C.P.U No. 898

12

TWELFTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2005-2006)

(FOURTEENTH LOK SABHA)

POWER GRID CORPORATION OF INDIA LTD. – EXTRA EXPENDITURE IN CONSTRUCTION OF KISHENPUR - MOGA TRANSMISSION SYSTEM – ADDITIONAL EXPENDITURE OF RS. 433.81 CRORE.

(MINISTRY OF POWER)

(Action Taken by the Government on the recommendations contained in the 3rd Report of the Committee on Public Undertakings (14th Lok Sabha) on – Power Grid Corporation of India Ltd. – Extra expenditure in construction of Kishenpur - Moga Transmission system – Additional expenditure of Rs. 433.81 crore)

Presented to Lok Sabha on 21.03.2006
Laid in Rajya Sabha on 21.03.2006

LOK SABHA SECRETARIAT
NEW DELHI

March 2006 / Phalguna 1927 (S)

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS

(2005 – 2006)

CHAIRMAN

Shri Rupchand Pal

MEMBERS, LOK SABHA

2. Shri Manoranjan Bhakta
3. Shri Gurudas Dasgupta
4 Shri P. S. Gadhavi
5. Shri Suresh Kalmadi
6. Dr. Vallabhabhai Kathiria
7. Smt. Preneet Kaur
8 Shri Sushil Kumar Modi
9. Shri Sriniwas Patil
10. Shri Kashiram Rana
11. Shri Mohan Rawale
12. Shri Rajiv Ranjan Singh
13. Shri Bagun Sumbrui
14. Shri Parasnath Yadav
15. Shri Ram Kripal Yadav

MEMBERS, RAJYA SABHA

16. Prof. Ram Deo Bhandary
17. Shri Ajay Maroo
18. Shri Pyarimohan Mohapatra
19. Shri K. Chandran Pillai
20 Shri Shahid Siddiqui
21. * Vacant
22. Shri Dinesh Trivedi

SECRETARIAT

1.	Shri John Joseph	Secretary
2.	Shri S Bal Shekar	Joint Secretary
3.	Shri N.C. Gupta	Under Secretary
4.	Shri Girdhari Lal	Sr. Executive Assistant

* Smt. Ambika Soni ceased to be a Member of the Committee consequent upon her appointment as Union Minister w.e.f. 29.1.2006

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to submit the Report on their behalf, present this Twelfth Report on Action Taken by the Government on the recommendations contained in the Third Report of the Committee on Public Undertakings (Fourteenth Lok Sabha) on Power Grid Corporation of India Ltd. – Extra expenditure in construction of Kishenpur - Moga Transmission system – Additional expenditure of Rs. 433.81 crore.

2. The Third Report of the Committee on Public Undertakings (2004-05) was presented to Lok Sabha on 24th March, 2005. Action Taken Replies of the Government to the recommendations contained in the Report were received on 6th March, 2006. The Committee on Public Undertakings considered and adopted this Report at their sitting held on 20th March, 2006. The Minutes of the sitting are given in Appendix – I.

3. An analysis of the action taken by the Government on the recommendations contained in the Third Report (2004-05) of the Committee is given in Appendix -II

New Delhi: **RUPCHAND PAL**
20 March,2006 **CHAIRMAN,**
29 Phalguna 1927(S) **COMMITTEE ON PUBLIC UNDERTAKINGS**

CHAPTER – I

REPORT

The Report of the Committee deals with the action taken by Government on the recommendations contained in the Third Report (Fourteenth Lok Sabha) of the Committee on Public Undertakings on Power Grid Corporation of India Ltd. – Extra expenditure in construction of Kishenpur - Moga Transmission system – Additional expenditure of Rs. 433.81 crore which was presented to Lok Sabha on 24th March, 2005.

2. Action Taken Notes have been received from Government in respect of all the 5 recommendations contained in the Report. These have been categorized as follows:-

(i) Recommendations/Observations that have been accepted by Government (Chapter II)

Sl. No. 5 (Total:1)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies. (Chapter III)

Sl. Nos. 2 and 3 (Total:2)

(iii) Recommendation/Observation in respect of which reply of Government has not been accepted by the Committee.

(Chapter IV)

Sl. No. 1 (Total:1)

(iv) Recommendations/Observations in respect of which final replies of Government are still awaited. (Chapter V)

Sl. No.4 (Total:1)

3. The Committee desire that the final replies in respect of the recommendation contained in Chapter V for which only interim has been furnished by the Government should be furnished expeditiously.

4. The Committee will now deal with the action taken by the Government on the recommendation with regard to uncritical acceptance of loan from International Funding Agency in the succeeding paragraphs:-

RECOMMENDATION (SI. NO. 1)

UNCRITICAL ACCEPTANCE OF LOANS FROM INTERNATIONAL FUNDING AGENCIES

5. The Committee in their third report have recommended with regard to uncritical acceptance of loan from International Funding Agency as follows:-

> "The Committee note that the first ever 800 KV Transmission system between Kishenpur and Moga was approved by the Government in May 1993 and was scheduled to be completed in March, 1998. But the project could be completed only in January, 2001, which resulted in a time over-run of 34 months. The original approved cost of the project was Rs. 417.71 crore in May 1993. But the final executed cost of the project was Rs. 857.63 crore in January, 2001. The cost over-run comes to Rs. 439.92 crore which is 100 percent more than the original approved cost.
>
> The Committee find that various factors such as unreasonable World Bank conditionalites/guidelines, lack of adequate initial technical scrutiny having been undertaken by the Power Grid at the techno-economic evaluation stage, lack of prudence in the initial planning and estimation, the inability of Power Grid to take the World Bank into confidence on various issues contributed significantly to the cost and time overruns in implementing the project.
>
> The Committee note that the sort of infirmities that were allowed in the bidding process while awarding the contract for completion of KMTS project had actually paved the way for a foreign firm, M/s Cobra of Spain to secure the contract. The Committee further note that the foreign firm had 'no previous experience in designing 800 KV class transmission systems and also had no experience of executing projects in India'. The stipulations in the bidding documents prescribed that the rates for the work should be quoted on "per tower" basis and not on the basis of the 'tower weight' or 'tonnage'. Thus, the firm which had estimated the 'tower weight' at a 'lower level' quoted a 'lesser rate per tower' and managed to secure the contract. The result was repeated failures in optimizing the tower designs by the successful bidder and contractual problems, which contributed to the significant delay of about three years in the implementation of the project. Despite the fact that Power Grid had the experience in the field of designing and building transmission tower, the Committee fail to understand as to why the Company could not prevail upon the World Bank on the need to clearly define the project scope at the bidding stage by suitably taking into consideration, the aspect relating to technical scrutiny of 'tonnage /weight' and also offer its in-house design for acceptance.
>
> The Committee also find that upon the insistence of World Bank, Power Grid chose to award both the packages of KMTS to M/s Cobra of Spain though it had no previous experience in designing 800 KV class tower. The Committee feel that merely for the sake of getting loan facilities from

the International funding agencies, the public sector companies should not accept unreasonable terms imposed by them. Uncritical acceptance of such loans would compromise our economic interests and the sovereign right to get a service established at a cost advantageous to us. The Committee, therefore, recommend that the whole matter of acceptance of loans from World Bank and the conditionalities attached to it, should be thoroughly analyzed to safeguard our sovereign economic independence and for this purpose, a High-powered Committee of Experts comprising of independent minded technocrats and economists should be formed to suggest suitable measures. The Committee feel that such an analysis is very much necessary keeping in view the fact that PGCIL had implemented several other projects with World Bank funding which had also faced the problem of cost over-run / time over-run."

