# CHAPTER – III
# Compliance Audit Observations
# (Power Sector PSUs)

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## 3. Compliance Audit Observations (Power Sector PSUs)

Important audit findings emerging from test check of transactions of the State power sector PSUs are included in this Chapter.

## Odisha Power Transmission Corporation Limited (OPTCL)

## 3.1 Implementation of Odisha Distribution System Strengthening Project (ODSSP) by Odisha Power Transmission Corporation Limited

### Introduction

**3.1.1** Power distribution function under electricity sector is vital as ultimate supply of power to the consumers rests with it. Reliable and quality power depends on the efficiency of distribution system consisting of 33/11 KV sub-stations and connected lines. Private sector participation in Odisha was allowed in the distribution system in 1999 to strengthen it by infusion of fresh capital. That did not materialise as envisaged rendering the distribution system extremely overstretched to cater to the increasing demand of the consumers. The Capital Expenditure (CAPEX) programme introduced by the Government of Odisha (GoO) in 2010 to ensure capital infusion also did not work as the private partners did not cooperate with counterpart funding as envisaged in the scheme. Suffering from high Aggregate, Technical and Commercial (AT&C) loss of 36.52 *per cent* as against the approved norm of 22.17 *per cent* by Odisha Electricity Regulatory Commission (OERC) during 2013-14, the Distribution Companies (DISCOMs) were failing to provide reliable and quality power to the consumers. Further, only 550 distribution (33/11 KV) sub-stations were available as against the requirement of 1200 at that time.

In view of the above and after careful consideration, the State Cabinet approved (July 2013) the proposal for construction of about 500 new 33/11KV sub-stations in the State with an investment of ₹2,600 crore to be entirely funded by the GoO over a period of three years from 2013-14. The scheme was later named as "Odisha Distribution Systems Strengthening Project (ODSSP)". GoO modified (November 2017) the cost to ₹3843 crore for 473 sub-stations due to changes in the design to develop a robust cyclone/flood resilient system after severe cyclone struck (October 2013) the coastal belt and extended the implementation period up to 2018-19. ODSSP envisaged reduction of AT&C loss at the rate of three *per cent* per annum with an estimated additional revenue generation of ₹255 crore per annum. The project also aimed at providing quality and reliable power by upgrading the distribution infrastructure.

Odisha Power Transmission Corporation Limited (OPTCL), a State Public Sector Undertaking was engaged as implementing/Nodal Agency. OPTCL would co-ordinate with Department of Energy, Government of Odisha, Finance Department, Project Management Consultants (PMCs), DISCOMs and Steering Committee to manage the implementation of the project. As of

August 2019, an amount of ₹3130.08 crore (81 *per cent*) has been spent and only 170 sub-stations (36 *per cent*) have been completed. Further, as of January 2021, an amount of ₹3346 crore (87 *per cent*) has been spent and 356 substations (75.26 *per cent*) have been completed. Work is incomplete even after the extended timelines due to which objectives of the scheme could not be achieved, at the same time disproportionate expenditure also led to avoidable losses.

Reasons for the above failures were analysed in the present compliance audit conducted during May to August 2019 by examining whether:

- The project was planned and implemented as envisaged, to achieve reduction of AT&C loss of three *per cent* every year; and
- Monitoring and supervision systems at various levels were effective to achieve the envisaged objective.

## Audit findings

## Project Planning

**3.1.2** Planning is the most critical stage in a project. It guides the stakeholders, entities involved in implementation, project teams on how to go about important phases of the project. It helps prioritise goals, identify stages, manage tasks, identify risks and deliver the results. For implementation of the scheme, OPTCL was engaged as nodal agency. It was responsible for coordinating with different agencies for construction of 473 sub-stations. However, it was observed that due to inadequacies observed in planning, the project was affected by delays, as mentioned below:

***Delays by PMCs in approval of drawings and designs affected project implementation***

**3.1.2.1** Government of Odisha had planned to construct 500 sub-stations within three years (2013-14 to 2015-16). GoO empowered OPTCL to select PMCs amongst the Central Public Sector Undertakings (CPSUs).

