CHAPTER III

COMPLIANCE AUDIT OBSERVATIONS

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3. COMPLIANCE AUDIT OBSERVATIONS

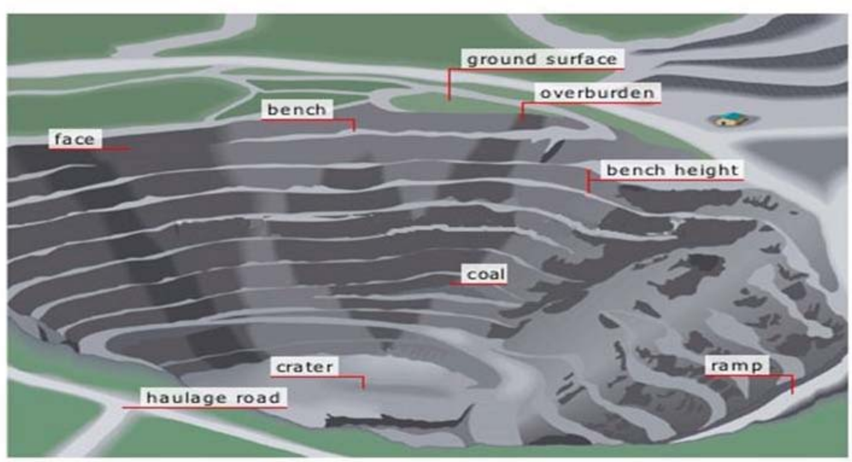
GOVERNMENT COMPANIES

The Singareni Collieries Company Limited

3.1 Award and execution of Overburden removal contracts in Opencast mines

3.1.1 Introduction

The Singareni Collieries Company Limited (Company) was incorporated in December 1920 with the main objective of development of mines for extraction of coal. The Company has both types of coal mines viz., opencast (OC) and underground mines spread over Khammam, Karimnagar, Adilabad and Warangal Districts of Andhra Pradesh State and 78 *per cent* of its annual coal production comes from OC mines. Fifteen opencast mines were in operation as on 01 April 2014. In opencast mining, Overburden (OB) is the soil which lies above the coal bands and has to be removed and dumped in the earmarked place. Overburden Removal (OBR) is one of the most important activities without which coal cannot be exposed and extracted. OB is to be removed as per stripping ratio[41] defined and determined in Feasibility Reports (FR) of mines. FRs indicate the year-wise quantities of OB to be removed, coal production and the method as well as extent of excavation viz., by Company/ outsourcing.



Source: ***http://www.slideshare.net/isnindian/basics-of-openpit-mining***

[41]Stripping Ratio represents ratio between mineable reserves of coal and OB to be removed.

OBR by outsourcing, being cheaper (cost per bcm[42]) as compared to engaging Company's men and machinery, was started in 1992. Soil above the coal is removed to reach the coal bands by reducing the levels of 10 meters height each (called benches) from the ground level. Payment is made to outsourcing agencies on the basis of quantity of OB removed bench-wise to the pre-fixed Reduced Levels (RL). Thus, accuracy in assessment of OB removed is very important.

In the absence of a separate Manual for outsourcing OBR contracts, existing general Purchase Manual (updated upto 2007) is being followed by the Company. Purchase Manual is for purchase procedures i.e. purchase of stores, which also contains a chapter for awarding of OBR works. Purchase Manual does not contain all the aspects of OBR contracts. A draft Survey Manual for OBR procedures prepared in the year 2000 (updated upto October 2008) is a specialised document specific to OB removal wherein survey, excavation and measurement procedures for mining are described but that is yet to be approved by the Board of the Company. However, the provisions of draft Survey Manual are being followed in respect of execution of OBR contracts.

3.1.2 Audit scope, objective and methodology

Award and execution of all the 27 OBR contracts awarded during 2009-14 in all the 15 OC mines was analysed in audit with an objective to see whether effective planning and timely execution was done and targets achieved. This necessitated scrutiny of records at Contract Management Cell (CMC) in Purchase Department established for award of OBR contracts at Corporate Office, Kothagudem.

3.1.3 Audit Findings

3.1.3.1 Targets and achievements of OBR

Project Planning Department of the company fixes mine-wise and year-wise targets for OBR corresponding to targets set for coal production in Government of India's five year plan. Year-wise targets and achievements of OB removal for the five years ended 2013-14 are given in the following table 3.1:

Table: 3.1 Targets and Achievements

(Quantity in lbcm)

Year	Targets			Achievement			Achievement Percentage		
	Company	Out-sourcing	Total	Company	Out-sourcing	Total	Company	Out-sourcing	Total
2009-10	699.90	1867.10	2567.00	527.69	1941.43	2469.12	75.40	103.98	96.19
2010-11	821.41	1716.40	2537.81	645.70	1506.68	2152.38	78.61	87.78	84.81

[42] bank cubic metre (bcm) means one cubic metre of OB excavated, transported and dumped in the earmarked dump yard. OB is measured in lakh bank cubic metres (lbcm).

Year	Targets			Achievement			Achievement Percentage		
	Company	Out-sourcing	Total	Company	Out-sourcing	Total	Company	Out-sourcing	Total
2011-12	974.20	1874.63	2848.83	707.90	1363.41	2071.31	72.66	72.73	72.71
2012-13	919.33	1858.78	2778.11	608.46	1155.19	1763.65	66.19	62.15	63.48
2013-14	939.30	2000.00	2939.30	604.65	1064.40	1669.05	64.37	53.22	56.78

Source: Annual Operational Plans and Annual Accounts (OBR Schedules)

From the table above it is observed that overall percentage of achievement of OBR reduced from 96.19 *per cent* in the year 2009-10 to 56.78 *per cent* in 2013-14. Achievement in respect of Company operations of OBR targets was reduced from 75.40 *per cent* in the year 2009-10 to 64.37 *per cent* in the year 2013-14 and in respect of outsourcing of OBR from 103.98 *per cent* in the year 2009-10 to 53.22 *per cent* in the year 2013-14.

Government stated (December 2014) that the targets were fixed beyond the norms which was the reason for shortfall in achievement. This indicates that the mechanism for fixation of targets was flawed.

3.1.3.2 Backlog of OBR in OC Mines

Quantity of OB to be removed depends upon the stripping ratio which is based on the geological report of the mine. Geological report is prepared by Exploration Department of the Company in the initial stage of planning after surveying the mining area for preparation of feasibility report of an OC mine. Stripping ratios of various OC mines of Company ranged between 1:4.59 and 1:12.56 for the period 2009-10 to 2013-14. These stripping ratios are indicated in FRs of each mine as a basis for determining OBR targets.

Yearly and monthly schedules are prepared by the in-charge of the OC mine projecting the quantum of OBR based on the stripping ratio. Backlogs[43] will result if OB is not removed according to stripping ratio every year. The backlog gives rise to additional liability on account of increased cost of excavation, diesel, explosives due to price escalation, over the previous year.

Scrutiny of OBR statements revealed that there was a backlog of 3460.24 lbcm of OB removal in 12 mines[44] as on 31 March 2014 valuing ₹ 870.17 crore[45] as detailed in **Annexure-3.1**.

Audit noticed that out of these twelve mines where there was backlog, the OBR activity was undertaken in four mines[46] by outsourcing; in three mines[47]

[43]Backlog results when the quantity of OB removed is less than the quantity to be removed according to stripping ratio.

