

Chapter-II

Compliance Audit Paragraphs relating to State Power Sector Undertakings

Important Audit findings emerging from test-check of transactions of the State Power Sector Companies are included in this Chapter.

Government Companies

Energy Department (Industries, Energy and Labour)

Maharashtra State Electricity Transmission Company Limited

2.1 *Implementation of Engineering, Procurement and Construction Contracts*

Introduction

2.1.1 Maharashtra State Electricity Transmission Company Limited (Company) manages transmission of electricity and grid operations in Maharashtra.

The transmission system includes Extra High Voltage (EHV)¹ sub-stations, towers and transmission lines required to transmit electricity at EHV and make available electricity at specific voltages for distribution. EHV transmission sub-stations facilitate stepping up of low voltage power to EHV and transmitting it through transmission lines to EHV step down sub-stations. The step down transmission sub-stations decrease the voltage to sub-transmission voltage levels (33 KV and 11 KV) for distribution to distribution companies and other consumers.

The transmission infrastructure of the Company as on 31 March 2013 and 31 March 2018 was as under:

Sl. No.	Particulars	As of March 2013	As of March 2018	Actual increase	Increase (per cent)
1.	No. of Sub-stations	584	660	76	13.01
2.	Capacity (Million Volt Ampere in lakh)	1.00	1.24	0.24	24.00
3.	Transmission lines (circuit kilometre in lakh)	0.41	0.46	0.05	12.20

(Source: Information furnished by Company)

Organisational structure

2.1.2 The Management of the Company is vested with the Board of Directors comprising seven Directors appointed by the Government of Maharashtra (GoM). The day-to-day operations are carried out by the Chairman and Managing Director (CMD) who is the Chief Executive Officer of the Company.

¹ 66 Kilo Volt (KV) and above.

The Company has seven Zonal Offices and 37 Circle Offices headed by Chief Engineers and Superintending Engineers respectively. The construction and augmentation of sub-stations and transmission lines are supervised and monitored by the Projects Circles (PCs). The civil construction portion of the projects and its maintenance are managed by the Civil Construction cum Maintenance (CCCM) Circles of the respective zones. Completed sub-stations and transmission lines are handed over to the Operation and Maintenance (O&M) Circles of the respective zones for O&M.

Engineering, Procurement and Construction (EPC) Contracts

2.1.3 The Company generally undertakes the construction of sub-stations on turnkey basis. In October 2008, the Company, however, approved a scheme for construction of 66 sub-stations along with 3,037 kilometres (Kms) of Associate Lines² and 5,216 Kms of link lines³ (LL) on Engineering, Procurement and Construction (EPC) basis. Besides the above 66 sub-stations, the Company also approved 12 more sub-stations during March 2007 to June 2011. The scheme was to be financed with 20 *per cent* equity participation by the Company and 80 *per cent* borrowings from Rural Electrification Corporation (REC)/Power Finance Corporation (PFC) or other financial institutions.

Audit objectives and Scope

2.1.4 Audit reviewed sub-station sub-packages executed on EPC basis by the Company during the period 2013-14 to 2017-18. Audit process involved examination of records at Corporate Office and field units. Out of seven PCs and seven CCCM Circles of the Company, four PCs and four CCCM Circles under four zones⁴ with all its 38 sub-stations were selected for audit on the basis of highest number of sub-stations taken up on EPC basis. Besides, the records of O&M Circles were also examined to assess the performance and utilisation of the commissioned sub-stations.

Audit objectives were to assess whether:

- the execution of the sub-station works was done with due economy, efficiency and effectiveness; and
- utilisation of the sub-stations was as per the norms and plans prescribed.

The audit was conducted during April 2018 to October 2018. The audit findings were issued to the Government of Maharashtra and Company in November 2018. Reply of the Company was received (January 2019) and the same was endorsed (February 2019) by the Government. The audit findings have been finalised after considering the replies of the Company/Government.

² EHV lines from an existing sub-station to the new sub-station.

³ EHV line from an existing sub-station to another existing sub-station.

⁴ Amravati, Aurangabad, Nagpur and Nashik Zones.

Audit criteria

2.1.5 The audit criteria adopted were derived from the following:

- Procurement policy/manual of the Company,
- Request for Proposal and Contract agreements;
- Agenda notes and minutes of the meetings of the Board of Directors;
- Feasibility reports/Detailed Project Reports; and
- Project progress reports; Minutes of project review meetings and Operational performance reports.

