

## OFFICE OF COMPTROLLER AND AUDITOR GENERAL

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### Press Release

#### **CAG's Performance Audit Report on Kudankulam Nuclear Power Project, Units I & II tabled in Parliament**

#### **Report highlights a number of deficiencies in the execution and commissioning of Units I & II of the Project**

The report of the Comptroller and Auditor General of India on Kudankulam Nuclear Power Project (KKNPP), Units I & II (38 of 2017) was laid in Parliament today. This Report on KKNPP for the year ending March 2017 highlights a number of deficiencies in the execution and commissioning of Units I & II of KKNPP such as avoidable payment of interest on borrowings, non-transparency in availing loans, lapses in tariff fixation process, extending undue benefits to overseas collaborating partner, non assessment of required manpower with consequent avoidable expenditure, inadequate monitoring and start of commercial operation before getting the required licence to operate from the competent authority. The audit was conducted to assess whether Nuclear Power Corporation of India Limited (NPCIL) exercised prudent financial management in the construction/commissioning of Units I & II and implemented the project in an efficient manner.

#### **Audit Findings**

- The schedule date of completion was postponed from 30 October 2007 to 31 December 2011 for Unit I and from 30 October 2008 to 31 December 2012 for Unit II, *inert-alia*, due to delayed completion of different activities, of which many were attributable to the M/s Atomstroyexport (ASE), a company responsible for undertaking the Russian scope of work. However, there was no revision of schedule of repayment of the Russian credit. This resulted in start of repayment of Russian credit, before revenue generation, causing an additional interest burden on NPCIL to the tune of ₹ 449.92 crore.

**(Para 2.1)**

- NPCIL had to resort to external borrowings at a higher interest rate due to non-provisioning for erection reserve supply contracts while availing Russian credit, which was available at a cheaper rate. This resulted in additional interest cost amounting to ₹76.02 crore.

**(Para 2.2)**

- NPCIL availed term loan of ₹ 1,000 crore from HDFC Bank Limited in violation of CVC's guidelines on tendering.

**(Para 2.4)**

- NPCIL, while fixing tariff for power, did not consider two components, i.e., 'interest on foreign debt' and 'interest on domestic borrowings', though these were actually incurred and paid. This resulted in short realisation of revenue to the tune of ₹ 90.63 crore during pre-commercialisation period.

**(Para 3.1)**

- Unit I of KKNPP was shut down from 24 June 2015 to 31 January 2016 for 222 days as against the planned period of 60 days. This was due to decision of NPCIL to shut down the plant and execute the refuelling work on its own without evaluating its technical competency. The extended shutdown resulted in revenue loss of ₹ 947.99 crore to the NPCIL.

**(Para 3.4)**

- Unit I and Unit II of KKNPP started commercial operation after a delay of 86 months and 101 months respectively. The delays were primarily due to shifting of work from Russian scope to Indian scope; in execution of work and in submission of working documents/supply of equipment/materials by ASE; delays due to design changes; erection delays and additional works. The delay in completion also resulted in cost overruns. NPCIL did not initiate any claim for recovery of additional expenses of ₹264.79 crore which were caused due to delayed completion of works by ASE.

**(Paras 4.1.1 and 4.1.2)**

- As against the original value of USD 29 million (₹ 131.66 crore), NPCIL incurred an amount of USD 50.91 million (₹ 231.13 crore) for supply of same equipment in a rearranged contract leading to extra expenditure of ₹ 99.47 crore.

**(Para 4.2.1)**

- NPCIL neither assessed the extra payments/loss due to non supply/defective supply of materials by ASE nor did it initiate any action for recovery/adjustments for the same.

**(Para 4.2.4)**

- NPCIL did not raise/pursue claims for liquidated damages worth ₹ 463.08 crore for ASE even though during the same time, it was borrowing funds and paying interest to discharge debt obligations including from ASE.

**(Para 4.2.5 (a))**

- The work of erection and commissioning of Nuclear Steam Supply and Turbo Generator was shifted from the Russian scope to the Indian Scope for achieving the stated purpose of optimisation of manpower cost by way of reduction in man-months of Russian specialist for supervision at the site. This was done without any cost-benefit analysis, which not only resulted in

delays in completion of the project but also ended up in NPCIL incurring an extra expenditure of ₹ 706.87 crore for the work.

**(Para 4.3.1)**

- NPCIL compensated a sea route transporter by reimbursing wharfage charges and additional handling charges amounting to ₹ 7.08 crore, which was unjustified as the terms of contract provided for such charges to be incurred by transporter himself.

**(Para 4.3.2 (b))**

- NPCIL did not ensure reasonability of the rates of third party supplies {worth USD 191 million (₹ 899.95 crore)}, made by ASE, for the plant. Further, an amount of USD 19 million (₹ 92.04 crore) towards 10 *per cent* interest free advance was paid by NPCIL to ASE for the third country supplies, without ascertaining the existence of similar provisions in the sub-contracts entered by ASE with third country suppliers.

**(Para 4.4.1 and 4.4.2)**

- NPCIL, on 31 December 2014, declared commercial operation of the Unit I of KKNPP which was six months before receiving the license from AERB for regular operation of the plant.

**(Para 4.6)**

## **Recommendations**

- In all cases of rescheduling of commissioning dates, the repayment schedule for Russian credit may also be revised accordingly.
- Loans from banks may be availed in a transparent and documented manner following the extant rules and regulations.
- NPCIL should have effective monitoring/feedback mechanism to monitor issues like long pending insurance claims.
- All cases of infirm tariff fixation may be processed by NPCIL according to prefixed criteria to avoid discretionary adhocism in decision making for the same.
- For all future planned shutdowns NPCIL may do a competency analysis by mapping with a structured breakdown analysis, to take timely decision, if required, for engaging external consultants to avoid prolonged shutdown and consequential revenue loss.
- Future delays should be avoided by sequencing the supplies with the various stages of production.

- Interest of NPCIL should be protected in all contract renegotiations by ascertaining the quantitative benefits flowing out of such negotiations.
- NPCIL should take timely action for recovery/ adjustment for non/defective supply of material by ASE.
- Liquidated damages should be claimed in an accurate and timely fashion.
- Cost benefit analysis should be invariably conducted before agreeing to a shift in scope of work from Russian side to Indian side and *vice versa*.
- Work orders should not be awarded on a single tender basis unless they qualify for the same as per NPCIL manual and CVC guidelines.
- NPCIL should award work to existing contractors after proper rate analysis to obtain competitive rates.
- Agreements for execution of work order should invariably be entered into by NPCIL with the contractor before award of the contracts.
- NPCIL should prepare schedule of rates, at least, for the works of routine nature like construction of pump house, tunnel, chlorination plant etc. with a view to have better estimation of rates for awarding contracts.
- With regard to the contracts for supply of equipment by third country, NPCIL should consider participating in joint evaluation of bids, with a view to ensure price reasonability of the contract(s).

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