CAG Report Summary

Ultra Mega Power Projects under Special Purpose Vehicles

Background

The Comptroller and Auditor General (CAG) released a Report on Performance Audit of Ultra Mega Power Projects under Special Purpose Vehicles on August 17, 2012. Given the magnitude of expansion the power sector requires, the Government of India (GoI) decided in November 2005 to develop 16 Ultra Mega Power Projects (UMPPs). The projected cost of each UMPP of 4000 MW was Rs 16,000 to 20,000 crore. Ministry of Power (MOP) designated the Power Finance Corporation Limited (PFC) as the nodal agency for development of UMPPs. Four UMPPs have been awarded, viz. Sasan in Madhya Pradesh, Mundra in Gujarat, Krishnapatnam in Andhra Pradesh and Tilaiya in Jharkhand.

For the selection of Project Developers, a two stage bidding process was adopted:

- Request for Qualification (RFQ) - Bidders satisfying minimum technical and financial criteria were short listed.
- Request for Proposal (RFP) – Bidders were required to quote the tariff for 25 years from the Scheduled Commercial Operation Date of the concerned UMPPs.

Findings and Recommendations

The findings of the CAG were as follows:

(a) Appointment of bid process management consultant

- The principle of equity in public procurement was not followed while awarding consultancy assignments to Ernst &Young (E&Y).

(b) Identification of Project Developers

The audit observed that the process of identifying the Project Developers suffered from inadequacies such as:

- Minimum criteria for prequalification of bidders like net worth were on the lower side considering the size of the projects.
- Key conditions of the Standard Bidding Documents were diluted, citing the need for increasing competition or providing comfort to the Developers.
- Bid Process Management Consultants E&Y as well as the various Evaluation Committees failed to adequately verify admissibility of experience claimed by Reliance Power Limited (RPL).

(c) Excess Acquisition of Land

- The Central Electricity Authority finalised its report on land requirements for thermal plants in December 2007. The audit noticed that land for some UMPPs was in excess when compared to the norms in that report.
- The Developers were allowed to retain the excess land instead of utilising the same for other 'Public purposes'.

(d) Financial Benefit to Project Developer

- The Empowered Group of Ministers (EGOM) recommended that power generated by utilising incremental coal from captive coal blocks of Sasan UMPP would be sold through tariff based competitive bidding. But RPL was granted permission by Ministry of Coal to use the surplus coal in the power plant it was setting up in Chitrangi. RPL had bid for the Chitrangi project citing independent fuel arrangement.
- The clauses of the coal allocation letter do not explicitly state that the central government would indeed grant permission to the Developer to use the surplus coal in their other projects. Hence, the grant of this permission to RPL was detrimental to other bidders like the Tata Power Company Limited.
- This resulted in financial benefit of Rs 29,033 crore with a net present value of Rs 11,852 crore to the Project Developer.
- Fuel cost is an important aspect of commercial consideration in arriving at the tariff. The permission to use surplus coal in other projects of the bidder after award of the contract based on acceptance of the lowest tariff vitiated the sanctity of the bidding process. This resulted in post bid concessions to RPL having significant financial implication.
- To ensure fair play and transparency of the bidding process for future Developers to derive comfort in Government action, the allocation of the third coal block (Chhatrasai) should be reviewed. According to the audit, given that RPL had committed that they would be able to source 20 million tonne from the two blocks, there would be adequate coal to feed the Sasan UMPP.

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