Audit findings

Project implementation

2.1.6 The Board of Directors (BoD) of the Company approved (October 2008) construction of 66 sub-stations on EPC basis. The Company, in anticipation of constructing 78 sub-stations (including 12 additional sub-stations), invited two tenders in October 2008 and March 2009 respectively. The Company approached (October 2008) Maharashtra Electricity Regulatory Commission (MERC) for approval of 57 (out of 66) sub-stations, of which MERC approved (August 2009) 55 sub-stations. The Company subsequently requested (September 2010) MERC to delete 11 approved sub-stations and revised approval was accorded (December 2010) for 44 sub-stations. The approval for other 12 sub-stations of the Company was obtained separately from MERC during the period March 2007 to June 2011. Thus, 56 sub-stations were approved by the MERC.

The Company, however, allocated⁵ (August 2009) 78 sub-stations to the following two contractors and Implementation Agreements were entered into in August 2009:

(₹ in crore)

Sl. No.	Package	Name of the contractors				Total	
		SECI ⁶		ATDIL-JSL ⁷			
		No. of sub-stations	Amount	No. of sub-stations	Amount	No. of sub-stations	Amount
1	SS 1	21	799.76	18	845.98	39	1,645.74
2	SS 2	21	803.50	18	873.03	39	1,676.53
	Total	42	1,603.26	36	1,719.01	78	3,322.27

(Source: Information furnished by Company)

Against these 78 sub-stations, the Company issued work orders for 52 sub-stations during August 2009 to March 2012 at a total cost of ₹ 1,835.69 crore.

⁵ On L1 basis.

⁶ Shanghai Power Transmission and Transformation Engineering Company and ECI Engineering and Construction Company Limited.

⁷ Areva T&D India Limited and Jyoti Structures Limited.

Out of 52 sub-stations, 35 were commissioned, seven were completed but not commissioned for want of associate lines, four were work-in-progress and six were cancelled⁸ as at the end of December 2018.

Of the above 52 sub-stations, 38 sub-stations were under the four selected zones of which four sub-stations⁹ were cancelled, 24 sub-stations were completed and commissioned till December 2018, six sub-stations were awaiting commissioning for want of associate lines and four sub-stations were in progress (December 2018).

Firm commitment clause

2.1.7 As per Clause 3.5 of the Implementation Agreement (August 2009), the Company assured a firm commitment for 60 *per cent* of the cumulative works to be carried out under each package by the contractors. In case the cumulative amounts of actual works awarded at the end of the third year was less than the firm quantum of projects, compensation towards work loss equal to 10 *per cent* of the difference between firm/assured quantum and actual quantum, was payable to the contractors, subject to a maximum of three *per cent* of the contract cost.

Audit noticed that as against the 78 sub-stations allocated to the two contractors, the Company did not revise their Implementation Agreements with the two parties for limiting the packages to 56 (*i.e.* 44 *plus* 12) sub-stations, as approved by MERC. The Company issued work orders for ₹ 1,085.92 crore to ATDIL-JSL which was more than 60 *per cent* of the commitments (₹ 1,719.01 crore) made. However, in respect of SECI, the Company issued work orders for ₹ 749.77 crore till March 2012 against the total cost of the projects (₹ 1,603.26 crore) which was 46.77 *per cent* of the commitments given to them.

In reply, the Company stated (January 2019) that the commitment was in respect of the number of cumulative works and not on the value of the works. The reply was not convincing in view of Clause 3.5 of the Implementation Agreement which clearly mentioned that the work loss compensation would be worked out based on firm/assured quantum of works to be awarded *minus* the actual quantum of works awarded by the end of third year in Rupees crore based on the contractor's bid.

Though the SECI did not claim (March 2018) any work loss compensation, the possibility of work loss compensation under firm commitment clause in other similar infrastructure works cannot be ruled out.

Mobilisation advance

2.1.8 As per Clause 8.1 of Implementation Agreement, the contractors were eligible for 10 *per cent* of the cost of supply of materials and equipment as

⁸ Narsi under Aurangabad zone, Buttibori II, Mankapur and Sahuli under Nagpur zone, Kondhwa under Pune zone and Bhivandi under Vashi zone.

⁹ Buttibori II, Mankapur, Narsi and Sahuli.

mobilisation advance within 45 days of the date of the work orders issued against bank guarantee of the equivalent amount. The said agreement however did not incorporate any clause for its time based recovery.