PMCs were to approve drawing and design within seven days of submission by EPC contractors. It was observed in audit that PMCs neither approved the survey report in time for execution nor ensured completion of the work as per timeline fixed in the contract for Engineering, Procurement and Construction (EPC). Audit verification in respect of 343 substations revealed that, in 205 substations, PMCs approved drawing and design after 8 to 165 days. This delayed completion of project work.

Audit noted that while inviting Request for Proposals (RFPs), OPTCL did not include job specific experience of CPSUs as criteria under techno-commercial bid. Management replied (May 2020) that the consultants have vast exposure in electrical field. However, in view of the delays experienced in approvals at the design stage, as mentioned above, requisite and specific experience with PMCs would have been an enabling factor in timely execution of projects.

***Improper selection of EPC contractors***

The project involving construction of 473 sub-stations in the State was divided into 22 packages of works. A package consisted of several sub-stations consisting of 9 to 53 sub-stations. Works for each package was tendered separately on the basis of geographical location for parallel execution. As per Technical Qualification, the bidder was required to have successfully erected, tested and commissioned at least 50 *per cent* of the sub-stations mentioned in the packages they bid for, on EPC contract/Turnkey Contract basis during last five years, preceding the year of Notice Inviting Tender (NIT). OPTCL awarded each package to an EPC contractor on the basis of the above criteria on tender basis. Considering that total 473 substations were to be erected, experience of commissioning of at least 237 substations in last five years was required. However, no restriction was placed on participation of bidders for different packages to ensure such experience and capacity to deliver. Consequently, this resulted in EPC contractors participating and getting works awarded beyond their capacity.

Test check of records revealed that five contractors who should have been awarded 100 substations in total, were actually awarded 397 substations as given below:

**Table 3.1.1: Award of Substations vis-à-vis capacity**

**(No. of substations)**

| Name of the EPC contractor | Previous experience of completion | No. of packages awarded | Total no. awarded | Eligibility as per experience | Excess awarded | Handed over/ completed (May 2020) |
|---|---|---|---|---|---|---|
| M/s GPIL | 18 | 5 | 131 | 36 | 95 | 35 |
| M/s L&T | 12 | 4 | 147 | 24 | 123 | 36 |
| M/s Vishwanath Projects Ltd. | 12 | 3 | 78 | 24 | 54 | 27 |
| M/s Shrusti Contech Pvt. Ltd | 5 | 1 | 16 | 10 | 6 | 7 |
| M/s Sterling & Wilson Ltd. | 3 | 3 | 25 | 6 | 19 | 4 |
| **Total** | **50** | **16** | **397** | **100** | **297** | **109** |

***(Source: Records furnished by OPTCL)***

As may be observed from the above, the contractors who were eligible to be awarded orders to construct 100 substations in terms of their experience were awarded 397 substations out of which they could complete only 109 substations till date (May 2020). As of now 284 substations (out of 397) were completed with a delay ranging from 1 to 55 months. Remaining 113 substations are yet to be completed.

The management replied (May 2020) that there would have been disadvantages in linking qualification requirements among the packages. This would lead to participation of limited bidders quoting higher rates. The reply was not acceptable as the OPTCL management should have appreciated the bidding process in totality as different packages of the same project were not to be taken as independent assignments. It should have taken appropriate action to mitigate the risk of contractors bidding beyond their capacity for different packages simultaneously and its consequent impact on delays and non-delivery of work, which was observed to be the case.

***Imprudent change in method of procurement***

**3.1.2.3** OPTCL had been awarding EPC contracts for various other projects without keeping procurement of transformers in the scope of EPC contractors. These were being procured directly to ensure economy and quality. However, OPTCL permitted the EPC contractors in this instance to include procurement of transformers in their scope of work. This change of policy for ODSSP resulted in extra expenditure of ₹173.91 crore for procurement of 946 transformers on account of significant variation in cost of transformers between those purchased by OPTCL in other contracts and by the EPC contractors[24] in ODSSP.

Management replied (May 2020) that de-scoping of procurement of transformers from EPC contractors would lead to quoting of higher price in other items to keep fixed overhead expenses. The reply was not tenable as it assumed elements of cost in prospective bids before they were actually received through a competitive bidding process.