[44]GK OC, JVR OC, JK 5 OC, KYG OC, MNG PK OC II Extn, KHG OCP, BPA OC II Extn, Dorli OC I, SRP OC II, RG II OC III, RG III OC I and RG III OC II.

[45]Represents the difference between the cost of OB removal as in the current year and the cost in the previous year.

by the Company and in five mines[48] by the Company along with outsourcing. There was continuous backlog during the years 2009-10 to 2013-14 in six mines[49] (two outsourced, two Company operated and two operated by Company as well as by outsourcing).

As per the draft OBR surveys Manual which is being followed, proposals for OBR contracts meant for the next financial year must be submitted at least six months in advance, so that work orders are finalised and placed by the end of current financial year. Audit analysis of time taken from proposal to award of contracts revealed that in 14 out of 27 contracts awarded during the five year period 2009-14, delays in contract finalisation and award ranged from nine to 31 months. Thus contracts were not in place at the end of the current financial year. Owing to the delays in finalisation and award of OBR contracts the Company could not reduce the backlog inspite of outsourcing of OBR.

Government stated (December 2014) that major portion of additional expenditure of ₹ 870.17 crore was due to steep increase in OB removal cost in two mines i.e. RG OC II where the increase is 150 *per cent* and in PK OC II by 30 *per cent*. It is further stated that the backlog in OBR was mainly due to delay in finalising OB outsourcing, commencing contracts, non-availability of land etc., and that steps were being taken to clear the backlog. It is also stated that no OBR contract was awarded during 2012-13.

The reply is not tenable as the reasons given for backlog could have been dealt with by proper planning and timely execution of OBR contracts.

OBR by outsourcing

The Project Officer of OC mine prepares and submits outsourcing proposals for OBR works as per the Feasibility Report to CMD through Area GM/ CGM. Approved proposals are then sent to Purchase Department (Contract Management Cell) for issuing Notice Inviting Tender (NIT), evaluation of bids and award of contracts. The deficiencies noticed in evaluation of tenders and award of contracts are as under:

3.1.3.3 Inappropriate changes in NITs – Change from Bench-wise rates to weighted average rate

The Company floated 33 tender enquiries during the period 2009-14 for OBR works and awarded 27 (including two tenders floated in 2008-09 and awarded in 2009-10). Review of terms and conditions (with respect to the elements of scope of work, rate per bcm, payments and taxes etc.,) included in NITs of the awarded contracts revealed that the Company was not following any standard procedure.

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[46]JK5 OC, KYG OC, KHG OCP, Dorli OC I.

[47]BPA OC II Extn. RG III OC I, RG III OC II.

[48]GK OC, JVR OC, MNG PK OC II Extn, SRP OC II, RG II OC III.

[49]GK OC, JVR OC, KYG OC, KHG OCP, BPA OC II Extn and RG III OC II.

OB is removed by forming and removing benches from the surface to expose coal seams. Top benches on the surface contain top soil/ loose soil which do not require drilling and blasting which are expensive processes and are removed by scrapper/ excavator whereas hard OB requires drilling and blasting for excavation. As such, treating removal of topsoil/ sub-soil/ loose soil as a separate item in OBR contracts and applying separate rates as was being done prior to April 2009, is beneficial to the Company.

The excavation cost increases from top to bottom benches. Therefore the rates for different benches have to be called for economy. However, it was noticed that from April 2009, bidders were asked to quote composite weighted average rate for excavation per bcm for the entire quantity instead of bench-wise rates, by deviating from the earlier practice of calling bench wise rates and awarding contracts.

Out of 27 contracts awarded during 2009-14 **(Annexure – 3.2),** 22 contracts were awarded at composite rate for hard OB, top/ sub/ loose soil.

Awarding the contracts on a composite rate in respect of 16 contracts in 13 mines resulted in avoidable expenditure of ₹ 8.28 crore. No cost estimates were available in six contracts to calculate the extra expenditure.

Government stated (December 2014) that migration from benchwise weighted rates to composite weighted average rates was done as a standard industry practice and that there was no infructuous expenditure.

The reply is not specific as to why the Company had not called for separate rates for topsoil/ loose soil which did not require drilling and blasting. Further, the Company's contention that using the weighted average method was now an industry practice should have been mentioned as justification when the migration from the bench-wise rates to composite weighted average rates was done.

A reference is also invited to Para No. 2.1.14 of Audit Report (Commercial) for the year ended 31 March 2006 where non-segregation of top-soil for drilling and blasting purposes was commented upon, after which the management had called for bench-wise rates. However, the Company again adopted the practice of calling of tenders for composite weighted average rate instead of bench-wise rates from 2009 onwards without justification.

3.1.3.4 Splitting up of proposal in JK 5 OC mine, Yellandu

A proposal for 62 lbcm of OBR in JK 5 OC mine was submitted (July 2010) by GM, Yellandu pending approval of revised Feasibility Report (FR) of the mine. The FR was revised due to changes in boundaries and the same was approved by the Board in January 2011. However without taking the revised FR into cognizance, tenders were floated for 62 lbcm of OBR in JK5 OC mine in April 2011. Later based on the revised FR, the mine in-charge submitted another proposal for excavation of further 161.491 lbcm in the same mine (November 2012). The Contract Management Cell processed the two proposals separately, and split the work by issuing two separate OBR orders on two different contractors. Both the orders were placed after the revised FR had been approved by the Board.

Audit noted that while the order for OB removal was based on the proposal of July 2010, and was placed at the rate of ₹ 42.45 per bcm on a contractor in December 2011, the second order based on the proposal of November 2012 was placed on another contractor in August 2013 at a rate of ₹ 44.69 per bcm which was higher by ₹ 2.24 per bcm. As the revised FR for the entire mine was already approved by Board in January 2011, CMC could have invited tenders for OBR of total quantity of 62 lbcm and 161.491 lbcm to avail price benefit. The Company had to spend additional resources on finalization of separate proposals, floating of separate enquiries and award of separate orders, apart from incurring extra expenditure of ₹ 3.62 crore (being the difference of ₹ 42.45 per bcm and ₹ 44.69 per bcm in the two contracts).

Government stated (December 2014) that due to delay in acquiring of land and carrying out development works, the tender enquiry could not be floated for total quantity.

The reply is not correct as both the proposals were submitted after obtaining due clearance of land etc. Therefore, splitting up of proposal resulted in additional expenditure to the Company.

3.1.3.5 Award of OBR work in Khairagura OC mine to two contractors at differential rates

A proposal (January 2013) for OBR excavation of 831.283 lbcm in Khairagura OC was submitted by GM Bellampalli Area. In April 2013, this proposal was split into two proposals i.e. for 369.141 lbcm and 434.518 lbcm citing the reason that the work was too large for a single contractor to execute. Tenders were floated and works were awarded to contractor in August 2013 at ₹ 115.79 per bcm for 434.518 lbcm and on another contractor in October 2013 at ₹ 126.29 per bcm for 369.141 lbcm. Audit observed that though the Company floated tenders at the same time within a span of nine days, it had not finalised the two outsourcing tenders simultaneously. After splitting, the tenders were floated for both proposals separately in April 2013, foregoing the advantage of uniform competitive price for OBR for the total quantity. Thus, the Company incurred extra expenditure of ₹ 38.76[50] crore.