Non-recovery of mobilisation advance within scheduled completion period

2.1.8.1 We observed that out of the mobilisation advance of ₹ 112.91 crore released to the two contractors under the four selected zones,¹⁰ the Company adjusted only ₹ 12.26 crore within the scheduled date of completion (August 2010 to March 2013) of sub-stations; ₹ 90.22 crore was adjusted after the scheduled date of completion (from April 2013 to December 2018) and ₹ 10.43 crore had remained unrecovered from the contractors (January 2019).

The Central Vigilance Commission guidelines on ‘Mobilisation Advance’ stated (April 2007) that the provision of mobilisation advance should essentially be need based and discouraged interest free mobilisation advance. In cases where interest free mobilisation advance was granted, its recovery should be time based and not linked with the progress of work in order to ensure that even if the contractor was not executing the work or executing at a slow pace, the recovery of advance could commence.

The Company, however, not only granted interest free mobilisation advance but also did not incorporate any clause for its time based recovery in the Implementation Agreement resulting in unadjusted mobilisation advance lying with the contractors although the completion of projects was delayed beyond the scheduled date of completion. Thus, the Company has suffered the loss of interest of ₹ 33.49 crore¹¹ itself for the period from the scheduled date of completion up to March 2018 under the selected zones as the advances were released out of borrowed funds.

The Company accepted the facts and issued instructions (January 2019) to the field offices to recover interest on the mobilisation advances for the period beyond the scheduled date of completion of the projects. The Company also stated that they had stopped the practice of granting mobilisation advance in the contracts being issued.

Release of mobilisation advance before MERC approval to projects

2.1.8.2 The Company issued work orders for construction of five sub-stations¹² prior to the approval of MERC and also released mobilisation advances of ₹ 15.72 crore during September/October 2009. However, these sub-stations were approved only in October/November 2010. Though, the Company decided (June 2010) to recover the advances, the same was recovered only in October 2010. Thus, release of advances prior to approval of MERC resulted in loss of interest of ₹ 1.73 crore on the funds released.

¹⁰ Amravati, Aurangabad, Nagpur and Nashik zones.

¹¹ ₹ 20.10 crore on advances recovered after scheduled date and ₹ 13.39 crore on pending advances worked out on the basis of five years’ weighted average rate of interest on borrowings.

¹² 220 KV at Butibori-III, Mankapur, 132 KV at Murtizapur, New Pardi and Uppalwadi.

The Company accepted the facts and issued instructions (January 2019) to recover the loss of interest.

Delay in adjustment of mobilisation advance for reduction in scope

2.1.8.3 The Company revised and reduced the scope of six sub-stations¹³ under four selected zones in January and May 2010 with consequent reduction in contract value by ₹ 66.13 crore. Though, the Company decided (May 2010) to recover/adjust the excess mobilisation advance of ₹ 5.61 crore released initially (September/October 2009), the recovery was effected only in March 2012 resulting in loss of interest of ₹ 1.49 crore.

The Company issued instructions (January 2019) to recover the loss of interest.

Release of mobilisation advance without tying up site

2.1.8.4 Clause 5.6.1 of the Implementation Agreement stipulated that the possession of the site was to be handed over within 45 days from the date of issuance of the work order for the sub-station. Therefore, it was essential for the Company to ensure readiness of the site prior to issuance of the work orders and subsequently release mobilisation advance. Audit noticed that although an advance of ₹ 35.13 crore was released in respect of 14 sub-stations under the four selected zones, the actual date of handing over of site was delayed by two to 14 months. Thus, release of advance prior to handing over of site resulted in loss of interest of ₹ 1.41 crore on the advances released.

The Company accepted the facts and issued instructions (January 2019) to recover the loss of interest.

Price variation

2.1.9 As per Clause 8.2 of terms of the Implementation Agreement, contractors were eligible for price variation as per formula of IEEMA¹⁴.

Excess payment of PV

2.1.9.1 The price variation (PV) on input cost of raw materials/components are governed by the circulars issued by IEEMA from time to time and all taxes/duties were to be excluded. It was observed that the contractors claimed PV on their quoted rates which were inclusive of taxes/duties and the Company paid PV on these rates resulting in excess payment of PV of ₹ 6.35 crore on 56 power transformers under the four selected zones.

The Company accepted the facts. Further, in cases where PV was paid on value including taxes, recovery of ₹ 5.19 crore on transformers and other materials was effected in Nashik zone. The recovery effected in other selected zones was awaited (December 2018).

