

KSEB contract for SNC-Lavalin
Malabar Cancer Centre or kick-back?

By K Vijayachandran

The renovation and augmentation (R&A) programme at Pallivasal, Sengulam and Panniar hydel power stations (aggregate capacity 115 MW) ordered by the Kerala State Electricity Board (KSEB) in 1996, when the present Secretary of the Kerala CPI (M) was Power Minister of the State, has turned controversial now, with the CA&AG taking up a performance audit of the programme, which was completed in 2001.

Brief history of the case: An agreement was signed by the KSEB with the Canadian project consulting company, SNC Lavalin (SNC-L), in February 1996 for the supply of project equipment and related services under Canadian credit. Within a few months, the Left Democratic Front (LDF) came to power and the new Power Minister took the initiative in renegotiating the price and other terms and conditions of the contract and also visited Canada twice for discussions in this regard, the first along with KSEB officials and the second time in the company of his Chief Minister, before finally awarding the contract. This much is generally known to the public at large. However the details now brought out by the CA&AG through its performance audit are politically damaging for the Left in general and the CPI (M) in particular.

Facts as I know personally: As a member of the Steering Committee for Power, constituted by the Kerala State Planning Board in 1996 for preparing the Ninth Plan, I had the opportunity to study this R&A programme of the KSEB in some detail, along with Mr Sambamurthy (ex-Chairman, CEA), who was, at that time, serving as Member (Energy) of the Planning Board. The three power stations in the Periyar river basin, with a total of 12 generating machines in the capacity range of 5 to 15 Mw and installed during the period 1940 to 1964, were generating much below the design capacities for a variety of reasons, including overage of a couple of components or sub-systems, which could have been set right by KSEB engineers themselves, with little or marginal assistance and inputs from organizations and enterprises at the national level. In our view, there were three fundamental defects in the agreement signed by the KSEB under the UDF regime: (1) the price agreed to for the supply of goods and services was quite high, considering the scope of the R&A programme; (2) contracting the consulting firm for the supply of goods and services, specified by it, was procedurally wrong and lacking in transparency and (3) the need for external consultancy was only marginal and most of the engineering services could be organized internally within the KSEB organization. Mr Sambamurthy had conveyed the above understanding to the KSEB Chairman, the Vice-Chairman of the Planning Board, as well as the Minister. We had also used our influence, individually as well as jointly, to get from BHEL its proposals and quotation to do the job on a turnkey basis with or without credit from the Power Finance Corporation. As I remember, BHEL's price

was around Rs 100 crore, much less than that of the Canadian firm. This is the last I know personally about this KSEB project.

Prophecy by Ex-CEA Chairman and the Power Secretary: Mr Sambamurthy had later informed me that the Minister himself was favouring the Canadians because they had offered to set up a Cancer Centre in the Chief Minister's constituency in Malabar at a cost of Rs 100 crore. Trading a misconceived power project contract for a healthcare institution in the Chief Minister's constituency was a new experience for Mr Sambamurthy and in his view it was a clear violation of the spirit of the Electricity Act 1948, of which he had been the custodian for several years. He had cautioned that it was nothing short of political corruption which would get exposed in no time and could do immense damage to the movement that we all believed in. Mr Varadachary, IAS, a close friend of mine and then Power Secretary, had told me that for expressing such concerns on the file the Minister had openly branded him a madcap. These honest officials stand vindicated today, more than 100 percent, and the developments are proving to be so very costly and embarrassing for the CPI(M). Comrade Pinarayi Vijayan was only a Minister at the time of committing this indiscretion: he is now the Secretary of the Kerala contingent of the CPI (M), the largest working class party in the country.

Advice by Balanadan Committee: The expert committee on power development appointed by the Government under advice from the party State Committee, with Comrade E Balanandan as Chairman and several technical experts of international repute and representatives of trade union executives and associations as members, had refused to endorse the recommendations of the Canadian consultants and had suggested far more cost-effective approaches as alternatives after detailed field investigations and studies. Within seven days of submission of this report by the expert committee, headed by Mr Balanamdan, the then President of the Centre of Indian Trade Unions (CITU), a veteran trade unionist from India's power sector and politburo (PB) member of the CPI (M), the Cabinet of Ministers headed by another PB member of the party had put its seal of approval on the SNC-L contract. That was very typical of the power equation that prevails in the Kerala CPI (M) even today.