The Government (Ministry of Power) in their action taken reply on the above recommendations have stated as under:-

"In the audit para no. 15.3.1 of the report of CAG for the year March, 2003 – Union Government (Commercial) No. 3 of 2004, the Audit observed that Power Grid Corporation of India Ltd. (PGCIL) commissioned (January, 2001) Kishenpur-Moga Transmission System (KMTS) having two lines of 800 kV each at a total cost of Rs. 847.91 crore with an overall cost overrun of Rs. 430.20 crore and time overrun of 34 months. Out of this, delay of 30 months was attributable to inexperience of a foreign contractor, M/s COBRA, which resulted in extra expenditure of Rs. 217.22 crore. PGCIL invited (May, 1993) global tenders for pre-qualification for two lines of the project and issued (March, 1994) tendered documents for price bids to six qualified bidders, out of which five bidders submitted their price bids which were opened in May, 1994. M/s COBRA emerged lowest for both the lines. Based on pre-qualification and evaluation of bidders, the company had assessed that M/s COBRA would not be able to execute both the lines in view of the tower material required for both the lines and 800 kV lines being constructed for the first time in India. Accordingly, PGCIL recommended award of work for only one line to M/s COBRA, which was, however, not accepted by the World Bank. So, contracts for construction of both the lines were awarded to M/s COBRA in February, 1995 with the completion schedule of 39 months i.e. by May, 1998. Audit observed that M/s COBRA had no experience of projects of 800 kV lines and had passed the pre-qualification and bid evaluation stage because no technical scrutiny was made by the Company with respect to weight of the tower. Consequently, there were repeated failures in design and testing of towers, resulting in avoidable delay of 23 months. Further, due to increase in weight of the tested towers upto 46% over the estimated weight, M/s COBRA demanded compensation for the increase in cost, which led to delay of 7 months. This resulted in total avoidable delay of 30 months in completion of KMTS, which increased the project cost by Rs. 217.22 crore on account of interest on borrowed funds and escalation in price including exchange rate variation. Audit also observed that Central Electricity Authority (CEA) while reviewing the cost and time overrun had inter alia observed (July, 2001) that original design of the firm was substantially below the required level and the firm passed the pre-qualification stage because no technical scrutiny regarding design of the towers was undertaken by the Company. Abnormal increase in the weight of the tested towers was considered by the CEA as the main reason for failure in design.

PGCIL's response, in brief, to the above audit para was that the project was funded by the World Bank. For the pre-qualification in the above mentioned project, experience of construction of 400 kV (and not 800 kV) transmission line was kept as a condition so that more firms could be eligible to take part in the bidding. It was also in accordance with the opinion of the consultant for this project. In the case of tower packages for KMTS, PGCIL had adopted the procurement philosophy as suggested by the funding agency i.e. the World Bank. Though PGCIL took up the matter with World Bank for using their own designs for towers, the World Bank insisted on keeping the designs in the contractor's scope anticipating optimization of cost. The bidders were required to quote on per tower basis. PGCIL have informed that the technical scrutiny of the bids were carried out both at pre-qualification and commercial bid stage strictly with reference to technical specification requirements and criteria specified in the bid document, approved by the World Bank. Though tower weight was not the evaluation criteria, the estimated weight of towers indicated by all the bidders was of the same order. Regarding award of packages for both the transmission lines to M/s. COBRA, according to the loan agreements with the World Bank, the procurement procedures/guidelines of the funding agency were to be followed and the concurrence of the World Bank with respect to bid documents and award of the contracts was a pre-requisite. PGCIL had selected M/s. COBRA for one package only as it was doubtful whether they would be able to execute both the lines simultaneously in time. The independent consultant appointed by World Bank to review the same had also endorsed the view point of PGCIL. However, World Bank insisted that since M/s. COBRA was the pre-qualified least evaluated bidder for both the lines, the award of both the lines be placed on M/s. COBRA and in case M/s. COBRA refused to accept both the packages, their bank guarantees be encashed by PGCIL. PGCIL approved the award of both the lines to M/s. COBRA in line with the recommendations of the World Bank.

Regarding observation of the Hon'ble Committee that the PGCIL needed to prevail upon the World Bank on the need to clearly define the project scope at the bidding stage by suitably taking into consideration the aspect relating to technical scrutiny of 'tonnage/weight' and also offer its in-house design for acceptance, it is submitted that similar observations were made by the CEA in the year 2001 after an analysis of the time and cost overrun made at the instance of Ministry of Power, CEA had also observed that greater attention to the technical specifications at the time of bidding could have helped in obtaining reasonable price and quality. PGCIL was accordingly instructed vide Ministry of Power's letter dated 7.8.2001 to take suitable corrective action to improve the system and procedures in a defined timeframe to avoid such deficiencies in the implementation of the projects. PGCIL in their reply dated 4.9.2001 explained the circumstances in which the award of both the lines had to be placed on M/s COBRA. PGCIL also mentioned that they prepared a manual in September, 2001 on ‘Work & Procurement Policy and Procedure’ for streamlining future procurements and award of contracts in a transparent manner. All these facts including the reply dated 4.9.2001 of the PGCIL were placed before the competent authority in the Government while seeking its approval to the revised cost estimates of the project. The revised cost estimates were thereafter approved by the Government.

Regarding the recommendations of the Committee for a thorough analysis of the whole matter of acceptance of loans from the World Bank and the conditionalities attached to it to safeguard our sovereign economic independence, it is submitted that Ministry of Finance (Department of Economic Affairs), which is the nodal Ministry for negotiations/acceptance of World Bank loans has been requested for taking further necessary action in this regard. After the advice of the Ministry of Finance is received, the Hon'ble Committee on Public Undertakings will be apprised of the recommendations along with action an action taken report.”