¹³ Anjangaon, Krishnoor, Nandgaonpeth, Phulambri, Sayne and Seloo.

¹⁴ Indian Electrical and Electronics Manufacturers Association.

Release of PV without deducting 30 per cent against erection certificate and Project Commissioning Certificate)

2.1.9.2 As per Clause 8.1 of Implementation Agreement, 10 *per cent* of the cost of supply of equipment and materials was payable as mobilisation advance; 60 *per cent* against Material Receipt Certificates (MRC); 20 *per cent* against Erection Certificates (EC) and balance 10 *per cent* against Project Commissioning Certificates (PCC). Audit, however, noticed that the Company issued (September 2014) directions to release the entire amount towards PV payments stating that it was over and above the work order amount. Consequently, the Company released an amount of ₹ 146.16 crore as PV without deducting at least 30 *per cent* against EC and PCC resulting in loss of interest of ₹ 4.37 crore.

The Company stated that PV could either be positive or negative and PV amounts were over and above the work order value. As such, guidelines were issued to release PV in full without keeping any retention.

The reply was not convincing as the Implementation Agreement had clearly defined project cost as the total cost for carrying out all the works as modified from time to time. Thus, the project cost included PV and as such retention was required to be made on this portion also.

Time limit extension and Liquidated damages

2.1.10 The Company approves delay in completion of the projects beyond the scheduled date by granting Time Limit Extension (TLE). The TLE is with/without Liquidated Damages (LD) and with/without PV depending upon the reasons and the party responsible for the delay in completion of the works. As per the Clause 7.11 of the terms of the Implementation Agreement, LD for the delayed completion of the projects beyond the stipulated period or extended period was to be levied at 0.5 *per cent* of the project cost per week or part thereof subject to a maximum of five *per cent* of the project cost.

Out of 24 sub-stations completed and commissioned under the four selected zones, the TLEs in respect of 13 sub-stations were finalised and LD to the extent of ₹ 12.57 crore was recovered from the contractors up to December 2018. In respect of the balance 11 sub-stations commissioned during February 2012 to December 2018, TLEs had not been finalised till December 2018. Delay in finalisation of the TLE resulted in delay in recovery of the LD.

2.1.10.1 Audit noticed that the Company deferred imposition of LD and allowed the contractors to continue the works beyond the scheduled date of completion of the projects. As all the projects were completed/under completion even after scheduled date of completion, the maximum LD of ₹ 72.79 crore at the rate of five *per cent* on work orders of ₹ 1,456 crore under four selected zones was to be recovered. As against this, the Company had recovered/retained LD to the extent of ₹ 40.10 crore. The Company stated that a committee had been constituted to review the cases where LD was yet (December 2018) to be levied/partly levied.

Non-levy of LD for sub-station portion

2.1.10.2 As per the Implementation Agreement, the project cost shall mean the total cost for carrying out all works as defined in the scope of the contract and all members of the consortium under sub-station packages were jointly and severally liable for the execution of the project. Thus, in case a sub-station project was delayed due to non-completion of either sub-station or associate lines or both and the contractors were responsible for the delays, LD was to be imposed on the total cost of the project. Audit, however, noticed that TLE in respect of associate lines falling under two sub-station projects (Bhokar and Degaonrangari sub-stations) was granted with imposition of LDs, whereas the TLE for the sub-station under the same projects were granted without imposition of LDs. As a result, LD of ₹ 5.76 crore was not levied on sub-station projects as sub-station and associate lines of the same projects were reckoned separately for TLE.

The Company stated that a committee has been constituted for reviewing these cases and necessary action would be taken after the review.

Additional expenditure left out of LD calculation

2.1.10.3 Project cost is defined as the total cost for carrying out all works as defined in the scope of the work for the project to be performed under the agreement and is calculated based on the contractor's bid. Audit noticed that in selected zones, the Company made additional payment of ₹ 318.94 crore to the contractors towards extra quantities and other charges incurred. The Company, however, did not reckon additional expenditure of ₹ 318.94 crore towards PV, extra quantities and other charges incurred while arriving at LDs. The short recovery/retention of LD on this account worked out to ₹ 15.95 crore which resulted in unwarranted benefit to the contractors on account of early payments from borrowed funds.