## Execution of the project

**3.1.3** OPTCL awarded construction of 473 sub-stations under 22 packages to nine EPC contractors. These were to be executed within 14 months from date of Letter of Acceptance (LoA) for 312 sub-stations and within 18 months for 161 sub-stations. All the sub-stations were to be completed between May 2015 and March 2019. The status of sub-stations actually completed and handed over to DISCOMs up to March 2019 is detailed below:

**Table 3.1.2: Status of sub-stations actually completed and handed over to DISCOMs up to March 2019**

| Year | No of sub-stations to be Handed over to DISCOMs | Progressive sub-stations to be handed over to DISCOMs | No. of sub-stations handed over to DISCOMs | Progressive handing over of sub-stations to DISCOMs | Cost of handed over sub-stations (₹ in crore) | Total expenses on all projects including handed over substations (₹ in crore) |
|---|---|---|---|---|---|---|
| 2014-15 | - | - | - | - | - | 82.67 |
| 2015-16 | 163 | 163 | - | - | - | 717.00 |
| 2016-17 | 149 | 312 | 29 | 29 | 220.43 | 1,106.13 |
| 2017-18 | 161 | 473 | 93 | 122 | 747.62 | 786.97 |
| 2018-19 | | | 48 | 170 | 338.95 | 437.31 |
| **Total** | | | | | **1,307.00** | **3,130.08** |

***(Source: Data submitted by OPTCL and Accounts figure of OPTCL from 2014-15 to 2018-19)***

Audit observed from the above table that physical achievement was only 36 *per cent* (170 out of 473 sub-stations) against the financial achievement of 81 *per cent* (₹3130.08 crore utilised out of ₹3843 crore) within the stipulated

24 Comparing transformers of similar specifications in various categories, purchases by OPTCL ranged from ₹30 lakh to ₹56.16 lakh and by the EPC contractors the range was from ₹33.88 lakh to ₹80.18 lakh.

period of 2018-19. The followings reasons were observed in audit as contributing to the delays:

- Absence of monitoring mechanism
- Delayed handing over of sites
- Improper scrutiny of technical parameters

These are discussed in detail with their financial implications as below:

***Absence of monitoring mechanism***

**3.1.3.1** Effective monitoring of any project is possible when it is done by any authority other than the implementing agency. It was envisaged for ODSSP that multistage control and review would be made at different levels *viz*., Nodal Agency (OPTCL), Energy Department and a steering committee which was to be constituted to oversee the implementation of the project.

The Steering Committee under the Chairmanship of Commissioner-cum-Secretary, Energy Department with representatives from Finance Department, Planning & Coordination Department, MD/CEO, DISCOMs, representative of OPTCL, former OERC member, former Director, Central Power Research Institute (CPRI) would be responsible for monitoring the entire project and provide necessary guidance for effective implementation of the project. No such committee was, however, formed as yet.

The facts were accepted (November 2020) by the Government.

***Delayed handing over of sites***

**3.1.3.2** Handing over of identified sites to the EPC contractors was critical for project implementation. The contractors were to make a detailed survey and finalise Bill of Quantity (BoQ) within 30 to 300 days from the date of LoA. Work could not commence without these.

OPTCL was responsible for land acquisition. Out of data analysed[25] in respect of 457 sub-stations, land for 34 sub-stations was handed over within 30 days, for 316 sub-stations it was handed over in 2 to 6 months, for 83 sub-stations within six months to one year, for 22 sub-stations within 1 to 2 year and for 2 sub-stations after two years. This delayed the progress of work.

The two PMCs engaged (April 2014) by OPTCL had to assist in project implementation starting with detailed field survey. OPTCL had to pay them fees amounting to ₹130.58 crore up to March 2019, out of which ₹15.10 crore was paid without any work as the handover of sites was delayed.

The Management replied (May 2020) that there was delay in many cases in handing over of the land as DISCOMs official and Revenue Inspectors had other engagements. The response only confirmed the failure in coordination

[25] Data submitted by Project Management Consultant.

by OPTCL with concerned State Authorities compounded by absence of the Steering Committee as mentioned above, which delayed getting hold of sites and handing them over to the contractors. While endorsing the observation of Audit, Government stated (November 2020) that there was scope for better project monitoring.