The remarks of office of C&AG on the reply of the Government was as follows:-

There is no change in the Status of formation of Committee

The Comments of the Ministry of Power on the remarks of C&AG office were as follows:-

“Ministry of Finance (Department of Economic Affairs) was requested for taking further action on the recommendation of COPU for formation of a High-powered Committee of Experts to analyze the whole matter of acceptance of loans from the World Bank and the conditionalities attached to it. However, Ministry of Finance have observed that it would be appropriate that the setting up of a Committee of Experts is done by Ministry of Power, which may, in turn, associate any other Department as it considers necessary. Accordingly, a Committee has been constituted under the chairmanship of Chairperson, Central Electricity Authority with the following members:

1.	Chairperson, Central Electricity Authority	Chairman
2.	Joint Secretary, Deptt. of Economic Affairs	Member
3.	Joint Secretary (Trans), Mop	Member
4.	CMD, Power Finance Corporation	Member
5.	Director (Finance), NTPC	Member
6.	Shri Bibek Debroy, Secretary General, PHDCCI	Member
7.	Dr. M. Govinda Rao, Director, National Institute of Public Finance and Policy (NIPFP)	Member
8.	Director (Fin), PGCIL	Member-Convenor

6. **Comments of the Committee**

In their Original Report, the Committee had noted that the first ever 800 KV transmission system between Kishanpur and Moga which was scheduled for completion in March 1998 at a cost of Rs. 417.71 crore was inordinately delayed by 34 months and was completed in January, 2001 only. The delay also led to cost overrun of Rs. 439.92 crore which was 100% more than the original approved cost. The Committee had felt that the cost and time overrun took place mainly due to the reason that Power Grid chose to award this project to M/s Cobra of Spain though it had no previous experience in designing 800 KV class tower. Even the consultant appointed by the World Bank had suspected the capabilities of M/s Cobra to complete the project by the scheduled date. However, upon the insistence of the World Bank, Power Grid awarded the contract to the inexperienced foreign firm. The Committee had thus, pointed out that merely for the sake of getting loan facilities from the International funding agencies, the public sector companies should not accept unreasonable terms imposed by the funding agencies. They had therefore, recommended that the whole matter of acceptance of loan from World Bank and the conditionalities attached to it should be thoroughly analysed to safeguard our economic independence and sovereign rights and for this purpose, a high powered Committee of experts be formed to suggest suitable measures.

The Committee are constrained to note that even after a lapse of almost one year, the Ministry of Power have merely informed that they have constituted a Committee under the Chairmanship of Chairperson, Central Electricity Authority. The Committee take a strong note of such

lackadaisical approach adopted by the Government while furnishing Action Taken reply to the Committee's recommendation. As per the recommendation of the Committee, the Ministry should have formed a Committee with due promptitude to thoroughly analyze the whole matter of acceptance of loans from World Bank and the conditionalities attached to it and to suggest suitable measures in view of the fact that PGCIL had implemented several other projects with World Bank funding which had also faced the problem of cost and time overrun. But the Committee feel that the matter has been badly delayed. The Committee are disappointed to note that the Government have only now formed the Committee. The Committee desire that the Government should ensure that the Committee appointed by them gives its findings and recommendations within six months from the date of its constitution.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

RECOMMENDATION (SI. NO. 5)

NEED FOR EFFECTIVE COORDINATION BETWEEN POWER GRID AND ADMINISTRATIVE MINISTRY

Another particularly disturbing aspect noticed during examination of the related issues, was the furnishing of contradictory statements to the Committee. The Committee note that a Manual on Work and Procurement Policy and Procedure for streamlining future procurement and awards of contract in a transparent manner was brought out by Power Grid. From the information furnished by the Ministry of Power to the Committee, it is seen that the said Manual was prepared by the Power Grid at the instance of the Ministry of Power following their instructions issued on 7 August, 2001. However, Power Grid has stated that the initiative for preparation of the document had formally commenced in Power Grid in January, 2001 and the document was finalised and approved for implementation by the Board of Directors of Power Grid in September, 2001. The Committee are constrained to note that there is no coordination between the Ministry of Power and Power Grid. The Committee take a serious view of this matter and expect that in future effective coordination and consultation should be held before furnishing the information to the Parliamentary Committees so as to avoid furnishing of contradictory information.

Reply of the Government

It is submitted that in the written reply submitted by Ministry of Power to the Lok Sabha Secretariat, the following was mentioned:

> "Much before the Audit observation, while examining the revised cost estimates of the project in the year 2001, Ministry of Power got an analysis done by CEA on the time and cost overrun for this project. On examining the report of the CEA in this regard, it was observed that greater attention to the technical specifications at the time of bidding could have helped in obtaining reasonable price and quality. PGCIL was accordingly instructed vide Ministry of Power's letter dated 7.8.2001 to take suitable corrective action to improve the system and procedures in a defined timeframe to avoid such deficiencies in the implementation of the projects. Thereafter, PGCIL prepared a manual on 'Work & Procurement Policy and Procedure' for streamlining future procurements and award of contracts in a transparent manner. These facts along with the reply dated 4.9.2001 of the PGCIL explaining their stand in this regard were also placed before the Cabinet Committee on Economic Affairs while seeking their approval to the revised cost estimates of the project. The revised cost estimates were thereafter approved by the Government."

The submission of Ministry of Power may give an impression that the 'Manual on Work & Procurement Policy and Procedure' for streamlining future procurement and awards of contract in a transparent manner was brought out by Power Grid Corporation of India Ltd. as a follow up of Ministry of Power's letter dated 7.8.2001 to take suitable corrective action to improve the systems and procedures. Ministry of Power only intended to submit to the Hon'ble Committee that the above instructions were issued by the Ministry on 7.8.2001 and the Manual was brought by PGCIL in September, 2001 i.e. after the issue of the instructions dated 7.8.2001 to PGCIL, even though action to bring out such a manual was initiated by PGCIL before the issuance of above instructions by the Ministry of Power.

Ministry of Power has the highest regards for the Hon'ble Committee on Public Sector Undertakings. It has been the endeavor of Ministry of Power to give complete and correct information to the Hon'ble Committee on Public Undertakings and under no stretch of imagination the Ministry can think of giving any information to a Parliamentary Committee not based on facts/records. Necessary details/clarifications were obtained from PGCIL before preparing the written replies in respect of the list of points for discussion during oral evidence of representatives of Ministry of Power before the Hon'ble Committee. Secretary, Ministry of Power himself took a series of meetings with the officials of PGCIL, CEA and Ministry of Power before the oral evidence. The Ministry of Power endeavoured to give complete and correct information on the audit para being examined by the Hon. Committee. However, if any shortcomings have been found by the Hon. Committee, it is unintentional and is sincerely regretted.

Ministry of Power apologizes for any misunderstanding caused on account of the above submission made in the written reply to the Lok Sabha Secretariat / Hon'ble Committee. Ministry of Power has also noted the direction of the Hon'ble Committee that in future effective coordination and consultation should be held before furnishing the information to the Parliamentary Committee so as to avoid furnishing of contradictory information.

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.12.2005

Vetting remarks of the Audit

Factual, No further comment.

Further reply of the Government

The reply of Ministry of Power has been accepted by CAG

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.3.06

CHAPTER III

RECOMMENDATION/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE, IN VIEW OF GOVERNMENT'S REPLIES.

RECOMMENDATION (SI. NO. 2)

UNUSUALLY HIGH INTEREST INCURRED DURING CONSTRUCTION.