The Company stated that LD was levied on the project cost for which work order was issued and PV and extra items were not included, as the Implementation Agreement was not modified to that effect. The reply was not convincing as the Clause 1.1 of the Implementation Agreement had clearly defined project cost as the total cost for carrying out all the works as modified from time to time and as such LD was to be recovered on this portion also.

Non-maintenance of Hindrance Register

2.1.10.4 As per Clause 7.11.5 of the Implementation Agreement, a Hindrance Register was to be maintained by both the contractors and the Company for each ongoing project to record the various hindrances encountered during the course of execution of the projects.

Audit observed that Hindrance Register was not maintained in any of the selected zones and TLE of the projects was done without the Hindrance Register.

The Company stated that during regular review meetings all hindrances were discussed and recorded in the minutes of the monthly meetings held at Corporate office as well as letters/e-mails/correspondence done from time to time and was considered at the time of finalisation of TLE.

The reply was not convincing as all the hindrances of a project would have been available in one Hindrance Register, which was convenient to monitor, compare and consolidate hindrances recorded at various stages for finalisation of TLE and enabling the Company to extend the time limit for completing the projects.

Payments and recoveries from contractors

Excess payment of Works Contract Tax

2.1.11 Construction of sub-stations under EPC is a works contract (composite contract) consisting of material components and service portion. For valuation of the services for Service Tax (ST) determination, there are two options available to the service providers under the provisions of the ST (Determination of Value) Rules, 2006:

- Calculate the value of services as per Rules 2A of the Rules *ibid* and pay ST on the service portion of the contract at 10.30 *per cent* till March 2012 (rate is inclusive of education cess); or
- Pay ST as per Rule 3(1) of Works Contract (Composition Scheme for Payment of Service Tax) Rules, 2007 at a composite rate of two *per cent* up to 28 February 2008, four *per cent* during 1 March 2008 to 31 March 2012 and 4.8 *per cent* from 1 April 2012 to 30 June 2016 on the total contract value.

The rates quoted by SECI were inclusive of STs at 10.30 *per cent* on the entire portion of civil work of sub-station including materials. The Company paid ST at 10.30 *per cent* on the entire civil works without excluding the material cost. Thus, in the absence of the Company to restrict ST either on the service portion at 10.30 *per cent* or at the composite rate of four *per cent* on the total cost of civil works resulted in excess payment of Works Contract Tax of ₹ 3.51 crore¹⁵ to SECI.

The Company stated that they had issued directions (January 2019) to recover the excess amount paid to SECI.

Non-recovery of Labour Welfare Cess

2.1.12 Government of Maharashtra framed (April 2008) Maharashtra Building and Other Construction Workers' Rules, 2007 under the Building and Other Construction Workers' Welfare Cess Act, 1996. Accordingly, Labour Welfare Cess (LWC) at the rate of one *per cent* on the building and other construction works was to be recovered from the contractors and remitted to the Government with effect from 1 January 2008. There was inordinate delay in implementing

¹⁵ ₹ 5.74 crore at 10.30 *per cent* - ₹ 2.23 crore at four *per cent* = ₹ 3.51 crore.

these Rules by the Company on the plea that the provisions of the Rules *ibid* were not applicable as they were under Factories Act, 1948. The same was, however, belatedly implemented by the Company from June 2016¹⁶ with retrospective effect for contracts entered into after 1 July 2010. The Company subsequently (January 2019) made it applicable for effecting the LWC from 1 January 2008.

The Company, however, did not recover any cess from the EPC contractors stating that the agreements were entered prior to 1 July 2010. The unrecovered LWC under the four selected zones alone was ₹ 11.03 crore from the EPC contractors.

The Company accepted the audit findings and issued (January 2019) directions to its field office to effect the recovery of LWC from 1 January 2008. The Company also directed to identify all ongoing/closed contracts where final/balance payments were pending and recover the LWC from the contractors and deposit the same on priority.

Release of money without completion of all works

2.1.13 Clause 8.1 of the Implementation Agreement stipulated that project completion certificate was to be issued after successful commissioning of the project *i.e.* on completion of all works. A sub-station project consisted of both sub-station and associate line. Audit, however, noticed that although the Company had deducted (May 2010 to June 2017) ₹ 11.98 crore against project completion certificate from ATDIL-JSL, it later refunded ₹ 3.48 crore, in respect of four sub-station¹⁷ projects under Nashik zone, without completion of the associate lines of the project resulting in unwarranted benefits to ATDIL-JSL.