***Non-operationalisation of the completed substations***

**3.1.3.3** Since, after execution, the project was to be ultimately handed over to the DISCOMs, proper coordination was required with them for early operationalisation of the completed substations for transferring the intended benefits to the consumers. Deficiencies were found in this regard as below:

- Out of 473 sub-stations, 101 were charged but not handed over to DISCOMs by March 2019. In case of 98 charged and handed over sub-stations, the delay in handing over ranged from 31 to 878 days from the date of charging. Since substations were completed but not handed over, the benefit of reliable power supply with appropriate voltage could not be made available to the consumers and funds amounting to ₹774.20 crore remained blocked.

  Management replied (May 2020) that DISCOMs were unable to take over substations due to shortage of manpower.

- Out of 170 sub-stations handed over to DISCOMs, two sub-stations[26] were not in operation due to non-availability of incoming source. This led to idle investment of ₹14.58 crore.

  Management replied (May 2020) that due to non-installation of source transformers by DISCOMS and non-receipt of forest clearance, the substations were not in operation.

  Under ODSSP, DISCOMs had identified the location and construction of 33/11 kV substations and these were proposed primarily to improve the voltage profile and reduce loss. Critical factors necessary for taking over and functioning of sub-stations should have been addressed by OPTCL and DISCOMS at the planning phase. Possibility of increase in O&M costs and shortage of manpower is mentioned by DISCOMS in OERC order dated October 2017, to which Government had stated that any additional costs, if required, to implement the Scheme will be funded by the Government.

  OERC had, while reviewing the performance of OPTCL (July 2020), emphasised on early completion of projects executed under ODSSP in coordination with DISCOMs and their immediate handing over to the DISCOMs. Government, while accepting the observation, stated (November 2020) that handing over of sub-stations to DISCOMs was being expedited.

[26] Meramundali and Tangarpali.

- OPTCL planned the sub-stations keeping the provision for Supervisory Control and Data Acquisition (SCADA) for real time monitoring, operation and control of line and sub-stations. No arrangement was made with the DISCOMs for regular operation of such devices. It was observed that computer systems valued at ₹18.12 crore were provided for SCADA facility in seven closed packages for 94 sub-stations but they could not be used due to non-provision of trained manpower by the DISCOMs.

The Management replied (May 2020) that DISCOMs will train their personnel to use it.

### 3.1.4 Improper scrutiny of technical parameters

As per the technical specification of the bid document, the maximum load loss in case of five Mega Volt Ampere (MVA) transformers would be up to 21 Kilowatt (KW). However, it was observed that due to improper scrutiny of Guaranteed Technical Particulars and drawings, 64 defective 5 MVA transformers having higher load loss of 26.789 KW, supplied by a manufacturer, were installed and commissioned by EPC contractors. This implied there would be excess technical loss of 3.25 Million Units (MUs) per year amounting to annual loss of ₹90.06 lakh[27] and a total loss of ₹27.02 crore during the transformer life of 30 years.

The Management replied (May 2020) that the transformers were sent (February 2020) to Central Power Research Institute to find out the actual loss and after getting the report appropriate decision will be taken by the technical committee of OPTCL.

Absence of due scrutiny in permitting installation of such transformers goes against the very objective of reduction of AT&C losses. OPTCL must address how such approvals were granted while rectifying the issue as stated.

The work orders were issued to L&T for construction of 53 sub-stations. In three out of 53 sub-stations, there was a mismatch in capacity of transformers in LoA of supply and LoA of erection. There was delay in taking decision to rectify the discrepancy in the orders which resulted in installation of higher capacity transformer with additional cost of ₹1.96 crore.

Management accepted the facts.

