



TWELFTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2006-2008)**

SEVENTH REPORT

(Presented on 17th October, 2006)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2006**

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**COMMITTEE
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(2006-2008)**

SEVENTH REPORT

On

**Transformers and Electricals Kerala Ltd. based on the Report
of the Comptroller and Auditor General of India for
the year ended 31-3-2002 (Commercial)**

963/2006

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2006-2008), having been authorized by the Committee to present the Report on their behalf, present this Seventh Report on Transformers and Electricals Kerala Ltd. based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2002 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31-3-2002, was laid on the Table of the House on 16-6-2003. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public undertakings constituted for the years 2004-2006.

This Report was considered and approved by the Committee at the meetings held on 9-10-2006.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala, in the examination of the Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Transformers and Electricals Kerala Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries Department and Finance Department and the officials of the Transformers and Electricals Kerala Limited who appeared for evidence and assisted the Committee by Placing their considered views before the Committee.

Thiruvananthapuram,
17-10-2006.

MANKODE RADHAKRISHNAN,

*Chairman,
Committee on Public Undertakings.*

REPORT

TRANSFORMERS AND ELECTRICALS KERALA LIMITED

AUDIT PARAGRAPH

Avoidable payment of penalty :

Acceptance of shorter delivery schedule ignoring the technical difficulties in finalization drawings resulted in avoidable payment of penalty of Rs. 23.07 lakh.

The Company received (November 1998) a letter of intent (LOI) from Bhakra Beas Management Board (BBMB) for the supply of one number 475 MVA 11/220 KV Generator transformer at a total price of Rs. 2.69 crore excluding taxes and duties. The transformer was to be designed by the Company on the same lines as an old Russian made transformer situated at the premises of BBMB. As per the contract, the transformer was to be delivered (July 1999) within a period of 9 months from the date of LOI. Delay in delivery of the transformer attracted liquidated damages at the rate of 1/2 per cent of the value of contract for every week of delay subject to a maximum of 10 per cent. The manufacture of the transformer by the Company required finalization of special design and drawings to suit the old transformer and approval by BBMB. Though various clarifications required for preparation of drawings were received (December 1998) from BBMB, the Company could finalise the drawings and obtain the approval by september 1999 only. The transformer was ultimately despatched in November 2000, after a delay of about 16 months and BBMB invoked the penalty provisions and recovered (January 2001) liquidated damages of Rs. 23.07 lakh from the Company.

It was noticed in audit that despite knowing the technical difficulties and ensuing delay in accepting a replacement order involving basic design change, the Company accepted the order, that too with a normal delivery period of 9 months. Due to this the approval of drawings could be obtained 2 months after the stipulated date of delivery of the transformer and actual supply was delayed by 16 months.

Thus, the failure of the Company to claim a longer delivery period even after knowing about the technical difficulties involved in finalization of drawings for a replacement order resulted in a avoidable payment of liquidated damages amounting to Rs. 23.07 lakh.

Government stated (August 2002) that the equipment was in replacement of an existing transformer and the customer had specified deviations in the drawings due to which the finalization of designs got delayed. The reply is not acceptable as the Company was aware of the technical difficulties associated with a replacement order in 1996 itself when another replacement order for 100 MVA transformer was placed by BBMB. The acceptance of the subsequent similar order for 175 MVA transformer with normal delivery period of 9 months ignoring the difficulties involved in finalization of drawings was not in the best interest of the Company and only added to the loss already incurred by the Company.

[Para 4.1.7.1—Contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2002].

The notes furnished by Government on the para is given in Appendix II.

1. The Committee pointed out that Transformers and Electricals Kerala Limited had to pay an amount of Rs. 23.07 lakh towards liquidated damages to Bhakra Beas Management Board (BBMB) due to Company's acceptance to shorter delivery schedule and lack of knowledge in respect of the difficulties in the finalization of drawing. The Committee wanted to know how much the Company had gained in the deal. The witness informed that the order was for Rs. 2.69 crore and the company received the entire amount except the liquidated damages of Rs. 23.07 lakh and in this deal the company had made a profit of 40%. The witness added that this was an order received in 1998, but BBMB wanted an exact replica of the Russian made transformer. The Company had taken the order as a challenge. The witness further informed that the transformer was commissioned satisfactorily and the delay was due to the time taken for incorporating the modifications suggested by the purchaser. The witness stated that there was a technical problem of frequent temperature rise, and it was due to this the customer was holding the liquidated damages. BBMB being a Government of India undertaking the issue had been taken up at higher levels. All efforts were made to rectify the defects within the means of the order. When the Committee enquired the reason for the huge delay of 16 months for delivering the item, the witness disclosed that as the Russian technology was outdated some hotspots were found on the LV side of the transformer after its commissioning, which caused the transformer to rise temperature during its functioning. The Committee remarked that the failure of the Engineering wing of the company to make a proper study and understanding regarding the technical difficulties involved in finalising the drawings of the old model transformer was one of the reasons for the delay in the delivery of the product and its improper functioning. The witness stated that BBMB had suggested certain modifications

in the design and engineering of the transformer, as they wanted a replica of the old Russian model transformer. As a result certain problems had also occurred in the functioning of the product. Nevertheless the transformers were functioning smoothly barring the problem of temperature rise. The witness informed that the Company had taken the order on the assumption that BBMB wanted only replacement of the old transformer with some functional advantage. But later they insisted for a replica of the old transformer.