Government stated (December 2014) that in the vendors meet, it was felt that the projected quantities were very high and handling of 831.283 lbcm by a single contractor was not possible and hence the proposal was split into two. It further replied that even simultaneous floating of both the enquiries perhaps would not have resulted in similarity of rates because the scope and geo-mining conditions of both the contracts was different.

The reply is hypothetical as both the tenders were of the same mine for which a single proposal was submitted in the original proposal of January 2013; as

[50](₹126.29 – ₹115.79) * 369.141 lbcm.

such the contention that geo-mining conditions of the contracts were different is not correct.

3.1.3.6 Non-maintenance of Performance records and details of HEMM owned by the contractors

Chapter 7 of the Company's Purchase Manual prescribed maintenance of performance record of various OBR contractors comprising details such as:

i) fleet of Heavy Earth Moving Machinery (HEMM), tippers etc., owned by the contractor;

ii) successful execution of the contracts awarded as per schedule;

iii) number of extensions sought and penalties levied, if any;

iv) adherence to contractual terms and conditions;

v) safety norms, fulfilling statutory obligations etc.;

vi) track records of accidents and

vii) involvement of the Company in unwarranted litigation etc.

These should be submitted to tender evaluation committee on new proposals as per Purchase Manual. However Audit noticed that the company neither maintained any performance record of contractors nor the details of their HEMM fleet held by them.

(i) Non-maintenance of record of deployment of HEMM by contractor

A test check of deployment of HEMM recorded in measurement books at eight mine sites revealed **(Annexure – 3.3)** that in six cases the actual equipment deployed was far less than the deployment agreed by the contractors and the shortfall ranged from 4 to 67 *per cent* for different equipment as detailed below. In two cases the record was not maintained.

HEMM details	Range of shortfall in deployment
Shovels	10 *per cent* to 25 *per cent*
Dumpers	4 *per cent* to 53 *per cent*
Water sprinklers	20 *per cent* to 67 *per cent*
Bull Dozers	33 *per cent* to 50 *per cent*
Motor graders	33 *per cent*
Drills	50 *per cent* to 67 *per cent*

The company did not verify, during the execution of contract, whether the contractor possessed the required number of HEMM as mentioned in the OBR order and as agreed to by the contractor, for deployment in executing the contract. As a result, contracts were left incomplete due to inadequate deployment of HEMM and were subsequently terminated as mentioned in the termination orders. Re-awarding of these contracts at higher rates resulted in additional expenditure of ₹ 68.48 crore to Company as detailed in **Annexure – 3.4**.

Scrutiny of termination orders revealed that the following contracts were terminated due to poor performance as the contractor did not deploy the full equipment. In all these cases contracts were terminated at incomplete stages.

- PK OC II Extn. for contract value of ₹ 182.50 crore
- Koyagudem OC for contract value of ₹ 19.33 crore
- PK OC II Extn., Manuguru for contract value of ₹ 126.81 crore

Government stated (December 2014) that the observation was noted for compliance.

(ii) Non-maintenance of performance record of contractors

Audit also noticed that defaulters who did not execute past OBR contracts successfully were again awarded fresh contracts. Audit found that in Koyagudem OC, a contractor was awarded OBR work (July 2012) for excavation of 63.505 lbcm of OBR over 10 months in Pit-III of Koyagudem. The contractor had started the work in July 2012 and left the work in July 2013 after excavating only 29.619 lbcm (46.64 *per cent*) as against the ordered quantity of 63.505 lbcm. In the meanwhile, the contractor participated in five tenders and was evaluated as L1 in three cases and L3, L5 in balance two cases. By the time the tenders were finalised the contractor was a defaulter in Koyagudem OC mine contract, but was still awarded three contracts, treating his performance as 'proven', the tender evaluation committee/ Board not being apprised of his default in respect of Koyagudem OC.

Government replied (December 2014) that due to limited vendor base of OBR contractors, penalties were being levied for non-completion of works while allowing them to participate in future contracts.

The reply is not acceptable as the Company has not been maintaining the performance record of the contractors and submitting the same to the tender evaluation committee as required under the provisions of the Purchase Manual. In the Audit Report (Commercial) 2006, recommendation was made that the Company should take steps for vendor development in order to curb monopolisation of the OBR contracts. No action seems to have been taken by the Company towards this.

3.1.3.7 Award of contracts for OBR works with costlier combination of HEMM

HEMM comprises of shovels, dumpers, water sprinklers, bull dozers, motor graders and drills. Cost per bcm for OBR is estimated based on depth of the quarry, lead (distance) from the quarry to the dump area and diesel requirement of HEMM. The deeper the quarry and longer the lead, the more will be number of trips to be made and more will be the consumption of diesel. A higher or bigger capacity shovel and dumper combination is economical as it reduces both the number of HEMM required and the period of time to carry out OBR.

The Company had carried out (January 2011) a cost benefit analysis in cases where the depth of quarry was more than 100 metres or lead distance four KM or more. A combination of five cubic metre (CUM) Shovel with a 60 Tonne (T) dumper was found to be more economical (by ₹ 6.68 per bcm) than the combination of three cum Shovel with 35 T dumper.

Audit noticed that in 16 contracts awarded after January 2011, where the depth of quarry was more than 100 meters or lead distance was more than four KM, Company floated 15 enquiries for OBR works in various mines with a less viable combination of either 3 cum shovel with 12 cum Dumper or 3 cum Shovel with 16 cum Dumper and awarded contracts for total quantity of 5461.012 lbcm **(Annexure- 3.5)**. As a result, Company had to incur additional expenditure of ₹ 364.80 crore[51] on 15 contracts awarded during the period 2011 to 2014.

Government's reply (December 2014) stressed that the combination of three cum shovel with 16 cum dumper as included in the tender was the 'best equipment combination'. There is no specific reply as to why quotations were not called for the more viable combination indicated by cost benefit analysis carried out by the Company itself.

3.1.3.8 Undue favour to contractors in payment of bonus

Diesel for operation of HEMM is a major component of cost to be considered in OBR contracts. The Company followed a practice of supplying diesel to the contractors, though its cost was paid for by the contractor. While tendering for OBR contracts, the Company fixed an estimated amount of diesel that would be needed to be supplied by it to the contractor. In order to encourage the contractors to effect savings in diesel consumption, the Company had set in

[51]OB quantity ordered 5461.012 lbcm x ₹ 6.68 per bcm being the differential rate per bcm towards costlier combination with lower capacity HEMM.

place a system of bonus and penalties. According to OBR contracts, penalty is recovered for excess consumption over the prescribed quantity of diesel from the monthly bills and bonus is payable for less consumption at the end of the contract. The Company revised (April 2012) the guidelines for payment of bonus towards savings in diesel by the contractors. The change in guidelines for payment of Bonus was done from 'at the end of the contract' to 'at the end of the financial year' on the request of the contractors. Due to this change an amount of ₹ 45.07[52] crore was paid towards bonus in three ongoing contracts in three mines resulting in undue favour and affected the Company's cash flow.

Government stated (December 2014) that the accrued amount saved towards bonus was paid to the contractors due to their operational efficiency.

The reply is not acceptable as modifications to the terms of bonus before closure of the contract without amendment to the OBR order was against the contractual terms.