The Committee have been informed that at the techno-commercial stage, M/s Cobra, Spain had proposed to sub-contract part of the work to the Indian firms. However, M/s Cobra soon faced a host of problems in finalizing the sub-contractors in India. The company faced several problems such as delay in testing of towers, additional demand of payment from their sub-contractors and mismatch in cash flows. M/s Cobra also raised a number of disputes and claimed additional amount and also sought extension of time. The direct fallout of the contractual problems that surfaced immediately after the award of the work for erection of the Kishenpur-Moga Transmission towers to the Spanish firm (M/s Cobra) in February, 1995 led not only to the substantial time overrun in commissioning the project but also to the huge escalation in project costs. The Committee find that out of the total project cost escalation, more than Rs.300 crore was on account of Interest During Construction (IDC) alone. The amount assigned for IDC as per the approved project estimate of 1993 was only to the tune of Rs. 2 crore. In the opinion of the Committee, the delay of about three years in commissioning the project was the main contributory factor for the unusually high deal, as Power Grid submissively accepted all the terms and conditions imposed by the loaning agency. The Committee feel that the terms for calculating Interest During Construction are very harsh and require a pointed review in all future financing of projects and desire that the government should examine this aspect thoroughly. The Committee also recommend that it should be examined as to whether the matter of payment of IDC to the World Bank in this case may be re-opened to find out if any claim for refund of IDC can be lodged on the ground that the entire delay in completing the project can be attributed solely to M/s Cobra the agency thrust upon the PGCIL to execute the project only at the behest of the World Bank. The Committee wish to point out that a facility that could have been established by spending Rs.417.71 crore was eventually got established by spending actually Rs.857.63 crore, out of which the interest paid during construction alone comes to more than Rs.300 crore, thus making World Bank and the foreign construction Company, M/s Cobra, the real gainers in the whole.

Reply of the Government

"In the audit para no. 15.3.1 of the report of CAG for the year March, 2003 – Union Government (Commercial) No. 3 of 2004, the Audit observed that Power Grid Corporation of India Ltd. (PGCIL) commissioned (January, 2001) Kishenpur-Moga Transmission System (KMTS) having two lines of 800 kV each at a total cost of Rs. 847.91 crore with an overall cost overrun of Rs. 430.20 crore and time overrun of 34 months. Out of this, delay of 30 months was attributable to inexperience of a foreign contractor, M/s COBRA, which resulted in extra expenditure of Rs. 217.22 crore on account of interest on borrowed funds and escalation in price including exchange rate variation.

Hon'ble Committee has observed that the delay of about 3 years in commissioning the project was the main contributory factor for the unusually high deal, as PGCIL submissively accepted all the terms and conditions imposed by the loaning agency.

It may be mentioned that when the matter regarding Interest During Construction (IDC) was raised by the Audit at draft audit para stage, it was explained to the Audit that the investment approval for the project was issued by the Government in May, 1993 with an estimated cost of Rs. 417.71 crore (including an IDC of Rs. 2 crore) and completion schedule of 58 months i.e. by March, 1998. The revised cost estimate of Rs. 938.48 crore (including IDC of Rs. 310.44 crore) for the project was approved in July, 2002. The increase in cost of the project was on account of change in IDC (+308.44 crore), price change (+154.11 crore), exchange rate variation (+28.51 crore), change in approved quantity (+29.78 crore), change in taxes and duties (15.41 crore) and change in centages (-15.49 crore).

The meager IDC provision of Rs. 2 crore in the original cost estimate was based on project approval given at debt-equity ratio of 1:1 with an assumption that equity shall be employed first followed by debt. It was also assumed that part of the project i.e. one circuit of Kishenpur-Moga would be commissioned a year before the completion of the project time cycle and the revenue realized would go to reduce the project cost. However, later on in line with the guidelines issued by Ministry of Finance, debt-equity ratio was modified to 4:1 with debt and equity flowing concurrently. This, along with other factors i.e. increase in project cost and delay in completion of project, resulted in an overall increase of Rs. 308.44 crore in IDC.

The recommendation of the Committee that the Government should thoroughly examine the terms for calculating IDC as well as the possibility of reopening the matter of payment of IDC to the World Bank in this case to find out if any claim for refund of IDC can be lodged on the ground that the entire delay in completing the project can be attributed solely to M/s Cobra, has been considered in consultation with the Power Grid Corporation of India Ltd. PGCIL has clarified that Kishenpur-Moga Transmission System (KMTS) was covered under basket of projects funded by IBRD Loan No.3237-IN against project titled “Northern Region Transmission Project”. The loan was made available to Government of India (GOI) and terms & conditions were agreed under the loan agreement dated 3rd October, 1990 entered between GOI and IBRD. As could be seen from the agreement, the loan of the World Bank was extended to GOI with an interest rate for each quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one per cent. However, there was another subsidiary loan agreement for loan to POWERGRID as a rupee loan by the GOI (Ministry of Power) as per the policy regime of the period. According to this agreement, this loan was extended with interest rate of 14% which was the normal policy of Ministry of Finance, government of India prevailing at that time.

The break up of estimated project cost envisaged during loan negotiation are as under:

US $ Million

Estimated Costs	Local	Foreign	Total
Preliminary and Civil Works	31.4	3.1	34.5
Compensatory afforestation	1.6	0.0	1.6
Transmission Lines	159.3	248.6	407.9
Substations	28.1	67.5	95.6
Tools and Equipment	1.1	4.2	5.3
Communication Equipment	1.4	4.1	5.5
Load Dispatch Equipment	36.3	34.1	70.4
Training	0.6	1.7	2.3
Consulting Services	0.0	4.5	4.5
Engineering and Administration	66.7	0.0	66.7
Total Base Costs	326.5	367.8	694.3
Physical contingencies	24.4	38.1	62.5
Price Contingencies	43.3	140.2	183.5
Total Project Costs	**394.2**	**546.1**	**940.3**
Interest During Construction	54.2	185.3	239.5
Total Financing Required	448.4	731.4	1,179.8

As brought out above, the portion of the project cost covered under the IBRD finance, was worked out as US $ 546.1 million. As against above mentioned project cost, IBRD had agreed for financing upto US $ 485 million with US $ 1.1 million envisaged from Japanese Grant Facility. For the remaining part of the project cost i.e. US $ 60 million, GOI had stated during negotiations that it would seek co-financing to cover the same. As may be seen from the above that the total cost of the project under NRTP (Loan No. 3237 – IN) was estimated as US 1,179.8 million which had inter alia included US $ 185.3 towards the interest during construction (IDC) on IBRD financed portion. The **Financing Plan** both for local and IBRD financed portion including that of IDC component furnished in the Loan and Project Summary forming part of the Staff Appraisal Report pertaining to the said IBRD Loan is given below:-

US $ Million

Source	Local	Foreign	Total
IBRD	0.0	485.0	485.0
Japanese Grant Facility	0.0	1.1	1.1
POWERGRID	86.3	0.0	86.3
GOI	362.1	245.3	607.4
Total	448.4	731.4	1,176.8

As brought out above, the IBRD financed portion amounting to US $ 485 million does not cover IDC component which was to be financed by GOI.

A per the terms of loan agreement, the repayment was to be made over 20 years including 5 years grace at the IBRDs standard variable interest rate and the beneficiaries of the loan were initially identified as National Hydro-Electric Power Corporation (NHPC) / CEA. Subsequently Power Grid Corporation of India Limited (POWERGRID) was co-opted as a beneficiary after de jure transfer of assets in 1992.

In terms of the above mentioned loan agreement, as already mentioned the loan in turn was lent to POWERGRID as a Rupee loan by the GOI (Ministry of Power) and the loan was re-payable over the period of 15 years including 3 years grace period under the subsidiary loan agreement. The IBRD loan amount was to be made available to POWERGRID during the first month of the quarter following the quarter in which said amounts were withdrawn by the GOI. As per the Staff Appraisal Report during the loan negotiation and project appraisal stage, it was envisaged that the project would be partly funded to the extent of 50.7% of the Project Cost through the proceeds of IBRD loan (Loan No. 3237 – In) whereas the remaining portion was to be funded by POWERGRID and GOI.