- New sub-stations were proposed with drawal of power either from 33 KV source feeder or by tapping from existing 33 KV line. In case of 161 out of 215 sub-stations connected through tapping, it was observed that the existing 33 KV line from which the new sub-stations had been tapped had conductor size ranging from 34 sq.mm. to 100 sq.mm. as against the 148 sq.mm. size conductor erected for 33 KV incoming line for new sub-station. Erection of higher conductor size without having higher size from source may lead to less drawal of power in higher conductor. Despite non-

[27] (5.789 KW x 24 hrs x 365 days x 14nos x 197 paise=₹13.99 lakhs)+(5.789 KW x 24 hrs x 365days x 50 nos x 300 paise = ₹76.07 lakhs) = ₹90.06 Lakh.

availability of higher conductor size from source to tapping point, the erection of higher conductor size from tapping point to new sub-stations resulted in idle expenditure of ₹7.98 crore giving no benefit to the system.

The Management replied (May 2020) that the DISCOMs would upgrade the conductor shortly.

## 3.1.5 Outcome of the project

**3.1.5.1** Detailed Project Reports (DPRs) were prepared by proposing installation of transformer capacity in each sub-station based on future load up to 80 *per cent*. During scrutiny of 121 out of 170 sub-stations handed over to DISCOMs, it was observed that in 56 sub-stations, the load of transformers remained below 25 *per cent* even after being in operation for more than one year. Improper load forecasting in DPR resulted in installation of higher capacity transformer. This led to both extra expenditure of ₹22.31 crore and excess load loss[28] of 0.636 MUs per annum, valuing ₹16.01 lakh at 2018-19 tariff. Such excess load loss contributes to AT&C loss.

The Department, while accepting the observation, replied (November 2020) that DISCOMs have been asked to do proper load balancing to improve the utilisation of assets created under ODSSP.

**3.1.5.2** 271 sub-stations were charged by March 2019 out of which 170 sub-stations were handed over to DISCOMs for operation. However, as stated in Paragraph 3.1.3, the benefit of quality power could not be provided to the consumers due to non-handing over of 101 sub-stations.

The Management replied (May 2020) that due to shortage of manpower in DISCOMs, they were unable to take over the substations. The entire scheme was intended for supplying power with appropriate voltage to consumers, to reduce AT&C loss, which was not achieved. Further, the views of the management were not supported by any response from the DISCOMs.

**3.1.5.3** Although the project aimed at reduction of technical loss at the rate of three *per cent* per annum with generation of additional revenue of ₹255 crore per year to plough back the investment within 10 years, no mechanisms like metering arrangement at each sub-station and energy audit were put in place to measure the actual reduction.

Government stated (November 2020) that the DISCOMs have been asked to do proper energy auditing of all 11 KV feeders for proper load balancing resulting in lower technical loss.

Government must take immediate measures to address the structural issues and obtain results of energy audits as the investment in trying to reduce AT&C losses is not just a part of ODSSP but this scheme is simultaneously implemented with several other schemes *viz.*, Integrated Power Development Scheme, Odisha Dedicated Agriculture and Fishery Feeder Project and Rajiv

[28] The losses associated with the coils are load losses.

Gandhi Grameen Vidyutikaran Yojana- II *etc*. which together entail a huge outlay.

## Undue favour to contractors

**3.1.6** Several instances of undue favours being extended to the EPC contractors were also observed in audit as discussed below:

***Premature release of Liquidated Damages***

**3.1.6.1** As per the EPC contracts entered into, OPTCL deducted liquidated damages (LD) of ₹55.70 crore from the EPC contractors during 2015-16 to 2018-19 for delay in supply and erection of the project. Board of Directors (BoD) decided (February 2018) to release the LD after completion of the work if the delay was not found attributable to the contractor. The matter of time extension was submitted to the BoD attributing the delay to change in drawing and design, Right of Way issue *etc*. Board thereafter approved the extension of time authorising the CMD for necessary action regarding release of LD. However, LD amounting to ₹49.39 crore out of ₹55.70 crore was released to EPC contractors before completion of work in violation of the earlier directive which led to loss of interest of ₹8.28 crore.

The Management replied (May 2020) that LD had been returned due to extension of project completion period. The reply was not acceptable as BoD had decided that LD would be released after completion of the project.