The Company replied that retention money in respect of sub-stations was released as the sub-stations were commissioned using other lines. The reply was not convincing as the provisions of the Implementation Agreement clearly stated that the sub-station project consisted of sub-station and associate lines and the retention money for the project as a whole was to be retained till the completion of the projects. Further, the Company was using borrowed funds and, therefore, to the extent the retention money was held by the Company, the loan liability would not have been crystalised.

Non-exercising of option to procure items at lower rates

2.1.14 As per Clause 8.1 of the Implementation Agreement, if quantities of a particular item exceeded by more than 20 *per cent* of the estimated quantity during the execution of the work and contractor quoted unreasonably higher rate as compared to the rate quoted by the second lowest bidder under the same package, the Company was to either consider the quoted rate of the second lowest bidder or to procure that item from other sources. Audit, however,

¹⁶ Circular of the Company No.71199 dated 30 June 2016.

¹⁷ Bhose, Gargoan, Pimpalgaon and Wadjire.

noticed that though the percentage of variations in quantities ranged from 20 to 450, the Company did not exercise the option to either restrict the rates or to procure from other sources.

The Company while accepting the audit observation stated that instructions had been issued to work out the financial impact for all such cases and recover the same.

Termination of agreement with SECI

2.1.15 The Company entered into an agreement and issued (August 2009-May 2010) work orders to Shanghai Power Transmission and Transformation Engineering Company and ECI Engineering and Construction Company Limited (SECI) for 26 sub-stations. The Company subsequently withdrew/cancelled three sub-stations¹⁸.

2.1.15.1 The progress of all the works was not satisfactory and, therefore, the Company terminated (May 2012) the contract with SECI for all the 23 sub-stations. SECI filed an arbitration petition against the termination in September 2012.

The arbitration award (October 2012) classified these 23 sub-stations into the following four groups:

Group	No. of sub-stations	Name of sub-stations	Arbitration award
A1	2	Bharsingi and Kagal	SECI was to complete the work by March 2013, failing which the Company will execute the balance work at the risk and cost of SECI.
A	9	Ballarshah, Bhosari, Butibori II, Butibori III, Deolgaon, Karaigi, Nandangaonpeth, Pangri and Selu.	
B	4	Lonand MIDC, Phulambri, Sayne and Waghdari	The Company should takeover immediately and execute the work at the risk and cost of SECI.
C	8	Anjangaon, Jamod, Krishnoor, Malegaon, Moregaon, Narsi, Sengaon and Wadjire.	These works were to be executed by SECI on completion of A and A1 works by March 2013, else the Company would execute the work at the risk and cost of SECI.
Total	23		

As SECI failed to complete the 11 sub-stations under Group A1 and A by March 2013, the Company withdrew eight sub-stations under Group C and entrusted the balance work of 12 sub-stations (including four from Group B) to other agencies at the risk and cost of SECI. Out of these, nine sub-stations were commissioned, one sub-station was cancelled and the work of two sub-stations were in progress¹⁹ (December 2018). The 11 works under A and A1 were subsequently completed by SECI.

¹⁸ Kondhawa, Nanded city and Sahuli sub-stations.

¹⁹ Narsi was cancelled and Moregaon and Wadjire were in progress.

Audit observed that the Company had not finalised the risk and cost amount of SECI till March 2019. Two committees (including SECI's representative as member) were constituted in February 2018 for reviewing the risk and cost amount recoverable from SECI and their findings/recommendations were awaited (March 2019).

The Company stated that the refloated works were in progress and the risk and cost amount would be finalised after completion and settlement of final bills and the recoveries would be made accordingly.

Non-accounting of inventory

2.1.15.2 As per the Arbitration award, a joint measurement of material was to be taken at site for terminated sub-stations and the Company was to utilise the inventory for executing the balance works. Accordingly, the Company issued (April 2013) directions to its field offices to take over the sites.

Audit noticed that while placing the work orders for balance works of 11 sub-stations at the risk and cost of SECI, the available inventory at site was not considered. Further, audit noticed that five transformers²⁰ costing ₹ 17.83 crore were at the site of Krishnoor and Narsi sub-stations. Out of these, four transformers were diverted to other sub-stations during July 2017. Later, it was noticed that these transformers were damaged and copper windings inside the transformers were found missing and police complaints in this regard were filed belatedly (January 2018).

The Company stated that they have decided to reject the damaged transformers and the payment already made was being recovered from SECI.

