CHAPTER XV: MINISTRY OF POWER

North Eastern Electric Power Corporation Limited

15.1.1 Loss of Rs.83.73 lakh due to delayed disposal of unutilised cement

Due to failure in processing and accepting the offer of the highest bidder within the validity period of the offer, the Company incurred a loss of Rs.83.73 lakh.

North Eastern Electric Power Corporation Limited (Company) undertook the construction of the Tuirial Hydro Electric Project (60 MW), Mizoram, which was scheduled to be commissioned in 2006-07.

The Company, against its requirement of 18,885 MT for the period from April to June 2004 procured between March and May 2004, 5854.75 MT (1,17,095 bags) of cement. The cement was purchased at rates ranging from Rs.2,824 *per* MT to Rs.3,588 *per* MT[*]. Of the 5,854.75 MT cement procured, 494.50 MT was transferred from Ranganadi Hydro Electric Project.

The Company could not transport 3,948.60 MT (78,972 bags) of cement to the project site due to constraints like heavy rainfall, Lok Sabha Elections and bandhs. Therefore, 28,621 bags of cement were stored at Silchar and 50,351 bags of cement were stored in Guwahati in some private godowns.

Immediate resumption of work in the project, stopped due to the agitation of Tuirial Crop Compensation Claimant Association, was uncertain. Meanwhile, the quality of cement stored in different warehouses had started to deteriorate as it has a shelf life of six month only. The Management, therefore, invited (July 2004) quotations for disposal of the unutilised cement. The proposal for disposal of the entire quantity of unutilised cement was placed (August 2004) before the Board of Directors (Board) for approval. The Board decided (August 2004) for re-tendering as the bid value (Rs.132 *per* bag for Guwahati stock and Rs.133 *per* bag for Silchar stock) was considered to be low.

Tenders were re-invited and quotations were received on 20 September 2004. The highest bids received for Guwahati and for Silchar stocks were Rs.160 *per* bag and Rs.170 *per* bag respectively. The offers were placed before the Board through circulation on 11 October 2004. Even though the validity of the offer was for one month *i.e.*, upto 19 October 2004 and the major construction agencies/ authorities in the region had shown their unwillingness to accept this cement as far back as in July 2004, the Board insisted (12 October 2004) on more efforts with the Government of Assam for disposal of the cement and called for (13 October 2004) full reports on such efforts. The Board finally approved the proposal for disposal of cement to the highest bidder on 25 October 2004. Accordingly, a formal letter was issued (26 October 2004) to the highest bidder for lifting the cement after depositing the advance payment. The highest bidder refused to lift the cement as the validity of the offer had since expired on 19 October 2004.

[*] ***Rs.141.20 to Rs.179.40 per bag***

The Company thereafter tried to sell the stock to the local retailers but failed. A committee was then constituted (February 2005) to examine the issues involving deterioration of cement. The Committee submitted its report in March 2005 based on which the Company invited (April 2005) quotations for disposal of obsolete stock of cement. The highest rate quoted for Guwahati stock was Rs.55 *per* bag. The bidder however, withdrew his offer in June 2005. Ultimately, the Company could sell only 40,350[*] bags of cement lying at Guwahati stock to another party in June 2005 at the rate of Rs.55 *per* bag after diverting 10,000 bags to Kameng Hydro Electric Project. Cement stock at Silchar was sold at the rate of Rs.20.50 *per* bag after diverting 954 bags to Tuirial Hydro Electric Project.

Thus, the Company's failure to process and accept the offer of the highest bidder within the validity period (19 October 2004) of the offer, led to a loss of Rs.83.73 lakh.

While detailing the background of the sale of the unutilised cement, the Ministry stated (October 2007) that the loss occurred due to sudden suspension of the Project work due to *force majeure* conditions and that approval accorded by the Board was acted upon promptly.

The Ministry's contention was to be viewed in the light of the fact that though accumulation of stock of cement was due to *force majeure* conditions, there was no such constraint in processing the re-invited tenders within their validity. Considering the exigencies of the situation, offers against the re-invited tenders needed to be approved in time. The Company's failure to do this resulted in an avoidable loss of Rs.83.73 lakh.

Power Grid Corporation of India Limited

15.2.1 Avoidable extra expenditure of Rs.1.12 crore

The Company's decision in advancing the supply of towers without synchronising it with the progress of erection, resulted in an avoidable extra expenditure of Rs.91.21 lakh on account of payment of higher price variation and also loss of the interest of Rs.20.38 lakh on the amounts released to the contractor in advance in respect of the preponed quantity.

Power Grid Corporation of India Limited (Company) awarded (January 2000) contracts for supply and erection of towers for High Voltage Direct Current Transmission system associated with East-South Interconnector–II (Talcher II) Project to Kalpataru Power Transmission Limited (contractor) at a total cost of US$ 10.38 million and Rs.20.21 crore. In April 2000, the Company finalised the details regarding delivery and erection of towers and these were issued to the contractor. In terms of price variation (PV) clause of the contract, the PV amount as on the scheduled date of dispatch or actual date of dispatch, whichever was less, was payable to the contractor. In case of early delivery of material on request or approval of the Company, the PV as on actual date of dispatch was payable.

[*] *One bag had been diverted for testing purpose*

According to the agreed schedule, the contractor was to supply 460 out of a total 752 towers by March 2001. However, based on the Company's request in the meeting held in September 2000, the contractor advanced the delivery and supplied 704 towers by March 2001. Audit observed that the advancement of supply of towers was not required in view of the slow pace of tower erection.