Recent newspaper reports: Just before the damaging CA&AG document got leaked to the press, The Hindu had reported on July 1, 2005 from Kannur: *The Malabar Cancer Centre (MCC) in north Kerala is struggling for survival even as the controversy over its funding by Canadian company SNC Lavalin is raging. Cancer patients from the northern districts continue to go to distant places in Kerala and neighbouring States for treatment as MCC has been functioning without even a radiotherapy unit, which is the basic requirement for a cancer centre. SNC Lavalin had promised Rs 983 million to the MCC as a reward to the contract awarded to them for renovating the Pallivasal, Cherkulam and Panniyar hydel power projects at an estimated cost of Rs 2.83 billion. The work on the cancer centre was started after the Canadian company provided the first instalment of Rs120*

million after which they have remained silent. The MCC has now only 12 doctors and 65 beds as against the original plan of 276 beds and....Quoting the CA&AG draft, The Hindu of July 10 reported: The R&M project, executed at a colossal cost of Rs 374.50 crores, did not result in any improvement in power generation at Pallivasal, Sengulam and Panniar, which had a combined generation capacity of 115.5 MW of electricity. On the contrary, because of various technical defects in the renovated equipment, the power stations at these three places did not achieve the pre-renovation generation levels when the R&M was completed in 2001.

Actual generation at these three stations in 2002-03 was only 371 million units which was less than 60% of the design capacity. This supports the contentions of the AG's report that the R&M project as implemented by the Canadian consultant did not meet the declared objective, even though the cost was substantially high compared to the options available to KSEB.

Defence by Kerala CPI (M): With charges of political corruption and kick-back in the SNC-L deal mounting against its, the Kerala CPI (M) Secretary is on the defensive and there is a plethora of explanations from the top, such as:

- (1) The CA&AG report is a mere hoax to discredit the party.
- (2) The main target of the leak was A K Antony. It was a part of the ongoing feud within the Congress Party.
- (3) The original agreement was signed by the UDF, and the LDF cannot be blamed for poor performance or non-performance.
- (4) The LDF Minister brought down the cost during his visits to Canada and discussions with SNC-L.
- (5) The BHEL offer and the Balanandan Committee recommendations could not be considered because the contract was closed by the UDF and cancellation would have led to arbitration in Paris.
- (6) The balance money of Rs 89 crore for the Malabar Cancer Centre could have been collected if the UDF had made an earnest try.
- (7) The LNC-L offer for social services was only Rs 40 crore originally and the LDF could increase this to Rs 100 crore.

Self-defeating explanations: Explanations 1 to 4 were flimsy and mutually contradictory and quickly went out of circulation. Regarding (5), one may say that going for arbitration would have (a) served public interest in a big way by substantially reducing the project cost, (b) helped to re-assert the policy of support to the public sector for strengthening national self-reliance, (c) won the confidence of the employees of KSEB, their TUs and other professionals who had participated in the Balanandan study and (d) exposed the UDF for political corruption and kick-backs in foreign contracts.

Guilty of political corruption: Explanations (6) and (7) are even more harmful politically, for *The Hindu* had reported: *SNC Lavalin had promised Rs 983 million to the MCC as a reward to the contract awarded*

*to them for renovating the Pallivasal, Cherkulam and Panniyar hydel power projects at an estimated cost of Rs 2.83 billion. This is tantamount to political corruption and kick-backs on foreign contracts, as in the case of Bofors and other defence deals, the Enron scandal or Jayanti Shipping of Dharma Teja and violated the very spirit of the Electricity Act 1948, as alleged by Mr Sambamurthy and Mr Varadachary. Even more important are the legality and transparency related to such payments: Who was supposed to pay for the MCC, by what instrument, when and for what purpose? If already Rs 11 crore was paid as reported by *The Hindu*; who paid it, who received it, who spent it and who has accounted for it? MCC is a Government organization with the Chief Minister as Chairman. KSEB is accountable to the State Legislature, the Power Minister and also to the State Tariff Regulatory Authority. And all of them are accountable to the people at large. As it is, everybody, including the media, takes it as just another example of corruption or kick-back, and counts that nothing at all will happen despite the stir and noise.*

Mr Vijayachandran, an engineering and management consultant based at Kochi, with long experience in the design of energy systems, technology transfer, R and D management, corporate planning, policy reviews and public sector administration, is an occasional contributor to Passline Business Magazine.