Conclusion

Non-achievement of production targets by the Company resulted in accumulation of backlog of OBR. Lack of standardized guidelines for contracts led to contracts being managed in ad-hoc manner. Inappropriate changes were effected in NITs offering undue favours to contractors. Splitting up of excavation proposal and awarding to two contractors resulted in foregoing of price advantages. Management control over contract execution was diluted and the contracts terminated at incomplete stages as contractors could not fully execute the works. Re-award of contracts for unexecuted OB at higher rates resulted in extra expenditure while the defaulter contractors were awarded new OBR contracts.

Transmission Corporation of Andhra Pradesh Limited and Distribution Companies of Andhra Pradesh Limited.

3.2 Power Purchases from Independent Power Producers and Suppliers

3.2.1 Introduction

Distribution companies (DISCOMs)[53] of Andhra Pradesh buy power from Andhra Pradesh Power Generation Corporation Limited (APGENCO), AP Gas Power Corporation Limited (APGPCL), Central generating stations (CGS), various private suppliers/ traders and Independent Power Producers

[52] Order Nos.(i) 1685 dt.19.04.2008 – ₹ 28.45 crore Khairagura OC; (ii) 893 dt.26.09.2008 – ₹ 12.35 crore RG OC III and (iii) 4334 dt.20.12.2011 – ₹ 4.27 crore Medapalli OC.

[53] i. Andhra Pradesh Central Power Distribution Company Ltd (APCPDCL) ii. Andhra Pradesh Northern Power Distribution Company Ltd (APNPDCL) iii. Andhra Pradesh Southern Power Distribution Company Ltd (APSPDCL) and iv. Andhra Pradesh Eastern Power Distribution Company Ltd (APEPDCL).

(IPPs[54]) through Power Purchase Agreements (PPAs[55])/ Letters of Intent (LoIs[56]).

Government of Andhra Pradesh (GoAP) created (June 2005) Andhra Pradesh Power Co-ordination Committee (APPCC)[57] to act on behalf of DISCOMs for power purchases. The DISCOMs purchase power from IPPs under long term PPAs (more than seven years) and under medium-term PPAs (one to seven years). DISCOMs also purchase power for short term i.e., for a period of less than one year from traders/ generators through LoIs.

Between the years 1993 to 2013, APSEB[58]/ APTRANSCO/ DISCOMs entered into 12 long-term PPAs with ten IPPs and two medium term PPAs with two IPPs. Out of these, currently nine long-term PPAs and one medium-term PPA are operational. DISCOMs entered into LoIs with more than 80 traders/ generators during 2013-14.

3.2.2 Audit Scope, Objectives and Methodology

Records relating to power purchases during the period 2009-14 were test-checked from November 2013 to March 2014 at APTRANSCO's Corporate Office at Hyderabad. The audit objective was to examine technical and commercial terms and conditions of PPAs and LoIs to bring out deficiencies, if any, in finalisation of PPAs/ LoIs and their implementation.

3.2.3 Audit Findings

The details of power purchases by DISCOMs from IPPs through long-term and medium-term PPAs during 2009-14 are shown in Table-3.2.

Table 3.2 - Statement showing power purchases from IPPs

Year	Total Power purchases (MUs)	Cost of Total Power Purchases ₹ in crore	Power purchased from IPPs (MUs)	Total cost ₹ in crore	Percentage of purchases from IPPs	Average purchase price/ unit from IPPs (₹)
2009-10	73,224.66	20,229.10	16,382.71	4,455.83	22.37	2.72

[54]IPP is an entity, which is not a public utility, but which owns facilities to generate electric power for sale to utilities and end users. The IPPs and the public utilities enter into a contract called Power Purchase agreement which contain the contractual terms to be followed during the purchase by the DISCOMs and sale of power by the IPPs.

[55]PPAs are contracts between IPPs and public utilities, which contain the contractual terms to be followed for purchase of power.

[56]LoIs are contracts between generators/traders and APPCC for purchase of power under short-term.

[57]APPCC is headed by Chairman and Managing Director (C&MD) of Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) with Director (Finance) and Director (Coordination) of APTRANSCO and C&MDs of all four DISCOMs as members.

[58]Andhra Pradesh State Electricity Board (APSEB), the predecessor organisation which managed the PPAs, unbundled in 1999-2000 into APGENCO, APTRANSCO and the four DISCOMs. From 1999-2000 to June 2005, APTRANSCO managed the PPAs.

2010-11	77,364.54	22,450.46	16,535.43	4,756.28	21.37	2.88
2011-12	85,279.20	28,017.23	14,483.28	4,647.12	16.98	3.21
2012-13	81,113.59	32,756.58	7,999.55	2,955.18	9.86	3.69
2013-14	85,673.99	35,097.36	4,071.97	1,784.74	4.75	4.38

MU: Million Units   *Source: Accounts Wing of APPCC*

It could be seen that though the IPPs' contribution to the total power purchases decreased from 22.37 *per cent* to only 4.75 *per cent* during the period 2009-14, the average purchase price continued to increase.

Long Term Power Purchases from MoU-based PPAs

Memorandum of Understanding (MoU) based PPAs were finalised through negotiations between APSEB and the IPPs. APSEB entered (1996-97) into two MoU based PPAs with two IPPs for purchasing power for 18 years from 216 MW gas-based power project at Jegurupadu (Phase-I) (East Godavari District) and 208 MW gas-based power project at Kakinada (East Godavari District) respectively. As per the PPAs, the IPPs had to include Chairman of APSEB as one of the directors on their respective Boards of Directors, thus ensuring participation in their decision making process.

As per the PPAs, Fixed charges and Variable charges incurred for power generation are required to be paid to IPPs by APPCC. Variable charges as per PPAs are costs relating to fuel consumed by IPP for the process of generation of power which is calculated based on Station Heat Rate (SHR), Gross Calorific Value (GCV) of gas, cost of gas and auxiliary power consumption (APC) whereas fixed charges are costs to be paid on all other expenses incurred during the process of power generation and supply to DISCOMs like Operation and Maintenance charges, interest expenses, Return on Equity, depreciation etc.

3.2.3.1 Payment of Fixed Charges without proper verification

During 2012-14, total fixed charges of ₹ 198.18 crore and ₹ 213.63 crore were paid to the two IPPs respectively. Audit observed that verification of documents such as invoices, ledgers, certified annual accounts etc., was not done before making the payments to IPPs. Each component of fixed charges paid in excess is discussed below:

- The provisional Capital cost ceilings for one IPP (₹ 816 crore) and the other IPP (₹ 748.43 crore) included an amount of ₹ 10.40 crore (₹ 7.20 crore and ₹ 3.20 crore respectively) towards "Public Issue Expenses" which was reimbursable to IPPs as part of fixed charges, if incurred. Audit noted that though neither of the IPPs had incurred any public issues expenditure, the respective amounts were not reduced from the

Capital cost ceilings, resulting in excess payment of ₹ 1.92 crore per annum[59].

- Similarly, works contract tax (₹ 9.50 crore) and customs duty (₹ 78 crore) included in provisional Capital cost ceiling were to be reimbursed as part of fixed charges on actual basis. However, APPCC without ascertaining the expenditure actually incurred towards works contract tax and customs duty, paid the fixed charges as provisionally provided in the Capital cost ceiling. In the absence of any records relating to actual expenditure incurred on these components, audit could not ascertain the amounts to be adjusted, or their exact impact on payment of fixed charges.

