CHAPTER XI: DEPARTMENT OF HEAVY INDUSTRIES

Bharat Heavy Electricals Limited

11.1.1 Delay in taking decision to replace captive power station

The Company took 36 months in deciding to replace the existing captive power station with a DG set. As a result, it incurred extra expenditure of Rs.14.77 crore on account of higher cost of in-house generation of power for the years 2003-04 and 2004-05.

Power supply to Hardwar unit (Unit) of Bharat Heavy Electricals Limited (Company) was mainly from the grid of Uttaranchal State. The Unit also had a captive Thermal Power Station (TPS) of 12 MW rated capacity with the primary objective of supplying process steam to the various production shops and the producer gas plant. The rest of the steam was used for power generation.

As the TPS, installed in 1969, required a major reconditioning and the cost of power generation by TPS was much higher than the tariff rate of power from Uttaranchal Power Corporation Limited (UPCL), the Unit initiated a proposal (March 2002) to replace TPS with a six MW Diesel Generator (DG) set at an estimated cost of Rs.18 crore to fulfil emergency power requirements in case of grid failure. After getting some clarifications from the Unit, the Corporate Office of the Company advised (September 2002) the Unit to reformulate the proposal considering other options.

It was observed in Audit (January 2006) that the Unit took 22 months in finalising the proposal and submitted the final proposal for installation of a six MW DG set in July 2004. This was despite the fact that after formation of Uttaranchal State, the tariff started decreasing sharply (from Rs.5.33 per KWH in 2001-02 to Rs.2.86 per KWH in 2004-05) and the extra cost of continuing with the TPS was increasing. The Company approved the proposal in April 2005 and placed the order for procurement of DG set at a price of Rs.18.85 crore on its Bhopal unit in September 2005.

Thus, the Company took a period of 36 months in deciding the replacement of the existing TPS with DG set and incurred avoidable expenditure of Rs.14.77 crore[♦] during the years 2003-04 and 2004-05 on account of higher cost of in-house generation of power.

The Management stated (September 2006) that the decision to replace the existing TPS with DG set was a managerial decision and various alternatives/options were considered from time to time to evolve the most economical and reliable source of power. The option

[♦] ***Difference between the cost of generation from TPS and the tariff payable to UPCL for the energy generated by TPS during the years 2003-04 and 2004-05, without considering the cost of generation from DG set.***

of modernisation *vis-à-vis* closure of TPS was also deliberated. All this process took some time. The Ministry replied (January 2007) that it was a techno-economic decision which required time for evaluating and considering various options. They added that the high cost of power generation from the existing TPS had never been a major criterion for the investment and that the expenditure on captive power source was essential to ensure reliable and uninterrupted source of power.

The reply was not acceptable on account of the following:

(i) The Company took as long as 36 months in finalising the proposal, though the capacity to manufacture the DG set existed within the Company itself.

(ii) The cost of power generation by TPS was higher than the tariff charged by UPCL, as acknowledged by the Ministry itself. Further, the capital investment proposal (March 2002) for the DG set clearly stated that the renovation of the existing TPS was not economical at all since generation from TPS had to be kept more or less uniform throughout a day and surplus electricity would have to be transferred to the grid at a cheaper rate at which UPCL was buying power from the national grid.

(iii) The uninterrupted supply of power could have been ensured even by installing a DG set, which can be put 'on' or 'off' as per requirement.

11.1.2 Excess payment due to incorrect regulation of leave encashment

The Company made excess payment of Rs.13.94 crore due to adoption of 26 days as a month instead of 30 days for computation of encashment of leave.

As per instructions issued in April 1987 by the DPE, any individual public enterprise, with the approval of BOD, may frame leave rules for its employees keeping in view the broad parameters of the policy guidelines laid down in this regard by the Government.

Bharat Heavy Electricals Limited (Company) had a scheme of allowing encashment of earned leave to their employees. In January 2004, the Company decided to adopt 26 days as a month for computation of encashment of leave, though no Government guidelines existed for such action. As a result, the Company made excess payment of Rs.13.94 crore to its employees towards encashment of leave during the period from 24 January 2004 to 31 August 2006.

The Management stated (August 2006) that the decision to adopt 26 days was based on a legal opinion obtained from Additional Solicitor General and that DPE's letter dated 2 May 2006 was addressed to the Department of Defence Production. They added that according to DPE's clarification, a month was to be taken to comprise 30 days unless specifically indicated otherwise for the purpose of encashment of leave, which meant that a month may be taken to consist of as many days as may be specifically indicated.

The reply was not acceptable as DPE clarification of September 2005/May 2006 clearly stated that a month was to be taken to consist of 30 days for the purpose of encashment of leave and no Government guidelines existed for adoption of 26 days instead of 30 days as

a month for encashment of leave. DPE, being the nodal Department for the Central Public Sector Enterprises (CPSEs), issues guidelines/instructions on various matters, which are applicable to all CPSEs; the legal opinion was taken by the Company before DPEs clarification *ibid*.

Thus, the decision to adopt 26 days a month for computation of leave encashment was irregular and resulted in an extra expenditure of Rs.13.94 crore till August 2006.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).