As per the terms of the Loan Agreement between GOI and IBRD, the principal component of the loan was to be re-paid by GOI w.e.f. March, 1996 over a period of 15 years i.e. by September, 2010, in accordance with amortization schedule annexed as Schedule-3 to the Loan Agreement. The interest on the said loan was payable by GOI every six months on Ist March and Ist September respectively. The drawl of loan as per the original loan agreement was envisaged upto 30th September 1998 and thus the terms of the loan agreement could not be construed as strictly linked to the project execution period.

As against the total Sanctioned Loan amount of US $ 485 Million, the final disbursement based on the actual drawl consequent to actual executed cost of the Projects was US $ 350 million only. The final disbursement position by category as confirmed by IBRD vide its letter dated April 11, 2001 is furnished below:-

US $

Sl. No.	Category	Disbursed
1	Civil works and erection	47,243,904.76
2	Equipment and materials	302,155,207.42
3	Consultants services and training	732,629.05
4	Special account	(3,915.23)
5	Total disbursed	350,127,826.00
6	Undisbursed balance (cancelled as of March 26, 2001)	99,872,174.00
7	Cancelled as of July 15, 1999	35,000,000.00
8	Original Loan Amount	485,000,000.00

As brought out above the IBRD financed portion cost of the project had not included IDC component. The IDC component accrued to the Project Cost including that on the IBRD financed portion was financed by POWERGRID through various other sources including loan from GOI.

Since the IDC component has not been covered under the IBRD financed portion of the project cost, increase in IDC due to reasons as already explained earlier, has not given any benefit to IBRD on account of increase in IDC component.

Regarding payments to the Contractor, PGCIL has clarified that under the contracts (LOAs) with them, contractor was to be paid for the supplies of the equipment and services to be provided by them which were regulated strictly in accordance with the terms and conditions of the LOAs. Financing cost of the Project was not covered under the LOAs and payment towards IDC component was not envisaged therein.

Here, it may be informed that the KMTS project was comprising of four type of packages for transmission lines. These packages were for supply, erection & stringing of transmission lines, supply of Conductors, supply of Insulators, and supply of Hardware fittings and Accessories. While the Transmission Line construction packages were awarded on different contractors. The increase in cost under reference pertains to the KMTS Project and not to the individual Packages executed by various contractors.

As submitted before Hon. COPU, as against the approved estimated cost of Rs. 417.71 crores (as per the Investment Approval), the actual completed cost is Rs. 857.63 crores registering an increase of Rs. 439.92 crore. It was further clarified that out of the above increase, Rs. 250.31 crores is on account of allowable fiscal factors during Project Time Cycle. These factors included general price escalation (Rs. 151.29 crores), increase in taxes & duties (Rs. 15.41 crores), Foreign Exchange Rate Variation (Rs. 28.51 crores), Centages (- Rs. 15.21 crores) and IDC (Rs. 70.30 crores). Further, there was approved quantity variation of approximately Rs. 29.78 crore. Thus, the project cost within the Project Time Cycle was approximately Rs. 700 crores and the increase beyond the Project Time Cycle was about Rs. 157.63 crores mainly due to increase in IDC.

Regarding the payments to M/s Cobra under the contracts for the Kishenpur-Moga Transmission Line packages, it may be mentioned that the said contracts were awarded in Feb' 95. Subsequently, based on site requirements, amendments to the LOAs were necessitated, and M/s. Cobra has been paid only the amount payable as per the LOAs.

As regards terms of calculation of IDC, PGCIL has clarified that IDC is calculated on the basis of anticipated/actual cash out flows of the project with due regard to the extent and order of equity and various debt sources of funding. The calculation of IDC is undertaken initially during the feasibility stage based on the anticipated cash flows which is subsequently updated based on the actual cost, time and extent of various sources of funding of the Project Cost. Accordingly in case of Kishenpur-Moga Transmission System (KMTS) also the IDC was calculated initially at Feasibility stage and subsequently based on the revised cost, time and financing pattern as approved by CCEA.

In view of the position explained by PGCIL, it may not be possible to lodge any claim for refund of IDC by the World Bank.

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.12.2005

Vetting remarks of the Audit

No further comments

Further reply of the Government

The reply of Ministry of Power has been accepted by CAG

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.3.06

RECOMMENDATION (SI. NO. 3)

NEED FOR EXPLORING POSSIBILITY OF NEGOTIATION WITH M/S VATTENFALL.

The Committee note that the major contract for erection of transmission towers was awarded by the Company in February, 1995 to an inexperienced foreign firm which faced repeated failures in testing. Power Grid was apparently aware of this aspect of possible repeated failures as they have stated that such failures are 'usual' in the tower industry. The contract for tower erection ran into serious difficulties subsequently and had to be re-negotiated in October, 1998 and the project finally was completed only in January, 2001.

The Committee also note that no effort was initiated by Power Grid to explore the possibility of negotiation with M/s Vattenfall, one of the qualified bidders, and was the only firm with the experience of laying the 800 KV transmission lines. If this option could have been exercised, the Committee feel that delay in completing the project could have been completely avoided and as a result the need for payment of high IDC to the World Bank would have never arisen, keeping the project within the original time frame and cost. The Committee desire that while taking such critical decisions in future the commercial consideration and pecuniary interest of the government company concerned should be accorded foremost priority. Such options should be taken up for discussion with the funding agencies in future highlighting the merits of resorting to such options.

Reply of the Government

The observation of the Hon'ble Committee that no effort was initiated by PGCIL to explore the possibility of negotiation with M/s Vattenfall, one of the qualified bidder and the only firm with the experience of laying the 800 kV transmission line has been examined in consultation with PGCIL. PGCIL have clarified that under any procurement process adopted for award of a Contract, a qualification criteria is stipulated. Only those parties who meet the stipulated criteria are considered for award. The criteria inter alia includes the minimum technical experience requirement which, therefore, becomes the basis to conclude whether or not a particular party can be said to possess such experience. In case of KMTS too a pre-qualification criteria was specified. It included technical experience of 400 kV level or higher Transmission Lines, to be met by a bidder to pre-qualify.

The pre-qualification criteria adopted was as per RSW – the Consultant's advice, who had recommended "Bidder should have designed tower (including foundations), and based thereon erected and strung, with tension stringing equipment, not less than 200 km of transmission lines involving bundle conductors of 400 kV class or higher." Consultant had stated that the experience of 400 kV D/C transmission line was sufficient for construction of 800 kV transmission line considering its nature and complexity, as the key requirement was that the applicant needed to have adequate experience in the stringing of bundles of conductors for EHV lines and also tower heights are comparable. Besides above, the following factors had been kept in view :-

a) In case experience of 800 kV had been specified, no Indian Firm would have qualified.

b) 800 kV or above voltage level having been adopted in a limited way the world over, this criteria would have restricted the competition.

COBRA met the said criteria.