Audit further observed that the management of APSEB/APTRANSCO did not participate in IPPs' Boards despite invitation from the IPPs, adversely impacting the interests of APTRANSCO/ DISCOMs.

Deficiencies in Bid-based PPAs

On the basis of competitive bids from IPPs, APSEB/APTRANSCO entered into PPAs with two IPPs (1997-2003) for purchasing power for 15 years. Scrutiny of the provisions and implementation of PPAs revealed the following issues:

3.2.3.2 Improper payment of variable charges

Station Heat Rate (SHR) is the quantum in Kilo Calories of input heat energy required by the Project to generate one energy unit (kWh). SHR is one of the parameters considered for payment of variable charges. The higher the SHR the more would be fuel consumption by the plant and consequential higher variable charge payment to IPPs. As per the PPA with one IPP, SHR after the Date of Commercial Operation (COD) was adopted as 1850 kcal/ kWh. The project started operation from June 2009 i.e. after 12 years from signing of PPA. SHR of the project measured at the time of COD was only 1,611 kcal/ kWh. Audit observed that instead of adopting the actual SHR (1,611 kcal/ kWh) for payment of variable charges, APPCC continued adopting SHR of 1,850 kcal/ kWh which resulted in undue favour to the IPP besides incurring an extra expenditure of ₹ 256 crore for the period 2009-13.

3.2.3.3 Non-recovery of export[60] energy charges

The power projects require power (export energy) for start-up and maintenance of the power plant. This power is supplied to IPPs by APTRANSCO/ DISCOMs. The PPAs envisaged that APTRANSCO would recover charges for the power it is supplying by adjusting it against power

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[59] (₹ 10.40 crore * 16 *per cent* of Return on Equity) + (₹ 10.40 crore * 2.5 *per cent* of O&M charges) = ₹ 1.92 crore.

[60] When APTRANSCO/DISCOMs receive power from IPPs it (power) is termed as import energy. When APTRANSCO/DISCOMs supply power to IPPs it (power) is termed as export energy.

purchased from the IPPs. Audit noted that though neither of the two IPPs had generated any power since April 2013, both the IPPs consumed energy of 74,39,220 units during April 2013 to April 2014. APTRANSCO/DISCOMs did not bill this consumption. Audit observed that the IPPs should be treated as DISCOM's industrial consumers and billed at applicable tariff i.e., HT-I (₹4.90/ unit). However, APPCC did not collect ₹ 3.64 crore (April 2013 to April 2014) from IPPs towards power consumption charges.

Audit further observed that PPAs were deficient to the extent that no clause for export energy charges in case of non-supply of power by IPPs was provided in them.

3.2.3.4 Payment of cash advances in violation of PPA conditions

As per the PPA, fixed and variable charges incurred and claimed by the IPP are to be reimbursed at the end of the month. PPA conditions did not provide for payment of any advances for the same. Audit noted that APPCC, based on the request of an IPP, irregularly paid cash advances of ₹ 965 crore during 2010-12. Audit also noted that the IPP obtained short-term finances of ₹ 146.98 crore from banks through negotiable instruments, i.e., bills of exchange accepted by APPCC during August 2012 to May 2013, in deviation to PPA conditions. Though the amounts were recovered by APPCC from the next monthly bill, bill of exchange amounting to ₹ 0.69 crore along with interest was yet (March 2014) to be recovered from the IPP.

3.2.3.5 Non-measurement of actual Auxiliary Power Consumption[61] (APC)

PPA with an IPP was entered into in May 2003. The original PPA condition of 'SHR of 1,850 kcal/ kWh or actual (after COD), whichever is lower' was changed by APTRANSCO (November 2003) to 'SHR of 1,850 kcal/ kWh (after COD)'. Similarly, the condition of 'auxiliary power consumption (APC) at 3 *per cent* or actual, whichever is less (after COD)' was changed to 'APC 3 *per cent* (after COD)'. However, the PPA stipulated separate Main and Check meters to be provided at the Generator Terminals for arriving at APC. Audit noticed that actual metering arrangements and measurements taken were not available on record. Thus, APPCC failed to ascertain whether the IPP consumed APC of 3 *per cent* or not. Since APC is part of variable charges paid to the IPP, measurement of the same was vital. In the absence of data relating to actual SHR and APC of the IPP, audit could not ascertain the extra expenditure incurred.

Thus, the flaws in the PPAs' terms and conditions coupled with inaction on the part of management, as brought out in the above four cases, resulted in passing on undue benefits to the extent of ₹ 260.33 crore to the IPPs.

[61]APC is the power consumed by power plant during the process of generation of power.

3.2.3.6 Deficiencies in implementation of Medium-term PPA

DISCOMs entered into a medium-term PPA (July 2012) for a period of 3 years from June 2013 to June 2016 with an IPP with fixed charges of ₹ 1.5/ unit and variable charges of ₹ 2.3/ unit. As per the PPA, a monthly provisional bill shall be raised by the IPP on the last business day of the month with fixed charges based on declared capacity for the entire month and variable charges based on final implemented scheduled energy up to 25th day of the month. If the provisional bill, thus raised, is paid to the IPP on the first day of the month, 2.25 *per cent* savings in the form of a rebate is allowed to DISCOMs. Audit observed that the IPP had neither raised the provisional bills nor had APPCC made any efforts to ask for provisional bills and avail the rebate, resulting in foregoing savings of ₹ 7.77 crore for the period August 2013 to March 2014. Audit further noticed that provisional bill for November 2013, though raised by the IPP, was not paid by APPCC. Reasons of non-payment were not made available to audit.

Audit further noticed that though the IPP started supplying power from 14 August 2013, it raised power supply bills amounting to ₹ 65.36 crore for the period 16 June 2013 to 13 August 2013, i.e., before the supply started. The above amount included ₹ 50.18 crore towards fixed charges and ₹ 15.18 crore towards transmission charges. APPCC did not pay any fixed charges for the period of non-supply of power. However, it agreed to pay transmission charges of ₹ 7.59 crore (50 per cent of ₹ 15.18 crore) on the ground of maintaining good relationship. But there was no provision in the PPA to pay any fixed/ variable/ transmission charges by DISCOMs in the absence of any power supply.

Short Term Power Purchases

The Short-Term Power Purchases (STPP) are made from the traders/ generators within or outside the State. Open Access[62] charges, which are paid by generators/ traders to the Load Despatch Centres (LDCs) are reimbursable by APPCC. Ministry of Power (MoP), Government of India (GoI) issued (May 2012) guidelines for STPP which *inter-alia* include procedures to be followed for inviting bids, tariff structure, bidding process, Earnest Money Deposit (EMD) and Contract Performance Guarantee (CPG). The details of power purchased under STPP during the period 2009-14 are given in Table 3.3:

[62]Open access is the access given by Load Dispatch Centres to a power generator/ trader to utilise the State/ Regional/ National transmission network for supplying power to any buyer (public/ private). In case of Andhra Pradesh, Andhra Pradesh State Load Dispatch Centre (APSLDC) and Southern Regional Load Dispatch Centre (SRLDC) approve all open access transactions.