***Discriminatory reimbursement for extra work***

**3.1.6.2** The works of drawing lines[29] always involve Right of Way (RoW) problems. The owners of land over which the stringing of conductors[30] was to be done, usually resist such stringing causing delay in execution. The EPC contracts, however, stipulated that the contractors were to have their own survey before finalisation of BoQ. Further, the responsibilities of acquiring RoW would lie with contractor at its risk and cost. Four EPC contractors claimed reimbursement for extra work carried out due to RoW issue for change of site/route. OPTCL allowed reimbursement of ₹46.76 lakh to three EPC contractors. Reimbursement was denied to one EPC contractor on the ground that RoW issues were within the contractor's scope. Such discriminatory treatment led to undue favour of ₹46.76 lakh to three EPC contractors.

The Management replied (May 2020) that the EPC contractors paid some compensation to avoid damage of lines which was reimbursed. The reply was not acceptable as compensation for RoW issue was to be paid by the EPC contractor.

[29] Drawing line: Erection of conductors from pole to pole for a entire stretch of line.
[30] Stringing of conductor: Erection of conductor from pole to pole.

### *Undue deviation from contractual terms*

**3.1.6.3** As a general prudence, subsequent modifications to contracts were allowed only when it was mutually beneficial. However, while the EPC contracts were under execution, OPTCL allowed various modifications in the clauses of contracts which were beneficial to the contractors at the cost of project. These are discussed below:

- An EPC contractor requested OPTCL for permitting them to supply power and control cable on direct sale instead of on bought out[31] basis as was agreed in the contract. OPTCL allowed the change despite the fact that there was no provision for it in the contract. It was observed that due to change from bought-out to direct supply, the EPC contractor was extended undue benefit of ₹0.63 crore as it got a price for his product higher than the price it was getting from other customers.

The Management replied (May 2020) that EPC contractor was allowed the change from bought-out to direct supply as per the quoted price. The reply was not acceptable as change of mode of supply resulted in procurement at higher price.

- Package 1-IAR was awarded to an EPC contractor (in a joint venture) for construction of 35 sub-stations. On the request of the JV partners, OPTCL allowed separation of quantity between them, 24 sub-stations for one partner and 11 sub-stations for other partner although there was no such provision in the LoA. Thereafter, materials which were to be supplied on bought-out basis were supplied by one partner after procuring from other partner. Although material was procured at a price lesser than the quoted price by one partner, it was paid for at the quoted price resulting a benefit of ₹2.04 crore. As was clarified by OPTCL in case of procurement from another partner, procurement was not to be treated as bought-out basis but as supply on direct sale basis. Hence, change in contractual terms after placement of LoA resulted in the aforesaid undue benefit to the contractor.

The Management replied (May 2020) that the quantity separation was with due approval of the competent authority and payment was made as per quoted prices. OPTCL may review its policy and process of grant of modifications to contracts as this had resulted in undue benefit which was not intended in the contract.

## Avoidable loss due to disproportionately higher financial outlay

**3.1.7** While analysing the reasons for 81 *per cent* of financial progress against only 36 percent of physical progress, it was revealed in audit that avoidable expenditures in the form of procurement were made with consequential losses as below:

[31] Bought out items were those which the contractors purchased from open market for utilisation in the project as against the direct sale items which the contractor utilised out of his own production.

***Procurement without requirement***

**3.1.7.1** OPTCL could complete and finalise BoQ for 7 out of 22 packages by March 2019. Materials valued at ₹16.47 crore, against which OPTCL had paid ₹12.35 crore were lying without any adjustment from the date of completion of the packages. Procurement of materials without assessing proper utilisation led to idling of surplus material valuing ₹16.47 crore with consequential loss of interest of ₹0.69 crore.

The Management replied (May 2020) that one cannot ascertain the exact quantity of poles and conductors to be used for the projects. The reply was not acceptable as it could be ascertained in the survey for standardised jobs like these. Moreover, the EPC contract also stipulated that the contractors were to have their own survey before finalisation of BoQ. Government, however, endorsed (November 2020) the observation of Audit.

- As per the contractual agreement, the EPC contractors were to supply the materials as per schedule submitted at the time of tender. The project included both sub-stations and line items. The line items were required to be procured as per site condition and on the basis of requirement. EPC contractors submitted proposal for purchase of line items and sub-station items even before finalisation of survey report and approval of drawing and designs. PMCs and ODSSP cell approved materials dispatch clearance certificate based on the LoA quantity. Audit analysis in five out of 22 packages awarded to EPC contractors revealed that the line items procured prior to July 2017 valuing ₹70.96 crore for five packages were still lying in the store without utilisation. OPTCL had already paid ₹53.22 crore towards 75 *per cent* of the cost and thereby lost an opportunity to earn interest of ₹9.31 crore.