In regard to failure of towers during testing, PGCIL has submitted that failures during testing are a common phenomenon. Even the Contractors having extensive experience in design of Transmission Line towers of a particular voltage level encounter failures during testing of towers of a new design offered by them for a new Project. In this context, PGCIL has cited examples of leading Contractors, namely KEC and SAE (presently RPG), having wide experience in 400 kV Transmission Line but these Contractors had faced repeated tower failures during testing in some of the Projects in spite of their vast experience. PGCIL have mentioned that M/s Vattenfall, who stated to have experience of 800 kV, in the event of contract having been awarded to them, would have been required to carry out the tower testing as in the case of COBRA. According to PGCIL, there was no certainty that M/s Vattenfall would not have faced failures during tower testing. However, specifying such criteria for pre-qualification might have curtailed the competition.

Regarding possibility of negotiations with M/s. Vattenfall, PGCIL have clarified that under the procurement guidelines applicable to IBRD loan, contract is to be awarded to the lowest bidder who meets the specified qualification criteria. This is also stated in the evaluation criteria spelt out in the bidding documents. In KMTS, M/s. COBRA emerged to be the lowest pre-qualified bidder for both the Transmission Line tower packages. However, based on the assessment of the capacity and capability of tower-part manufacturers proposed by M/s. COBRA, PGCIL had recommended to award only one package on them. The other package was recommended for award on the next lowest bidder M/s. SAE (now RPG).

According to PGCIL, under the procurement guidelines and terms of the bidding documents it would not have been possible for PGCIL to negotiate with M/s. Vattenfall who were L4 bidder in both the packages and lowest evaluated bidders were meeting the stipulated qualification requirements. In this context, it may be mentioned that both the funding agency as well as the Central Vigilance Commission do not permit price negotiations with any bidder except with L1 bidder under certain conditions in exceptional circumstances. Thus any attempt in this direction would have led the World Bank to treat it as a case of mis-procurement.

PGCIL as a policy does not negotiate with any other bidder except in cases where L1 bidder is not qualified and has not undertaken such works.

Notwithstanding the submissions made by PGCIL, Ministry of Power is of the view that in a situation when PGCIL was fully convinced about its own line of action and that in spite of World Bank consultant also suggesting division of work, if the World Bank was asking for composite work order, it was a fit case to have been brought to the notice of Ministry of Power. PGCIL was advised in January, 2005 that in such cases, they should bring the matter to the notice of Ministry of Power to take it up with higher level of World Bank through Department of Economic Affairs.

The Ministry of Power had also convened a meeting of Heads of CPSUs which are likely to avail or are availing loans from multilateral funding agencies. In the meeting, Secretary (Power) asked the CPSUs to make full use of the mechanism of quarterly review of externally funded projects by the Ministry of Power. Any difficulties being faced during implementation of such projects should be discussed during these meetings. Ministry of Power also emphasized that if any important matter needs to be brought to the knowledge of the Ministry even before the next review meeting, then it must be raised by the concerned CPSU.

In compliance of the direction of the Hon'ble Committee that while taking such critical decisions in future, the commercial consideration and the pecuniary interest of the Government company concerned should be accorded foremost priority and that such option should be taken up for discussion with the funding agencies in future highlighting the merits of resorting to such options, suitable instructions have been issued to the Public Sector Undertakings under the administrative control of Ministry of Power. These PSUs have been instructed that in awarding the contracts during implementation of the projects funded through multi-lateral funding agencies, the interest of the implementing PSU should be paramount. In case there is any conflict in regard to the interest of the Company, the matter should be taken up by the Company with the concerned funding agency and the Ministry of Power at the highest level. CPSUs have again been advised to make full use of the mechanism of quarterly review of externally funded projects by the Ministry of Power. Any difficulties being faced during implementation of such projects should be discussed during these meetings. If any important matter can not wait till the next review meeting, then it must be brought to the knowledge of Ministry even before the review meeting. CPSUs have also been directed to scrupulously adhere to the above instructions and guidelines when dealing with foreign funding agencies.

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.12.2005

<u>Vetting remarks of the Audit</u>

The PSU's have been directed by Ministry of Power to scrupulously adhere to various instruction/guidelines when dealing with foreign funding agencies.

No further comment

<u>Further reply of the Government</u>

The reply of Ministry of Power has been accepted by CAG

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.3.06

CHAPTER IV

RECOMMENDATION (SI. NO. 1)

UNCRITICAL ACCEPTANCE OF LOANS FROM INTERNATIONAL FUNDING AGENCIES

The Committee note that the first ever 800 KV Transmission system between Kishenpur and Moga was approved by the Government in May 1993 and was scheduled to be completed in March, 1998. But the project could be completed only in January, 2001, which resulted in a time over-run of 34 months. The original approved cost of the project was Rs. 417.71 crore in May 1993. But the final executed cost of the project was Rs. 857.63 crore in January, 2001. The cost over-run comes to Rs. 439.92 crore which is 100 percent more than the original approved cost.

The Committee find that various factors such as unreasonable World Bank conditionalites/guidelines, lack of adequate initial technical scrutiny having been undertaken by the Power Grid at the techno-economic evaluation stage, lack of prudence in the initial planning and estimation, the inability of Power Grid to take the World Bank into confidence on various issues contributed significantly to the cost and time overruns in implementing the project.

The Committee note that the sort of infirmities that were allowed in the bidding process while awarding the contract for completion of KMTS project had actually paved the way for a foreign firm, M/s Cobra of Spain to secure the contract. The Committee further note that the foreign firm had 'no previous experience in designing 800 KV class transmission systems and also had no experience of executing projects in India'. The stipulations in the bidding documents prescribed that the rates for the work should be quoted on "per tower" basis and not on the basis of the 'tower weight' or 'tonnage'. Thus, the firm which had estimated the 'tower weight' at a 'lower level' quoted a 'lesser rate per tower' and managed to secure the contract. The result was repeated failures in optimizing the tower designs by the successful bidder and contractual problems, which contributed to the significant delay of about three years in the implementation of the project. Despite the fact that Power Grid had the experience in the field of designing and building transmission tower, the Committee fail to understand as to why the Company could not prevail upon the World Bank on the need to clearly define the project scope at the bidding stage by suitably taking into consideration, the aspect relating to technical scrutiny of 'tonnage /weight' and also offer its in-house design for acceptance.

The Committee also find that upon the insistence of World Bank, Power Grid chose to award both the packages of KMTS to M/s Cobra of Spain though it had no previous experience in designing 800 KV class tower. The Committee feel that merely for the sake of getting loan facilities from the International funding agencies, the public sector companies should not accept unreasonable terms imposed by them. Uncritical acceptance of such loans would compromise our economic interests and the sovereign right to get a service established at a cost advantageous to us. The Committee, therefore, recommend that the whole matter of acceptance of loans from World Bank and the conditionalities attached to it, should be thoroughly analyzed to safeguard our sovereign economic independence and for this purpose, a High-powered Committee of Experts comprising of independent minded technocrats and economists should be formed to suggest suitable measures. The Committee feel that such an analysis is very much necessary keeping in view the fact that PGCIL had implemented several other projects with World Bank funding which had also faced the problem of cost over-run / time over-run.