Non-encashment of Bank Guarantee

2.1.15.3 As per the Arbitration award, a fresh security deposit bank guarantee (BG) of ₹ 29.20 crore was collected from SECI. The Company, however, did not encash the BG although SECI did not successfully complete the 11 works (Group A and A1) awarded to them by March 2013. Though, the performance of SECI was not satisfactory, the Company released payment of ₹ 241.28 crore after the schedule date of completion without deducting LD of ₹ 19.29 crore.

The Company stated that they had valid bank guarantees of ₹ 45.20 crore and the same would be encashed and adjusted from the amount recoverable from SECI. The reply was not convincing as the release of payment without deducting LD was not justified since the final LD was still to be reviewed by the Company.

Utilisation of sub-stations

2.1.16 Of the 38 sub-stations under the four selected zones for which work orders were placed, four sub-stations²¹ were cancelled subsequently. Out of the remaining 34 sub-stations, 24 sub-stations were completed and commissioned

²⁰ (3 x 100 MVA and 2 x 50 MVA).

²¹ Buttibori II, Mankapur, Narsi and Sahuli.

till December 2018, six sub-stations were awaiting commissioning pending completion of associate lines and work of remaining four sub-stations was in progress (December 2018).

Under-utilisation of sub-stations

2.1.16.1 Audit noticed that out of 24 sub-stations commissioned, 16 sub-stations having total installed capacity of 1,875 MVA, constructed at a cost of ₹ 537.81 crore, were being utilised with load ranging from 10 to 40 *per cent* since their commissioning.

The Company stated that the sub-stations were constructed considering the future demands of industrialisation and urbanisation and the capacity would be utilised in future.

Non-completion of sub-station pending completion of associate lines

2.1.16.2 Out of six sub-stations²² awaiting commissioning pending completion of associated lines, three sub-stations (Bhose, Ghatodi and Pulgaon) were commissioned by the Company on an *ad hoc* basis during December 2012 to April 2014. The associated lines of these three sub-stations were not completed as of December 2018 although an expenditure of ₹ 94.76 crore had been incurred (December 2018) on associated lines works. The Company issued reminders to ATDIL-JSL to complete these works, however, the works were not resumed resulting in blocking up of funds (₹ 94.76 crore).

Further, remaining three sub-stations (Ghargaon, Pimpalgaon and Warud) were also awaiting commissioning, pending completion of its associated lines. These three sub-stations were constructed in February/March 2014 at a cost of ₹ 202.14 crore and were lying idle (December 2018) resulting in blocking of funds of the Company.

The Company stated that the risk and cost amount along with liquidated damages would be recovered from the contractors.

Unfruitful expenditure on cancelled works

2.1.16.3 The Company cancelled/foreclosed four projects under the four selected zones due to right of way problems. Out of these, the Company incurred ₹ 5.98 crore on civil works at Buttibori II and Narsi sub-stations which were rendered unfruitful. In respect of Mankapur and Sahuli sub-stations, the Company did not incur any expenditure on civil works.

Audit further noticed that in respect of Mankapur sub-station, the contractor did not resume the work even after a lapse of seven years. As per the agreement, the dependency of each activity was to be completed before the said activity could commence and payments for the said activity were not to be made until the dependency condition was satisfied. Based on the request of ATDIL-JSL, the Company waived the dependency clause and released (March 2013) payment

²² Bhose, Ghargaon, Ghatodi, Pimpalgaon, Pulgaon and Warud.

of ₹ 9.47 crore towards supply of materials resulting in unwarranted benefits to contractor. Further, the Company decided (April 2017) to cancel the work after incurring ₹ 21.53 crore towards supply of material. Audit observed that the material was lying idle at the site (September 2018).

The Company stated that the Narsi sub-station would be converted into 132 KV switching sub-station and the infrastructure would be utilised.

Maintenance of sub-stations under guarantee period

2.1.16.4 As per the agreement, the cost of the repair/replacement of equipment and material within the guarantee period²³ was to be recovered from the contractors and monitored separately against each work order. Audit, however, noticed that in three zones,²⁴ Annual Maintenance Contract (AMC) work orders were issued for sub-stations under the guarantee period.

The Company stated that instructions have been issued (December 2018) to hand over the performance bank guarantee to Operation and Maintenance (O&M) Wings and adhere to the performance guarantee clause.