The Management replied (May 2020) that materials were required to be procured in order to avoid cost escalation in future. OPTCL could not ask EPC contractors to stop procurement. The reply was not acceptable as such possibility of cost escalation was best dealt with by incorporation of price escalation clause in the contract which was not there. Government, however, endorsed (November 2020) the observation of Audit.

***Uneconomic procurement***

**3.1.7.2** It was stipulated that changes in the quantity within the limit of $\pm$25 *per cent* of the BoQ of the scope of work would be allowed by owner at the same unit price. "Any change in quantity more than 25 *per cent* of the BoQ, the contractors would have to allow a discount of 5-10 *per cent* to their unit price". This clause was kept for eight packages. However, the clause was changed to "any increase in the quantity resulting in increase in the contract price beyond 25 *per cent* at a discount of 5 *per cent* of the unit price" for rest 14 packages. The change of clause led to loss of discount of ₹1.18 crore in one package out of seven closed packages.

The Management replied (May 2020) that the bidders quote the value as per the terms and conditions. The reply was not acceptable as this was a change of terms and conditions without any reason which was an undue extension of benefits to the bidders.

- Consumers requiring dedicated feeders were required to deposit with DISCOMs, the cost of feeder along with 22 *per cent* supervision charges for power supply to their units. It was observed that a dedicated feeder was constructed under the project for a consumer without asking for deposit of cost of feeder leading to undue favour of ₹0.28 crore.

The Management replied (May 2020) that it was an incident in which there was just one consumer for the feeder. However other consumers would be able to avail power from the feeder in due course. The reply was not acceptable as the public expenditure could not have been made for exclusive benefit of a single consumer at the first instance. This could not be justified with a probable situation.

## Conclusion

**ODSSP was conceived for implementation within the time line of 2018-19 in order to reduce AT&C loss and to increase the supply of quality and reliable power to the consumers by up-gradation of distribution infrastructure.**

**The project did not yield the desired result and was affected by delays due to inadequacies in project planning. Execution of the project suffered due to delayed handing over of sites and lack of coordination with the DISCOMs. In some instances, structural deficiencies like installation of higher capacity transformers (leading to improper load balancing), installation of defective transformers, usage of oversized conductors continued to potentially impact AT&C losses negatively instead of arresting them. Instances of unplanned and uneconomic procurement of materials led to larger financial outlay without the corresponding benefit for attainment of the envisaged project objective. This led to a situation where by even after spending 81 *per cent* of the project outlay, the physical progress of the project was 36 *per cent* (August 2019).**

**Effective monitoring is essential for successful implementation of project of this size and importance. Although a suitable high level monitoring steering committee was required to be constituted involving all important stakeholders including Government of Odisha, the committee was never constituted. There was significant absence of co-ordination between OPTCL and DISCOMS which was evident at many critical stages of the project. Even completed substations could not be handed over to the DISCOMs. Deficiency of staff at DISCOMS, which could have been addressed much earlier in the project, was cited as the reason for not handing over completed sub-stations and consequently huge funds continued to remain blocked.**

**OERC expressed concern (March 2019) over continued huge AT&C loss varying from 50 *per cent* to 74 *per cent* in several areas of the DISCOMs. Overall, intended improvement in quality and reliability of power supply did not materialise even for the closed packages due to non-completion of the project after the extended time and despite cost estimates going up from ₹2600 crore to ₹3,843 crore.**

### *3.2 Undue benefit*

**Irregular award of tender and extension of undue benefit to the contractor in the procurement of conductors**

Conductors[32] are used for the purpose of transmission of electricity. OPTCL procured ACSR[33] Panthor and ACSR Zebra conductors from the market through open tender for utilisation in the operation.