Reply of the Government

"In the audit para no. 15.3.1 of the report of CAG for the year March, 2003 – Union Government (Commercial) No. 3 of 2004, the Audit observed that Power Grid Corporation of India Ltd. (PGCIL) commissioned (January, 2001) Kishenpur-Moga Transmission System (KMTS) having two lines of 800 kV each at a total cost of Rs. 847.91 crore with an overall cost overrun of Rs. 430.20 crore and time overrun of 34 months. Out of this, delay of 30 months was attributable to inexperience of a foreign contractor, M/s COBRA, which resulted in extra expenditure of Rs. 217.22 crore. PGCIL invited (May, 1993) global tenders for pre-qualification for two lines of the project and issued (March, 1994) tendered documents for price bids to six qualified bidders, out of which five bidders submitted their price bids which were open in May, 1994. M/s COBRA emerged lowest for both the lines. Based on pre-qualification and evaluation of bidders, the company had assessed that M/s COBRA would not be able to execute both the lines in view of the tower material required for both the lines and 800 kV lines being constructed for the first time in India. Accordingly, PGCIL recommended award of work for only one line to M/s COBRA, which was, however, not accepted by the World Bank. So, contracts for construction of both the lines were awarded to M/s COBRA in February, 1995 with the completion schedule of 39 months i.e. by May, 1998. Audit observed that M/s COBRA had no experience of projects of 800 kV lines and had passed the pre-qualification and bid evaluation stage because no technical scrutiny was made by the Company with respect to weight of the tower. Consequently, there were repeated failures in design and testing of towers, resulting in avoidable delay of 23 months. Further, due to increase in weight of the tested towers upto 46% over the estimated weight, M/s COBRA demanded compensation for the increase in cost, which led to delay of 7 months. This resulted in total avoidable delay of 30 months in completion of KMTS, which increased the project cost by Rs. 217.22 crore on account of interest on borrowed funds and escalation in price including exchange rate variation. Audit also observed that Central Electricity Authority (CEA) while reviewing the cost and time overrun had inter alia observed (July, 2001) that original design of the firm was substantially below the required level and the firm passed the pre-qualification stage because no technical scrutiny regarding design of the towers was undertaken by the Company. Abnormal increase in the weight of the tested towers was considered by the CEA as the main reason for failure in design.

PGCIL's response, in brief, to the above audit para was that the project was funded by the World Bank. For the pre-qualification in the above mentioned project, experience of construction of 400 kV (and not 800 kV) transmission line was kept as a condition so that more firms could be eligible to take part in the bidding. It was also in accordance with the opinion of the consultant for this project. In the case of tower packages for KMTS, PGCIL had adopted the procurement philosophy as suggested by the funding agency i.e. the World Bank. Though PGCIL took up the matter with World Bank for using their own designs for towers, the World Bank insisted on keeping the designs in the contractor's scope anticipating optimization of cost. The bidders were required to quote on per tower basis. PGCIL have informed that the technical scrutiny of the bids were carried out both at pre-qualification and commercial bid stage strictly with reference to technical specification requirements and criteria specified in the bid document, approved by the World Bank. Though tower weight was not the evaluation criteria, the estimated weight of towers indicated by all the bidders was of the same order. Regarding award of packages for both the transmission lines to M/s. COBRA, according to the loan agreements with the World Bank, the procurement procedures/guidelines of the funding agency were to be followed and the concurrence of the World Bank with respect to bid documents and award of the contracts was a pre-requisite. PGCIL had selected M/s. COBRA for one package only as it was doubtful whether they would be able to execute both the lines simultaneously in time. The independent consultant appointed by World Bank to review the same had also endorsed the view point of PGCIL. However, World Bank insisted that since M/s. COBRA was the pre-qualified least evaluated bidder for both the lines, the award of both the lines be placed on M/s. COBRA and in case M/s. COBRA refused to accept both the packages, their bank guarantees be encashed by PGCIL. PGCIL approved the award of both the lines to M/s. COBRA in line with the recommendations of the World Bank.

Regarding observation of the Hon'ble Committee that the PGCIL needed to prevail upon the World Bank on the need to clearly define the project scope at the bidding stage by suitably taking into consideration the aspect relating to technical scrutiny of 'tonnage/weight' and also offer its in-house design for acceptance, it is submitted that similar observations were made by the CEA in the year 2001 after an analysis of the time and cost overrun made at the instance of Ministry of Power, CEA had also observed that greater attention to the technical specifications at the time of bidding could have helped in obtaining reasonable price and quality. PGCIL was accordingly instructed vide Ministry of Power's letter dated 7.8.2001 to take suitable corrective action to improve the system and procedures in a defined timeframe to avoid such deficiencies in the implementation of the projects. PGCIL in their reply dated 4.9.2001 explained the circumstances in which the award of both the lines had to be placed on M/s COBRA. PGCIL also mentioned that they prepared a manual in September, 2001 on 'Work & Procurement Policy and Procedure' for streamlining future procurements and award of contracts in a transparent manner. All these facts including the reply dated 4.9.2001 of the PGCIL were placed before the competent authority in the Government while seeking its approval to the revised cost estimates of the project. The revised cost estimates were thereafter approved by the Government.

Regarding the recommendations of the Committee for a thorough analysis of the whole matter of acceptance of loans from the World Bank and the conditionalities attached to it to safeguard our sovereign economic independence, it is submitted that Ministry of Finance (Department of Economic Affairs), which is the nodal Ministry for negotiations/acceptance of World Bank loans has been requested for taking further necessary action in this regard. After the advice of the Ministry of Finance is received, the Hon'ble Committee on Public Undertakings will be apprised of the recommendations along with an action taken report."

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.12.2005

Vetting remarks of the Audit

There is no change in the Status of formation of Committee

Further reply of the Government

The Comments of the Ministry of Power on the remarks of C&AG office were as

follows:-

"Ministry of Finance (Department of Economic Affairs) was requested for taking further action on the recommendation of COPU for formation of a High-powered Committee of Experts to analyze the whole matter of acceptance of loans from the World Bank and the conditionalities attached to it. However, Ministry of Finance have observed that it would be appropriate that the setting up of a Committee of Experts is done by Ministry of Power, which may, in turn, associate any other Department as it considers necessary. Accordingly, a Committee has been constituted under the chairmanship of Chairperson, Central Electricity Authority with the following members."