Table 3.3 – Power purchased under Short Term

Year	Short term Power purchased (MUs)	Total cost ₹ in crore	Total Power purchased in MUs#	Percentage of total power purchased	Average STPP price per unit (₹)
1	**2**	**3**	**4**	**5**	**6**
				(col.2/ col.4 x 100)	**(col.3x ₹1 crore/col.2 x 10 lakh)**
2009-10	2694.69	1674.58	73224.66	3.68	6.21
2010-11	4315.07	1935.57	77364.54	5.58	4.49
2011-12	7899.73	3311.76	85279.20	9.26	4.19
2012-13	9596.51	4977.67	81113.59	11.83	5.19
2013-14	14306.00	7867.57	85673.99	16.70	5.50

Source: Accounts Wing of APPCC

MUs: million (10 lakh) units

 # Total power purchased from all sources (Long term, Medium Term & Short term)

STPPs show an increasing trend and accounted for 16.70 *per cent* of total purchases in 2013-14.

3.2.3.7 Non-levy/ Refund of Penalty

Audit findings on STPPs with reference to non-levy of penalty and refund of penalty recovered are explained in the subsequent paragraphs:

- In May 2012, APPCC placed a LoI on a trader for Round the clock (RTC) power supply of 217 to 400 MW at ₹ 5.35 to ₹ 5.65/ kWh for the period June 2012 to May 2013. It was noticed that SRLDC approved open access of 3,00,222.25 MWh for March 2013, whereas the energy supplied by trader during March 2013 was 2,03,710.48 MWh only. As per LoI conditions, if the power supplied is less than 80 *per cent* of approved open access quantum, a penalty @ ₹ 1000 per MWh (i.e. ₹ 1 per kWh) is to be recovered by APPCC. Thus, ₹ 3.65 crore was to be recovered from the trader towards penalty, which was not recovered.
- In response to an offer (October 2012) of a generator, APPCC directly issued a LoI (October 2012) for supply of 100 MW power at the rate of ₹ 4.90/ unit for the period 1 November 2012 to 30 May 2013. Audit observed that APPCC did not obtain CPG of ₹ 3 crore from generator as required under LoI conditions. Audit further observed that as per the LoI, penalty was to be levied at 20 *per cent* of tariff per unit (20 *per cent* of ₹ 4.90 = ₹ 0.98/ unit) for the quantum of shortfall in energy supplied in excess of permitted deviation of 15 *per cent* from approved open access. SRLDC approved open access of 11242.80 MWh for May 2013 but the supply was not made. APPCC issued (June 2013) a

demand notice for payment of ₹ 93,65,253 towards penalty for failure in supplying power for May 2013 as per LoI conditions. Generator responded that due to technical difficulties, power supply could not be made and requested to treat it as force majeure condition, which APPCC did not agree to. However, APPCC could not recover the amount due to not having obtained the required CPG. Chances of recovery are remote.

- Based on offer letters submitted by two traders and a generator (May 2013), APPCC directly and without competitive bidding, placed (June 2013) LoIs on all three firms for STPP for the period June 2013 to May 2014, which was against the GoI's guidelines for STPP issued in May 2012.

  Audit further noted that as per LoI conditions, the traders shall pay a penalty to APPCC at 20 *per cent* of tariff/ kWh for the quantum of shortfall in excess of permitted deviation of 15 *per cent* in the energy to be supplied. One of the traders did not supply any power in June 2013 for which penalty of ₹ 7.47 crore was to be recovered from the trader. The amount of penalty was first adjusted (recovered) against July 2013 bill as per the provisions of the LoI, however, this was later waived off (September 2013) by the management, without taking Board's approval, accepting the trader's claim that the generator's application (18 June 2013) for open access for the period 22 to 30 June 2013 was rejected by APSLDC. Audit observed that there was no specific proof on record in support of the trader's claim of rejection of open access application. Further, for the month of July 2013 also, APPCC did not levy penalty of ₹ 11.24 crore on the trader, though there was short supply of power. Audit noticed that this non-levy of penalty happened due to erroneous calculation. For the purpose of calculating deviation from minimum required supply (85 *per cent*), APPCC considered open access quantum requisitioned by the trader from SRLDC (20,036 MWh), instead of quantum as per LoI (1,86,000 MWh).

  Waiver of penalty and non-levy of penalty for no/ short power supply during June and July 2013 resulted in undue favour of ₹ 18.71 crore to the trader.

Conclusion

In the absence of proper verification of documents before making payments, undue benefits were passed on to IPPs. Cases were noticed wherein PPA conditions were modified against the interests of APTRANSCO/DISCOMs. Prescribed procedures were not followed for STPPs and penalties due not levied/ refunded.

Central Power Distribution Company of Andhra Pradesh Limited and Northern Power Distribution Company of Andhra Pradesh Limited

3.3 Tariff Subsidy to Agricultural Consumers

3.3.1 Introduction

Government of Andhra Pradesh (GoAP) in May 2004 framed a policy to supply free power to farmers. The scheme was expected to give boost to the otherwise sagging farm operations in the upland areas[63] by reducing the cost of irrigation between the upland areas and in assured canal based irrigation areas. Number of agricultural consumers in Andhra Pradesh eligible for free power supply under the policy was 30,53,993 in all four Distribution Companies (DISCOMs) as estimated by DISCOMs.

Audit on agricultural power consumption was conducted earlier and a paragraph on "Incorrect estimation of agricultural consumption" was included in the Performance Audit of Power Distribution Companies in Andhra Pradesh which featured in the CAG's Audit Report (Commercial) for the year ended 31 March 2011. In the present audit, Tariff subsidy to Agricultural Consumers for the period 2010-11 to 2013-14 has been reviewed (December 2013 to January 2014) in respect of two DISCOMs, i.e., Central Power Distribution Company of Andhra Pradesh Limited (APCPDCL) and Northern Power Distribution Company of Andhra Pradesh Limited (APNPDCL) to verify -

- whether the estimate of power consumption by agricultural consumers of APCPDCL and APNPDCL was prepared as per the methodology approved by Andhra Pradesh Electricity Regulatory Commission (APERC);
- whether the projected estimated agricultural consumption made in annual Aggregate Revenue Requirement (ARR) got approved by APERC; and
- whether subsidies as approved in Tariff Order were duly received by both DISCOMs in a timely manner.

Records maintained at Corporate Offices of two DISCOMs at Hyderabad and Warangal were scrutinised during the audit.

3.3.2 Eligibility for getting free power supply

To get free power, farmers have to undertake certain Demand Side Management (DSM) measures like installing capacitors of adequate rating and friction-less foot-valve, wherever required, for their pump sets. Farmers also have to use high density polyethylene (HDPE) or rigid polyvinyl chloride (RPVC) piping and ISI marked pump sets. DISCOMs have to ensure adoption of DSM measures before releasing service connections to agricultural consumers and installation of meters.

[63] Upland means dry areas

Every year, the DISCOMs are required to estimate the power required by the agricultural consumers and submit the same to APERC through ARR. The shortfall in revenue on account of free power provided to eligible agricultural consumers is received from GoAP in the form of subsidy, which is restricted to the estimates approved by APERC in the Tariff Order. Andhra Pradesh Power Coordination Committee (APPCC) claims the subsidy from GoAP on behalf of the DISCOMs every month and GoAP releases the subsidy in monthly instalments in advance to the respective DISCOMs.

3.3.3 Audit Findings

3.3.3.1 Inaccurate estimation of agricultural power consumption

Installation of a meter is a prerequisite for supplying free power. Though APERC directed all DISCOMs to install meters to all agricultural users as early as in June 2005, it was noticed in audit that meters were installed in 0.72 *per cent* (7,998 numbers) and 0.31 *per cent* (2,990 numbers) of cases in APCPDCL and APNPDCL serviced areas respectively, out of total 20,64,790 agricultural service connections (March 2014).