2. Reacting to the statement of the witness that while receiving orders from BBMB, they were unaware of the fact that the customer wanted a replica of the old Russian model transformer, the Committee pointed out that TELK had not only failed to study the details of tender specifications of the work, but also failed to frame an enforceable agreement with BBMB before the commencement of the work. If TELK had done so, they did need to honour only the agreement conditions and for any additional work outside the agreement Bhakra Beas Management Board would have made the payment.

3. The witness, further informed that the Company had taken up the matter with the higher officials of Government of India to sort out the issue and also to waive the liquidated damages. When asked about the working condition of the transformer, the witness informed that it had been working smoothly for the last three years, bearing the temperature rise. The Committee opined that there was a provision in the agreement, limiting the LD up to 10%. Otherwise the Company would have to pay the LD for 6 years. Enquired about the steps taken by the company to rectify the defects, the witness replied that Bhakra Beas Management Board was satisfied with the overall performance of the product. When enquired whether any problems of similar nature had occurred, the witness replied in the negative and informed that the Company had not paid liquidated damage to power transformer. The Committee wanted to know whether the Company had taken any corrective measures at the management level. The witness replied in the affirmative and informed that a detailed study had been issued and on the basis of it strict directions had been given not to undertake any work which was beyond the Company's technical know how.

4. The Committee pointed out that only through modernisation, the Company could survive in the world of fast changing technology. The witness informed that the company was using the technology of Hitachi, which was in vogue since 1995. when enquired whether the company had taken any concrete steps for modernisation, the witness informed that only a marginal upgradation was achieved and no major improvement had been made. To a specific question of the Committee regarding the efforts made by the Company to upgrade the technology to the international standards, the witness informed that for

achieving international standards, huge investment was required in Research and Development, on which no such investment had been made since 1989. When enquired about the modification plan of the Company, the witness informed that TELK had submitted a rehabilitation package to the Government projecting the inevitability of technology upgradation. But huge investment was also required for changing the windings and testing equipments which are essential for upgradation.

5. The Committee pointed out that the company could not function effectively without modernisation. The management of the company is incompetent and ineffective. The Committee enquired whether the Company could get back the amount withheld by BBMB and the reasons for the delay in this regard. The witness stated that the matter was being taken up with the new chairman of the company for waiver of th LD. The Principal Secretary, Industries Department informed the Committee that "TELK" was earnestly pursuing the matter, taking up the issue with the MD, BBMB and a final reply in the matter would be furnished at the earliest.

Conclusions/Recommendations

6. The Committee finds that TELK had paid Rs. 23.07 lakh towards liquidated damages to Bhakra Beas Management Board due to the failure of the engineering wing of the Company to make a proper study regarding the technical difficulties involved in finalizing the special design and drawings to suit the old transformer. The Committee understands that it was the reason for delay in the delivery of the transformer and also affected the proper functioning of the product. The Committee observed that the Company had failed to conduct a proper study of the tender specification and to frame an enforceable agreement with BBMB, before the commencement of the work.

7. The Committee observes that in the world of fast changing technology, the company can survive only through modernization and added that the management of the Company proved to be incompetent and ineffective. The Committee recommends to take urgent steps to get back the amount withheld by BBMB and to take concrete steps to modernize the technology in order to compete with international market.

MANKODE RADHAKRISHNAN,

Thiruvananthapuram,
17th October, 2006.

Chairman,
Committee on Public Undertakings.

APPENDIX I

Summary of Main Conclusions/Recommendations

<i>Sl. No</i>	<i>Para No.</i>	<i>Department Concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	6	Industries	The Committee finds that TELK had paid Rs. 23.07 lakh towards liquidated damages to Bhakra Beas Management Borad due to the failure of the engineering wing of the Company to make a proper study regarding the technical difficulties involved in finalizing the special design and drawings to suit the old transformer. The Committee understands that it was the reasons for delay in the delivery of the transformer and also affected the proper functioning of the product. The Committee observes that the Company had failed to conduct a proper study of the tender specification and to frame an enforceable agreement with BBMB, before the commencement of the work.
2	7	"	The Committee observes that in the world of fast changing technology, the company can survive only through modernization and added that the management of the Company proved to be incompetent and ineffective. The Committee recommends to take urgent steps to get back the amount withheld by BBMB and to take concrete steps to modernize the technology in order to compete with international market.