1.	Chairperson, Central Electricity Authority	Chairman
2.	Joint Secretary, Deptt. of Economic Affairs	Member
3.	Joint Secretary (Trans), Mop	Member
4.	CMD, Power Finance Corporation	Member
5.	Director (Finance), NTPC	Member
6.	Shri Bibek Debroy, Secretary General, PHDCCI	Member
7.	Dr. M. Govinda Rao, Director, National Institute of Public Finance and Policy (NIPFP)	Member
8.	Director (Fin), PGCIL	Member- Convenor

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.3.06

Comments of the Committee

Please see paragraph No. 6

CHAPTER V

RECOMMENDATION (SI. NO. 4)

NEED FOR EFFECTIVE MONITORING OF PROJECT IMPLEMENTATION

The Committee note that PGCIL is a mini-ratna Company, and the Ministry of Power oversee the progress of the implementation of the projects through the Quarterly Performance Review (QPR) meetings, besides having Government's Directors / nominees on the Board of Directors of PGCIL. The Committee also note that the issue of non-acceptance of the Power Grid's recommendation by the World Bank for awarding the contracts to two separate firms was not brought to the notice of the Ministry during the QPR meetings as has been revealed by Secretary, Ministry of Power during evidence. The Government nominees in the Board of Directors also did not bring the matter to the notice of the administrative Ministry. The Committee are constrained to note that such a delicate issue was dealt with by Power Grid unilaterally at the Board level without consulting its administrative Ministry and also the Deptt. of Economic Affairs which was the nodal agency for seeking loans from foreign funding agencies. Reacting to the Power Grid's handling of the situation, Ministry of Power stated that "it was a fit case to have been brought to their notice". The Committee also note that the Ministry have now issued instructions to Central Public Sector Units (CPSUs) to make full use of the mechanism of quarterly Committee recommend that the Ministry and the Public Undertakings should scrupulously adhere to the guidelines / instructions in this regard. The Committee also recommend that the Government should examine the issue of need for fixing of responsibility on the officials responsible for the lapses mentioned above. review of externally funded projects by the Ministry of Power. Any difficulties being faced during the implementation of such projects should be discussed during these meetings. They also emphasized that if any important matter needs to be brought to the knowledge of the Ministry even before the next review meeting, it must be raised by the concerned CPSUs. The Committee recommended that the Ministry and the Public Undertakings should scrupulously adhere to the guidelines/instructions in this regard. The Committee also recommended that the Government should examine the issue of need for fixing of responsibility on the officials responsible for the lapses mentioned above.

Reply of the Government

Ministry of Power is of the view that in a situation when PGCIL was fully convinced about its own line of action and that in spite of World Bank consultant also suggesting division of work, if the World Bank was asking for composite work order, it was a fit case to have been brought to the notice of Ministry of Power. PGCIL was advised in January, 2005 that in such cases, they should bring the matter to the notice of Ministry of Power to take it up with higher level of World Bank through Department of Economic Affairs.

Instructions have also been issued to all the Joint Secretaries in the Ministry of Power, who represent Government on the Board of Directors of various Public Sector Undertakings under the administrative control of Ministry of Power, that they should take note of any such instance where the views of PSUs were not accepted by the World Bank. They have also been instructed that if any decision which is not in the interest of the CPSU, if being insisted upon by the funding agency, should be reported to the Ministry so that it can be taken up with the funding agency through Department of Economic Affairs.

The Ministry of Power had also convened a meeting of Heads of CPSUs which are likely to avail or are availing loans from multilateral funding agencies. In the meeting, Secretary (Power) asked the CPSUs to make full use of the mechanism of quarterly review of externally funded projects by the Ministry of Power. Any difficulties being faced during implementation of such projects should be discussed during these meetings. Ministry of Power also emphasized that if any important matter needs to be brought to the knowledge of the Ministry even before the next review meeting, then it must be raised by the concerned CPSU.

In compliance of the direction of the Hon'ble Committee that while taking such critical decisions in future, the commercial consideration and the pecuniary interest of the Government company concerned should be accorded foremost priority and that such option should be taken up for discussion with the funding agencies in future highlighting the merits of resorting to such options, suitable instructions have been issued to the Public Sector Undertakings under the administrative control of Ministry of Power. These PSUs have been instructed that in awarding the contracts during implementation of the projects funded through multi-lateral funding agencies, the interest of the implementing PSU should be paramount. In case there is any conflict in regard to the interest of the Company, the matter should be taken up by the Company with the concerned funding agency and the Ministry of Power at the highest level. CPSUs have again been advised to make full use of the mechanism of quarterly review of externally funded projects by the Ministry of Power. Any difficulties being faced during implementation of such projects should be discussed during these meetings. If any important matter cannot wait till the next review meeting, then it must be brought to the knowledge of Ministry even before the review meeting.

The Public Sector Undertakings have been directed to scrupulously adhere to the above instructions and guidelines when dealing with foreign funding agencies.

Ministry of Power is also examining the issue of fixing of responsibility on the officials responsible for not bringing the matter to the notice of Ministry of Power in its Vigilance Division and it will be communicated to the Hon'ble Committee.

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.12.2005

Vetting remarks of the Audit

The matter is pending with the Ministry of Power regarding fixing of responsibility

Further reply of the Government

Statements of the officials concerned have been obtained and the same have been referred to Central Vigilance Commission for their advice

(Ministry of Power) O.M. No. 5/7/2002-PG dated 6.3.06

New Delhi:
20 March,2006
29 Phalguna 1927(S)

RUPCHAND PAL
CHAIRMAN,
COMMITTEE ON PUBLIC UNDERTAKINGS

MINUTES OF THE 15th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 20th MARCH, 2006

The Committee sat from 1500 hrs to 1530 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS, LOK SABHA

2. Shri Manoranjan Bhakta
3. Dr. Vallabhabhai Kathiria
4. Smt. Preneet Kaur
5. Shri Shriniwas Patil
6. Shri Kashiram Rana
7. Shri Bagun Sumbrui
8. Shri Ram Kripal Yadav

MEMBERS, RAJYA SABHA

9. Prof. Ram Deo Bhandary
10. Shri Pyarimohan Mohapatra

SECRETARIAT

1.	Shri N. C. Gupta,	Under Secretary
2.	Shri Ajay Kumar	Under Secretary

OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

1.	Ms. A.Basu	Dy. C&AG
2.	Shri Sunil Chander,	Principal Director (Commercial)

2. The Committee considered and adopted the following Action Taken Reports without any modifications:-

(i) Action Taken Report on Action Taken by Government on the recommendations contained in the Third Report of the Committee on Public Undertakings (2004-2005) on Power Grid Corporation of India Ltd. – Extra Expenditure in construction of Kishenpur Moga Transmission System – Additional Expenditure of Rs. 433.81 crore; and

(ii) Xxxxxxxx xxxxxxxxxxx xxxxxxxxxxxxxx

Xxxxxxxxx xxxxxxxxx xxxxxxxxxxxxxx
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3. The Committee authorized the Chairman to finalise the Reports for presentation .

The Committee then adjourned.

APPENDIX II

(Vide para 6 of the Introduction)

Analysis of the Action Taken by Government on the recommendations/observations contained in the Third Report of the Committee on Public Undertakings (Fourteenth Lok Sabha) on Power Grid Corporation of India Ltd. – Extra expenditure in construction of Kishenpur - Moga Transmission System – Additional expenditure of Rs. 433.81 crore)

I.	Total number of recommendations	5
II	Recommendations that have been accepted by the Government [vide recommendations at Sl. No. 5	1
	Percentage of total	20%
III	Recommendation which the Committee do not desire to pursue in view of Government's replies [vide recommendations at Sl. Nos 2 and 3	2
	Percentage of total	40%
IV	Recommendations in respect of which replies of the Government have not been accepted by the Committee…(vide recommendations at Sl. No. 1)	1
	Percentage of total.	20%
V	Recommendations in respect of which final replies of Government are still awaited (vide recommendations at Sl. No. 4)	1
	Percentage of total	20%