In the Tariff Order of 2004-05, APERC had suggested a methodology[64] for estimation of agricultural consumption for claiming subsidy. As per this methodology, meters were to be fixed on sample DTRs (APCPDCL-6,277; APNPDCL-5,383). Readings were to be taken from all sample DTRs and extrapolated to other agricultural DTRs for estimating the consumption of electricity by agricultural consumers.

Audit observed that though 11,660 meters were fixed on DTRs during 2004-05 itself, readings were taken from only 3,956 to 4,543 DTRs in APCPDCL and 3,299 to 4,193 DTRs in APNPDCL during April 2010 to October 2013. DISCOMs in their ARR filing (2012-13) to APERC, had expressed their difficulties in taking meter reading from all sample DTRs. To overcome the difficulties, the APERC obtained consultancy from Indian Statistical Institute (ISI) to develop a robust methodology[65] of realistic estimation of agricultural consumption for claiming subsidy against the supply.

[64] Methodology :

a) the connected load under sample DTRs in mandals is taken from census 2001 report.
b) the consumption recorded in the meters on LV side of the sample DTRs in that mandal is taken and the designated LT line losses are deducted to get the actual energy consumed by the Pump sets.
c) the specific consumption per HP /month for the mandal is arrived at by dividing(b) with (a).
d) the total connected load (in HP) in the districts is taken from the census and total consumption in the district is arrived by multiplying specific consumption and connected load in HP.

[65] Robust methodology prescribed:

a) Preparation of circle-wise capacity-wise list of DTRs feeding agricultural loads
b) selection of 3,000 stratified samples from the list of DTRs
c) Meters are to be provided to these 3,000 sample DTRs to arrive at per-KV consumption from the sample meters
d) Specific consumption is extrapolated as per capacity wise list of DTRs and circle wise agricultural power consumption is arrived at.

It was noticed that as a follow up of this, though 3,000 Nos. and 3,168 Nos. of meters were installed in APCPDCL and APNPDCL respectively at a cost of ₹ 3.33 crore (APCPDCL: ₹ 1.95 crore and APNPDCL: ₹ 1.38 crore) during July 2010 to October 2012 and readings started to be taken from November 2012/ November 2013 respectively, the DISCOMs are yet to use these readings for the purpose of ARR.

DISCOMs continued to estimate the agricultural consumption as per the old methodology and filed ARRs during the years 2010-14. Against the ARR proposals, APERC approved agricultural power sales ranging from 6,733.69 Million Units (MU) to 8,073.90 MU (ranging from 86.66 *per cent* to 93.23 *per cent*) in APCPDCL and 3,299.09 MU to 4,361.35 MU (ranging from 81.12 *per cent* to 97.26 *per cent*) in APNPDCL serviced areas during the period from April 2010 to March 2014. APERC did not approve 100 *per cent* estimated agricultural consumption due to the following reasons:

- The estimates were unreliable due to non-inclusion of verifiable breakup data relating to the difference between losses and agricultural sales;
- Neither the meters were installed nor were the meter readings of all sample DTRs taken making it difficult to ensure the accuracy in calculation of estimates.

The details of the estimated agricultural consumption booked under sales and agricultural consumption approved by APERC for subsidy in respect of APCPDCL and APNPDCL during 2010-2014 are given below in table 3.4:

Table: 3.4 Agricultural Power Consumption disallowed by APERC

Year	Agricultural consumption approved by APERC (MUs)	Estimated Agricultural supply filed with APERC (MUs)	Excess supply booked in Sales (MUs)	Cost of Service (CoS) LT Category-V (₹)	Agricultural subsidy allowed by APERC (₹ in crore)	#Extra expenditure., (Excess Sales x CoS) ₹ in crore
1	2	3	4 (3-2)	5	6	7 (4x5)
2010-11						
APCPDCL	*	*	*	*	*	*
APNPDCL	3299.09	3830.09	531.00	3.04	810.78	161.42
2011-12						
APCPDCL	7339.82	8740.15	1400.33	3.03	707.41	424.30
APNPDCL	3596.07	4432.63	836.56	3.32	944.46	277.73
2012-13						
APCPDCL	8073.90	8659.48	585.58	3.90	1148.78	228.37
APNPDCL	3955.61	4066.74	111.13	4.15	1578.90	46.11
2013-14						
APCPDCL	8073.90	9190.49	1116.59	4.71	1283.83	525.91
APNPDCL	3955.61	4361.35	405.74	4.87	1751.27	197.60
DISCOM						

Year	Agricultural consumption approved by APERC (MUs)	Estimated Agricultural supply filed with APERC (MUs)	Excess supply booked in Sales (MUs)	Cost of Service (CoS) LT Category-V (₹)	Agricultural subsidy allowed by APERC (₹ in crore)	#Extra expenditure., (Excess Sales x CoS) ₹ in crore
Total						
APCPDCL	**23487.62**	**26590.12**	**3102.50**		**3140.02**	**1178.58**
APNPDCL	**14806.38**	**16690.81**	**1884.43**		**5085.41**	**682.86**
Grand Total	**38294.00**	**43280.93**	**4986.93**		**8225.43**	**1861.44**

Source: Annual Accounts of DISCOMs and Tariff Orders

**Excess Consumption of energy by agricultural consumers in APCPDCL for the year 2010-11 is already commented in CAG report for the year ending 31 March 2011*

 # this excess expenditure was disallowed by APERC and it is a burden on DISCOMs

It may be seen from the table that free power consumption exceeded the approved quantity by 4,986.93 MU resulting in extra expenditure of ₹ 1,861.44 crore in the last four years ending 31 March 2014. Even after this, DISCOMs had not taken any action to restrict free power supply within the limits approved by APERC or provide accurate estimate to APERC.

APCPDCL management replied (December 2014), that actual agricultural consumption data were filed with APERC instead of estimated consumption. The reply is not correct. APERC also disallowed part of claims on the ground that estimates were unreliable.

3.3.3.2 Delay in receipt of claims for tariff subsidy resulting in loss of interest ₹76.83 crore

The tariff subsidy is to be released by the GoAP to DISCOMs in monthly installment in advance. APPCC, on behalf of DISCOMs, sends the claims to Energy Department for onward transmission to Finance Department of GoAP, which then releases subsidy to DISCOMs.

Audit noticed that during the period 2010-13 there were delays in release of claims by GoAP ranging from 31 to 144 days. As a result DISCOMs suffered loss of interest of ₹ 76.83 crore. It was noticed in audit that DISCOMs delayed the filing of ARR for the year 2010-11 by 140 days due to which, there was a delay of 120 days in receipt of subsidy amounting to ₹ 61.82 crore by APNPDCL.

APCPDCL Management replied (December 2014) that after release of Tariff Order by the end of March for ensuing year, APERC would approve the subsidy claim and thereafter DISCOMs would prefer subsidy claim for the first month of ensuing financial year. The reply is silent about delay in receipt of claims which led to loss of interest.

Conclusion

DISCOMs failed to develop reliable and authentic agricultural power consumption data so as to claim full subsidy from Government and thereby were put to loss of ₹ 1,861.44 crore during 2010-14. Delay in receipt of subsidy resulted in loss of interest of ₹ 76.83 crore.