The contractor claimed PV as per the actual date of supplies, which was higher by Rs.91.21 lakh[1] as compared to what would have been applicable on the scheduled date. Initially the Company did not accept (March 2002) the claim stating that the contractor had already benefited by getting early payments for the advanced supplies and no benefit accrued to the project as the tower erection target could not be achieved till March 2002. Thereafter, based on the recommendation (October 2003) of a committee constituted by the Company, the PV bill was passed in October 2004.

The Management and the Ministry stated (September 2005 and July 2007) that the Company had requested advancement of the supplies of towers to meet MOU targets and accordingly the price variation claims were accepted and that it was not possible to predict the future trend of commodity prices.

The reply was not acceptable as the preponement of supply was not warranted because even upto March 2001, the contractor could erect only 405 towers for which original schedule of supply of 460 towers was sufficient. In fact, the advancement of supply by the contractor benefited him. No benefit accrued to the project as the tower erection could not be completed as per the given time schedule and targets. Further, the prices of steel in the international market were showing downward trend in September 2000.

Thus, the Company's decision in advancing the supply of towers without synchronising and monitoring it with erection of the towers resulted in an avoidable extra expenditure of Rs.91.21 lakh on account of payment of higher price variation and loss of interest of Rs.20.38 lakh[2] on the amounts released to the contractor in advance in respect of the preponed quantity.

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

Rural Electrification Corporation Limited

15.3.1 Irregular payment of performance incentive/ex-gratia

The Company made irregular payment of *ex-gratia* of Rs.2.15 crore to ineligible employees and a higher performance incentive Rs.5.55 crore to its employees in spite of decline in productivity.

As per DPE guidelines (June 1999/March 2000), perquisites and allowances could be paid by the PSUs to their employees upto a maximum of 50 *per cent* of the basic pay.

[1] ***Worked out based on the number of A types towers supplied by the contractor in advance by March 2001***

[2] ***Based on the rate of 8.5 per cent per annum***

Payments over and above the ceiling of 50 *per cent* should be entirely in the nature of performance related payments and should not exceed five *per cent* of the distributable profit of the enterprise.

Rural Electrification Corporation (Company) had a performance incentive scheme for its employees since 1997-98 which provided for payment of incentive to the employees depending upon achievement of the Overall Performance Index (OPI) by the Company. Till 2004-05, for every one *per cent* increase in OPI beyond 110 *per cent* one *per cent* of the basic pay was payable as performance incentive subject to a ceiling of 50 *per cent* of the basic pay. From 2005-06 onwards, it was revised as a result of which, for achievement of OPI between the slabs of 110 *per cent* and 120 *per cent*, 120 *per cent* and 130 *per cent*, 130 *per cent* and 140 *per cent* and 140 *per cent* to 150 *per cent*, the performance incentive was scaled at 1.5 *per cent*, 2 *per cent*, 2.25 *per cent* and 2.5 *per cent*, respectively for each one *per cent* increase in their respective slabs. From 2005-06, the Company also removed the ceiling of 50 *per cent* of the basic pay.

It was observed in Audit (January 2007) that scaling of the PLI rates and removal of ceiling with effect from 2005-06 resulted in payment of higher incentive to employees despite decline in productivity as indicated below:

Year	**Overall Performance Index**	**Amount of PLI paid (Rs. in crore)**	**PLI paid as a percentage of basic salary**	**PLI payable as per scheme in operation upto 2004-05 (per cent of basic pay)**	**Amount of PLI payable as per 2004-05 scheme (Rs. in crore)**	**Excess PLI paid as compared to 2004-05 scheme (Rs. in crore)**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)=(3)-(6)**
2004-05	196.62	4.53	50	111.62*	4.53	-
2005-06	158.30	8.88	90	73.30	7.23	1.65
2006-07	148.22	10.11	103	63.22	6.21	3.90
Total						**5.55**

Thus, despite decline in productivity (OPI) successively in 2005-06 and 2006-07 as compared with 2004-05, the PLI paid as a percentage of basic pay continued to increase. Payment of a higher incentive to the employees in spite of a decline in the productivity was not in accordance with the DPE instructions The Report of the Justice Mohan Committee which formed the basis of the pay revision of the PSU employees also stressed that the performance related payments should be governed by a system of checks and balances as there was a possibility that performance criteria set could lead to increase in incentive payments without any improvement in performance or productivity.

Further, the Company also paid *ex-gratia* amounting to Rs.2.15 crore to its employees whose wages/salary exceeded Rs.3,500 during 1997-98 to 2005-06 in contravention of the guidelines of the DPE. As per the DPE instructions (November 1997) no *ex-gratia* was to be paid by the PSUs to their employees who were not entitled to it under the provisions of Payment of Bonus Act, 1965 (Act) on account of their wages exceeding Rs.3,500 *per* month. There was no provision in the Act or for the Ministry/DPE to approve such payment to ineligible employees.

* ***Restricted to 50 per cent***

The Management/Ministry stated (June 2007) that the expenditure on incentive was within five *per cent* of the distributable profit as per the DPE guidelines. In addition to OPI, some other factors like whether the Company would be able to sustain this rate of growth in the coming years, the practice followed in the sister organisations were also seen.

The reply was not tenable because the DPE had clarified (March 2000) that performance linked incentives should be within 50 *per cent* of the basic pay and if the limit was not considered sufficient to reward the employees for their work, they could go beyond 50 *per cent* of basic pay but within five *per cent* of the distributable profits. But this power was to be used by the Board of Directors with utmost caution. Payment of higher incentive despite a fall in OPI was not in accordance with the instructions of DPE. Further, payment of *ex-gratia* to ineligible employees was irregular and inconsistent with the provisions of the Act as well as instructions of DPE.

Thus, the Company made irregular payments of performance incentive of Rs.5.55 crore during 2005-06 and 2006-07 and *ex-gratia* of Rs.2.15 crore to ineligible employees.