Conclusion and recommendations

The Company executed Engineering, Procurement and Construction contracts to construct 52 sub-stations at a total cost of ₹ 1,835.69 crore. The Company in its agreements with the two parties, included a firm commitment clause for awarding 60 *per cent* of the cumulative works. Later, the Company did not revise the agreements for limiting the packages to the number of sub-stations approved by Maharashtra Electricity Regulatory Commission, inviting the risk of work loss compensation charges as per the agreement with the contractors.

The Company granted interest free mobilisation advance. However, the completion of the projects was delayed. In the absence of any clause for time based recovery of the advance, they could not adjust the advance in time, leading to loss of interest for the delay beyond the scheduled date of completion. The Company also did not strictly implement the price variation and liquidated damages clauses as per the terms of agreement, resulting in unwarranted benefit to the contractors.

Of the 38 sub-stations under four selected zones for which work orders were placed, 24 sub-stations were commissioned, six were awaiting commissioning, four were cancelled and work of remaining four sub-stations was in progress (December 2018). Out of 24 sub-stations which were commissioned, 16 sub-stations were being utilised with load ranging from 10 to 40 *per cent* since their commissioning.

²³ Two years from the date of commission of the project.

²⁴ Aurangabad, Nagpur and Nashik.

We recommend that the Company:

- ***may review firm commitment clause which may lead to substantial outflow of funds in other major infrastructure works which take long time to complete.***
- ***should strictly implement the clauses as per the terms of agreement and expedite recovery of excess price variation paid.***
- ***needs to reckon the additional expenditure towards price variation, extra quantities and other charges in the project costs and ensure that the liquidated damages are recovered as per the revised project costs.***
- ***should expedite finalisation of time limit extension as well as risk and cost amounts in respect of works completed.***

Maharashtra State Electricity Distribution Company Limited

2.2 Excess payment due to incorrect application of energy tariff

The Company made excess payment of ₹ 1.94 crore for purchase of power from a bagasse based co-generation project due to incorrect application of energy tariff.

Maharashtra State Electricity Distribution Company Limited (Company) executed (September 2014) Energy Purchase Agreement (EPA) with Green Power Sugars Limited (party), Satara for the procurement of surplus electricity from its bagasse based co-generation power plant. The EPA was effective for a period of 13 years and purchase of electricity was governed by Maharashtra Electricity Regulatory Commission (MERC) Regulations/tariff orders from time to time.

The tariff payable was Net Levellised Tariff (NLT), after adjusting for Accelerated Depreciation (AD) benefit, if availed, from the Levellised Tariff²⁵ (LT). In case AD was not availed by the party, the party was to submit an undertaking at the time of execution of EPA that he was not going to avail the AD. After the end of the Financial Year (FY), the party was to submit a certificate from the Chartered Accountant (CA)/copy of Income Tax returns, confirming that the benefit of AD was not availed and thereafter LT was to be made applicable. The Company issued (August 2016 and July 2017) commercial circulars in this regard in which LT rates and NLT rates after adjusting AD were mentioned based on MERC orders. As per the commercial circulars issued by the Company, the tariff determined for a particular year was to be continued for the entire duration of EPA.

We observed that the co-generation power plant of the party had commissioned in April 2015. The Company procured energy by applying the NLT during FY 2015-16 as the party had availed AD benefit as per the CA's certificate. During FY 2016-17 to FY 2018-19 (up to April 2018), the Company procured energy

²⁵ Levellised Tariff is calculated by carrying out levelisation over useful life considering the discount factor equivalent to the weighted average cost of capital, to represent the time value of money.

(69.42 Million Units (MUs)) from the party at LT instead of NLT, without adjusting the benefit of AD which the party had already claimed and its block of assets had fully been depreciated. This resulted in an excess payment of ₹ 1.94 crore²⁶ to the party due to incorrect application of tariff. The Company stated (April 2018) that the LT was made applicable as the party had not claimed AD during FY 2016-17 to FY 2018-19.

The reply was not acceptable as NLT once made applicable during FY 2015-16 was to be charged for the entire life of the project/EPA as the AD benefit and levelisation was calculated over useful life after considering the discount factor to represent the time value of money. Thus, the application of LT instead of NLT resulted in excess payment of ₹ 1.94 crore by the Company.

The matter was reported to the Government (August 2018); their reply was awaited (March 2019).

²⁶ 69.42 MUs x ₹ 0.28 per unit (AD benefit as per MERC order) = ₹ 1.94 crore.