APPENDIX II

**Report of the Comptroller and Auditor General for the year ended
31-3-2002 (Commercial) regarding Transformers and
Electricals Kerala Ltd.—Action taken Report**

<i>Para No.</i>	<i>Recommendations</i>	<i>Action Taken</i>
(1)	(2)	(3)
4.1.7.1.	<p>The Company received (November 1998) a letter of intent (LOI) from Bhakra Beas Management Board (BBMB) for the supply of one number 175 MVA 11/220 KV Generator transformer at a total price of the Rs. 2.69 crore excluding taxes and duties. The transformer was to be designed by the Company on the same lines as an old Russian made transformer situated at the premises of BBMB. As per the contract, the transformer was to be delivered (July 1999) within a period of 9 months from the date of LOI. Delay in delivery of the transformer attracted liquidated damages at the rate of 1/2 per cent of the value of contract for every week of delay subject to a maximum of 10 per cent. The manufacture of the transformer by the Company required finalisation of special design and drawings to suit the old transformer and approval by BBMB. Though various clarifications required for preparation of drawings were received (December 1998) from BBMB, the Company could finalise the drawings and obtain the approval</p>	<p>Against the tender floated by M/s BBMB for the supply of 1 No. 175 MVA Power transformer, the Company had submitted offer in the month of May 1998 (on 7-5-1998). Based on the officer, M/s. BBMB confirmed the order on the company in November 1998 (vide their purchase order No. AT 292 dated 13-11-1998).</p> <p>A reievew of the confirmed Purchase Orders on hand with delivery period during the 1st half of 1999-2000 (i.e. 1st April 1999 to 30th September 1999) shows that the delivery commitments were very few and that was not sufficient to meet the Company's production capacity for Power transformers. Even though the Company having an order book of Rs. 54 crores as on 30th September 1998, orders worth Rs. 34 crores were planned to be executed only in the second half of 1998-99. As such the Value of balance of orders as per the then finalizaed production schedule which could be carried forward to the next financial year for execution in 1999-2000 was only Rs. 15 crores (i.e. Rs. 54 crores</p>

(1)	(2)	(3)
<p>by September 1999 only. The transformer was ultimately dispatched in November 2000, after a delay of about 16 months and BBNB invoked the penalty provisions and recovered (January 2001) liquidated damages of Rs. 23.07 lakh from the Company.</p>	<p>It was noticed in audit that despite knowing the technical difficulties and ensuing delay in accepting a replacement order involving basic design change, the Company accepted the order, that too with a normal delivery period of 9 months. Due to this the approval of drawings could be obtained 2 months after the stipulated date of delivery of the transformer and actual supply was delayed by 16 months.</p>	<p>minus Rs. 39 crores). As such in order to complete the order book for the subsequent year the Company had to opt for the short delivery period. As a matter of fact M/s. BBMB had also insisted on the short delivery period. Further during the period there was stiff competition among the various suppliers for the limited number of orders (at that time M/s. NGEF and M/s. APEX were also in the market in addition to the established suppliers like BHEL, Alstom and CGL).</p>
<p>Thus, the failure of the Company to claim a longer delivery period even after knowing about the technical difficulties involved in finalisation of drawings for a replacement order resulted in avoidable payment of liquidated damages amounting to Rs. 23.07 lakh. Government stated (August 2002) that the equipment was in replacement of an existing transformer and the customer had specified deviations in the drawings due to which the finalisation of designs got delayed. The reply is not acceptable as the Company was aware of the technical difficulties</p>	<p>The replacement transformer (100 MVA Power transformers replaced in 1995) referred to the in the audit query is not strictly comparable to the instant case as the 100 MVA transformer was of TELK make which was commissioned in 1980. As the same was manufactured in TELK, the company is aware of the various technical complications involved in it to maintain its standard to international level. However, in the case of 175 MVA, being a Russian make transformer the Company had envisaged lesser technical complications. Accordingly the conclusion by audit on the technical issues, comparing the 100 MVA transformer earlier supplied by TELK and the 175 MVA transformer of Russian make is not relevant under the facts and circumstances of the case.</p>	

(1)	(2)	(3)
	<p>associated with a replacement order in 1996 itself when another replacement order for 100 MV transformer was placed by BBMB. The acceptance of the subsequent similar order for 175 MVA transformer with normal delivery period of 9 months ignoring the difficulties involved in finalisation of drawing was not in the best interest of the Company and only added to the loss already incurred by the company.</p>	<p>Follow up for getting delivery extension.</p> <p>The 175 MV transformer supplied by TELK was designed in such a way that it matches with the existing Russian make transformer already in use with M/s. BBMB. As the Russian Technology is out-dated, some hot spots were found on the I.V side of the transformer after its commissioning, which caused the transformer to attain very high temperatures during its functioning. M/s. BBMB is now taking the stand that the above malfunctioning can be rectified by replacing the existing mild steel tank by stainless steel tank. As the above proposition is not workable considering the huge costs the company is exploring other technical possibilities to sort out the issue. Once the above technical complications are sorted out, M/s. BBMB is likely to consider favourably the Company's request for delivery extension.</p>