Andhra Pradesh Power Generation Corporation Limited

3.4 Selection of costlier pipes for raw water pipeline of KTPP Stage-II resulted in avoidable excess cost of ₹ 43.30 crore

Reversing its earlier Board decision, the Corporation procured costlier Ductile Iron (DI) pipes for the water supply pipeline of Kakatiya Thermal Power Plant - stage II instead of MS pipes resulting in an avoidable extra cost of ₹ 43.30 crore.

After getting GoAP's concurrence (July 2008) for establishment of Kakatiya Thermal Power Project (KTPP) Stage-II (1x 600 MW) at Chelpur village, Ghanpur Mandal, in Warangal district, the Board of Directors (BoD) of Andhra Pradesh Power Generation Corporation Limited (APGENCO) accorded administrative approval to execute the project. It was planned to draw water required for the project by laying a pipeline from River Godavari near Kaleswaram, situated at a distance of 62 KMs. In November 2009, Board of APGENCO accorded approval to lay the required pipeline with Mild Steel (MS) pipes of 965 mm dia on considerations of quality in the light of its experience in other thermal power plants including the KTPP Stage-I and on the certified life span of 30 years of MS Pipes, which exceeded the life span of 25 years envisaged for the thermal power plant.

Though APGENCO prepared (November 2009) an estimate for the pipeline with MS pipes, no tender notice was issued for KTPP Stage-II for want of necessary clearances and other works. After a lapse of 12 months, the OSD/Energy Department, GoAP, had asked (November 2010) APGENCO to consider the use of Ductile Iron (DI) Pipes in lieu of MS Pipes, on the basis of a proposal from a private vendor.

APGENCO referred the proposal to the Board of Chief Engineers (BCE) for their remarks on the choice of DI / MS pipes. BCE opined (March 2011) that (i) usage of DI pipes was technically feasible when compared with MS pipes and (ii) DI pipes would be cheaper considering their life span of 60 years compared to MS pipes life span of 30 years. BCE suggested to the Company "to take appropriate decision based on field conditions for laying of DI pipelines", in view of higher initial cost of laying DI pipelines by ₹ 2000 per running metre.

In the proposal note to the BoD meeting (24 March 2011), the FA&CCA (Audit), recommended in favour of MS pipes on the following grounds:

- Considering the life time of power station, MS pipeline may be sufficient to avoid extra initial cost;

- Though satisfactory performance of DI pipes was mentioned by the Engineers-in-Chief of the concerned departments (Public Health and RWS&S), the time period for their laying down was not discussed to determine their longevity;
- Initial cost alone was sufficient for comparison purposes since the 'life time of MS pipes was meeting the life time of the thermal power station'; and
- Opinion of National Metallurgical Laboratory may be obtained on the issue.

In disregard of this opinion, however, on the basis of proposal (23 March 2011) from Chief Engineer (Civil/ Thermal), the BoD approved (March 2011) laying pipeline with DI pipes. For the purpose of preparing estimates, market rates for 900 mm dia DI pipes were obtained (September 2011). The estimates based on the lowest private vendor for laying water pipelines of KTPP Stage-II by using the DI pipes were prepared for ₹ 166 crore for tender notification. The pipeline laying work was awarded (May 2012) to a Contractor at a total price of ₹ 173.96 crore who procured the DI pipes from the two private vendors including the vendor who has proposed the use of DI pipes in KTPP Stage-II. The break-up of the supplies procured from these two vendors were not supplied to Audit despite requests. Replacement of MS pipes with costlier DI pipes as a 'one-time arrangement' disregarding the opinion of BCE and FA&CCA resulted in an avoidable excess cost of ₹ 43.30 crore.

Management replied (May 2014) that Company took this decision considering the advantage of power saving, long life of DI pipes and consequent cost effectiveness at projected inflationary rate after 30 years. It was further stated that APGENCO witnessed the longevity of some power projects whose life would be extended with 'repair & modernization'.

Audit however observed that as per the Company's specification, a 62 KM of running pipeline of 965 mm dia was required and Company itself proposed usage of MS pipes which was sufficiently time tested and suitable to the site condition. As pointed out by FA&CCA their life span was also synchronous with the life span of the power plant.

Reversal of Board's approval to use MS pipes based on GoAP's request to examine private vendor's proposal, was not economical, given the life of the project. Reply is thus not tenable.

Andhra Pradesh State Road Transport Corporation

3.5 Out of court settlement of dues resulted in undue favour to an Agent by ₹ 42.40 lakh

Though court decreed to recover with interest an amount of ₹ 85.18 lakh long outstanding from a private party, APSRTC accepted an out of court settlement with the party and waived ₹ 42.40 lakh without due approval.

Andhra Pradesh State Road Transport Corporation (Corporation) awarded (March 1998) contract to a private advertising Agency to procure advertisements for printing on reverse side of the bus tickets. The contract was valid for a period of five years from 1 April 1998 and during the currency of the contract, the Agency was to pay a total license fee of ₹ 1.11 crore payable in sixty monthly instalments. Delay in payment of instalments would make the Agency liable to pay interest at 36 *per cent* per annum on the amount due. The Agency failed to remit payment of ₹ 42.91 lakh towards license fee due as on 31 October 2002 to Corporation in terms of their contractual agreement.

The Corporation issued (November 2002) a show cause notice to the Agent for payment of the outstanding dues of ₹ 42.91 lakh which was not responded to by the Agency. The Corporation finally terminated (December 2002) the contract. As repeated correspondence with the Agency for payment of dues did not yield any result for three years, Corporation issued (November 2005) a legal notice. It filed (December 2005) a suit against the Agency for recovery of ₹ 57.75 lakh (₹ 42.78 lakh Principal *plus* ₹ 14.97 lakh Interest).

In November 2008, the court passed a decretal order, directing the Managing partners of the Agency to pay to the Corporation an amount of ₹ 42.78 lakh along with penal interest as on the date of filing of suit (December 2005) which worked out to ₹ 14.97 lakh. As the firm continued to default despite the Court decree, Corporation filed an Execution Petition (EP) in October 2009, claiming to issue warrant of attachment of immovable property against the defaulters of said agency, so as to realize the decretal amount with interest.

Meanwhile the Corporation accepted the Agency's request (September 2011) for an out of court settlement on the plea that court proceedings would take much longer time and VC & MD was empowered to waive such dues. The Corporation waived the interest amounting to ₹ 14.97 lakh and accepted (July 2012) a payment of ₹ 42.78 lakh as full and final settlement of dues.

Audit observed that the accumulated dues upto the date of proposal was ₹ 85.18 lakh (Principal ₹ 42.78 lakh + penal interest ₹ 42.40 lakh up to the settlement date). Further delegation of powers did not empower the VC&MD to approve out of court settlements and waive the dues realisable from Court Decree orders. The matter was not put up to/ approved by the Board of Directors, as required.

Thus, the Management's decision on out of court settlement and waiver of penal interest has resulted in loss of ₹ 42.40 lakh to APSRTC and undue favour to the Agency.

Management's reply is awaited (February 2015).

Hyderabad
The

(LATA MALLIKARJUNA)
Accountant General
(Economic & Revenue Sector Audit)
Andhra Pradesh and Telangana

Countersigned

New Delhi
The

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India