspect of the project which has resulted in cost and time overrun and extra payments made during execution of the project. Hence, the Committee strongly recommends that the Board in future shall take all necessary steps to obtain detailed geological reports before commencement/ during execution of any project of this magnitude and the suggestions/conditions stipulated therein shall be followed scrupulously to ensure economy and safety of projects which have to last for long. (Paragraph No.2D.6)

3. The Committee felt that the evaluation of cost done in respect of the project was not realistic. Hence, the Committee recommends that henceforth while computing the viability of the project, cost assessment should be done on realistic lines to be more practical in affecting the economic viability of projects. (Paragraph No.2D. 7)

4. The Committee recommends that all practical aspects shall be foreseen and taken into account while preparing estimates for completion of the project to avoid unnecessary over run of cost and time. (Paragraph No.2D.9)

5. The Committee observed that in respect of the above two aspects, the Management/Government has not furnished replies to the Audit objections, in complete shape to the Committee. Hence, the Committee directs the Management/ Government that replies in complete shape to Audit Paras together with key documents shall be furnished to the Committee/ AG for meaningful/complete discussion of the Audit objections by the Committee. (Paragraph No.2D.10.2.3)

6. A detailed note on the entire issue of payments made for dewatering shall be submitted to the Committee. (Paragraph No.2D.10.3)

7. The Company is advised to expedite the court case to settle the issue early. (Paragraph No.2D.10.4 (ii))

8. The Committee directs that the date of request made by AP Genco to CWC regarding the necessity of the addtiional tunnel shall be furnished to the Committee. (Paragraph No.2D.10.5)

9. The Committee directs the Company to submit replies to the items from (i) to (iv) mentioned above. Even if any claim is made, no payment should be made to the contractor. (Paragraph No.2D.11.1)

10. The Hon'ble Committee observed that in the explanatory notes submitted to the Committee the company stated that the pump has worked for 268 hours but in oral evidence it was explained that the pump was put to use at VTPS. The Committee directs AP Genco to submit a detailed note on (i) how much amount was spent on repairs to the pump? (ii) How many hours it has worked in VTPS and other places after repairs? (Paragraph No.2D.11.2)

11. The Committee opined that the machinery was put to use for minimum hours only. The Committee recommends that, AP Genco should analyse the necessity of specific purpose machinery and their usage before finalising any procurement of machinery of this nature which costs heavily to avoid wastage of money. (Paragraph No.2D.11.3)

12. The Committee opined that improper planning of procurement has led to unnecessary problems particularly in the instant case. When the item is inevitable for the project the Company should plan properly for procurement of equipment. Hence the Committee recommends that the Company in future shall plan properly for the procurement of important and inevitable items of materials of this nature and avoid last minute problems in respect of finance etc. (Paragraph No.2D.12.1)

13. The insurance claim shall be settled early and the fact intimated to the Committee. (Paragraph No.2D.13.1)

14. The Committee recommends that the Company shall pursue the case with the investigating authority to settle the issue early and to pursue with the Insurance Company to obtain the claimed amount early. (Paragraph No.2D.13.3.b)

15. The Committee recommends to pursue the matter with the customs authorities to get the reimbursement early and the fact of reimbursement shall be intimated to the Committee. (Paragraph No.2D.13.4)