OPTCL invited open tender (March 2017) under two part bidding system for procurement of 71 KMs ACSR Panthor and 1,015 KMs ACSR Zebra conductors. The tender *inter alia* stipulated that the quoted price would be variable as per Indian Electrical and Electronics Manufacturers' Association (IEEMA) price variation (PV) clause. The last date of submission of tender was 5 April 2017. The base date of quoted price was given as 06 March 2017 *i.e.*, 30 days prior to opening of techno commercial part of the tender.

However, before evaluation of the price bids of techno-commercially qualified bidders, the Goods and Services Tax came into force on 1 July 2017. Hence, the techno-commercially qualified bidders were asked (September 2017) to submit the GST compliant price bid on or before 06 October 2017. Accordingly, as per price variation stipulations, OPTCL changed the base date to 6 September 2017 *i.e.*, 30 days prior to last date of submission of GST compliant price bid to give effect to the price variation clause. The parties were required to mention either 'Firm' or 'Variable' only against nature of price in the price bid wherein a variable nature of price implies that price was subject to change during the tender period.

In this regard, audit observed the following:

- Based on price bids received, purchase order was placed on the L1 bidder on 17 February 2018 for supply of 71 KMs of ACSR Panther conductor and 1,015 KMs of ACSR Zebra conductor at price of ₹26.29 crore.

- The L1 bidder, mentioned 'variable' against price in the bid but mentioned the base date for price variation as 06 March 2017 instead of 6 September 2017 as set in the revised tender conditions The other firms who submitted the bid mentioned 'variable' nature of price only without any mention of the base date for price variation.

- The purchase committee of OPTCL, in their meeting on 3 February 2018, did not consider the above fact and placed the purchase order (February 2018) with L1. Purchase order was, thus, granted to a bidder who had submitted ineligible bid not in consonant with tender conditions.

- The L1 bidder did not accept the purchase order and requested (February 2018) OPTCL to revert to the earlier base date for applicability of price

[32] Conductor is an object or type of material that allows the flow of charge (electrical current) in one or more directions.

[33] ACSR – Aluminium Conductor Steel Reinforced.

variation. Though the purchase committee got another chance to declare the L1 bidder as ineligible, the committee accepted their request.

- OPTCL justified its decision by comparing the price implication of the quote of L1 with base date as 6 March 2017 with the quotes of other bidders with base date as 6 September 2017.

- During this comparison, L1 turned out to be L2. In order to remain L1, the bidder offered a flat discount of ₹200 per km of conductor in the offered price. Consequently, the bidder again became L1 on the date of evaluation but the applicability of PV clause for the supply remained 6 March 2017.

- While accepting the above proposal, OPTCL issued amended purchase order on 26 April 2018 for procurement of 1,086 KMs of conductor at a price of ₹26.27 crore. Further, repeat purchase order was issued (September 2018) to the party for procurement of 203 KMs of ACSR

- Audit noted that the IEEMA price index for the conductor was at ₹1.42 lakh on 6 March 2017 and ₹1.48 lakh on 6 September 2017. By accepting the request to change the base date, OPTCL was liable to pay higher amount of escalation, as the price of conductor was on increasing trend as also observed by the purchase committee in April 2018.

- OPTCL procured 1,287.978 KMs of conductor for ₹39.13 crore during June 2018 to October 2018 though they could have purchased the same for ₹38.09 crore had they followed the base date as per tender conditions.

- Consequently, applicability of price variation clause in deviation to tender condition resulted in extension of undue benefit to the supplier and avoidable expenditure of ₹1.04 crore (₹39.13 – ₹38.09 crore).

Government stated (September 2019) that the purchase committee did not consider cancellation of the tenders as there was rising trend in prices of raw materials and retendering was a time consuming process. So they negotiated with the bidder with little deviation of tender procedure as there was no financial implication.

The reply was not acceptable as the purchase committee considered an ineligible bidder and recommended to negotiate with the bidder. The entire tender procedure was further rendered faulty as underlying quotes between L1 and other bidders were not based on same tender conditions. Price was on an increasing trend. Allowing price variation from an older base date which had a lower price to a bidder and from a later base date which had a higher price to other bidders naturally favoured the former to be L1. Audit observed this to be a clear case of extension of undue benefit to the contractor by accommodating his requests which were contrary to the tender conditions.