

## **CAG Performance Audit of Hydropower Projects: Extremely weak, inadequate non-audit?**

The CAG issued a press release on Aug 31, 2012 for its “Performance Audit Report No. 10 of 2012-13” of hydropower projects<sup>1</sup> for the 11<sup>th</sup> 5-year plan ending on March 31, 2012. This CAG audit is an extremely weak and inadequate work of the CAG. In fact it does not really audit the performance of hydropower projects at all. The audit fails to raise many of the fundamental issues related to the hydropower projects. It does not draw strong enough conclusions that are warranted based on its audit. Its recommendations are even weaker and do not address the issues raised in the conclusions. It seems like more of a business as usual, status quoist effort that does not do justice to the formidable reputation that the CAG has attracted through some of its exemplary work over the years and recent past.

Firstly, the audit is not much of a performance audit of hydropower projects or hydropower companies. The basic purpose of hydropower projects is generation of electricity at stipulated annual, seasonal, daily and peaking hours. However, the CAG performance audit has not gone into this question at all at any stage. If it had gone into this, it would have found that 89% of India’s operating hydropower projects generate at below the sanctioned rates and half of them generate at below the 50% of design rate. It would have also realised that over the last two decades, generation of electricity per MW installed capacity has reduced by a huge 20%. The CAG would have also found out that no one is assessing how much of the power generation from hydro projects is during peak hours when generation of peaking power is supposed to be the USP (Unique Selling Proposition) of these projects. Both storage-based and so called run of the river hydro projects involve huge social and environmental costs, apart from deforestation and displacement of people. They are justified on the ground that they meet the peak time demand for electricity. A performance audit that does not address these aspects is not only incomplete but also misleading.

One of the fundamental issues CAG has refrained from looking at is the social, economic, environmental, cultural, religious and other services a free flowing river provides to a large cross section of the society and how these services are destroyed when a hydropower project is built. Rivers are functioning service providers, unlike the case of bandwidth (2G licenses) and coal in the mines, issues on which CAG has rightly shown great concern recently. It is inexplicable as to why the CAG has refrained from considering this issue while assessing the efficacy of performance of hydropower projects.

Thirdly, it is welcome that CAG has noted that there has been lack of “due diligence” and proper “survey and investigation” before taking up of projects. However, the CAG has not held agencies like Central Electricity Authority (CEA) responsible for giving concurrence to the projects under Electricity Act without ensuring that the projects have done full and proper appraisal. For example, CAG has found in its audit that geological surprises have been one of the reasons for delays, and that the companies have not been doing necessary testing. But these are the issues that CEA is supposed to look into in collaboration with Central Water Commission and Geological Survey of India. It is clear from the audit that CEA has been routinely giving concurrences to the projects without ensuring that full appraisal and due diligence has been done and without any transparency or independent members on its panel. CAG should have held CEA, CWC and GSI responsible for such flawed concurrences and should have raised fundamental issues about the process followed by CEA before giving concurrences. Similarly CAG should have raised questions about the fundamentally flawed

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<sup>1</sup> See full CAG report at:

[http://saiindia.gov.in/english/home/Our\\_Products/Audit\\_Report/Government\\_Wise/union\\_audit/recent\\_reports/union\\_performance/2012\\_2013/Commercial/Report\\_10/Report\\_10.html](http://saiindia.gov.in/english/home/Our_Products/Audit_Report/Government_Wise/union_audit/recent_reports/union_performance/2012_2013/Commercial/Report_10/Report_10.html)

process of environment impact appraisal followed by the Union Ministry of Environment and Forests (MEF) and MEF's the Expert Appraisal Committee (EAC) on River valley projects, but has refrained from raising them. Why CAG has refrained from reaching such conclusions logically implied by its audit is surprising.

Fourthly, CAG should also audit the process of allocation of hydropower projects to private developers. CAG has rightly raised the issue of competitive bidding in case of bandwidth (2G) and coal recently while allocating these "natural" resources to private developers, but for some unknown reason, has refrained from scrutinising the process of allocation of rivers to private developers for developing hydropower projects, which the private developers are using for their profiteering. The rivers are society's resources and are the biggest natural resource, and it is high time all concerned including CAG look into these issues. Similarly, why is the CAG not auditing the accounts of private hydropower developers, when these developers are using these national natural public resource?

Fifthly, the CAG audit in question has very rightly raised the issue of failure of monitoring mechanisms and how conflict of interests prevail in the functioning of hydropower projects, with even an former power secretary (Mr P Abraham<sup>2</sup>) simultaneously being on govt committee probing a hydropower project and also on the board of the company involved in the specific contract being probed. These issues prevail because there is absolute lack of transparency and lack of presence of independent credible members monitoring the functioning of these projects and companies. Unfortunately CAG has not found it necessary to make such recommendations even though they are clearly warranted from its own audit.

Lastly, CAG's recommendations are peripheral and pedestrian. They have not addressed the systemic and institutional issues that are at the root of the problems covered in the audit, however weak it may be. These issues revolve around the professional capabilities, transparent and independent functioning of CEA, the role of MOEF and its EAC, the need to ensure that the composition of EAC and other monitoring and other committees are such that its members have no conflict of interest in appraising projects and how a few influential power developers have been able to corner most of the projects as a result of the non-transparent award procedures adopted. What are proposals to change the situation in any fundamental way? There are none.

We are therefore forced to reach the unfortunate conclusion that this CAG audit is highly inadequate, misleading and devoid of any attention to the basic issues. We would urge CAG to urgently look into the issues raised and redo the audit keeping these issues in mind.

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<sup>2</sup> Mr Abraham was the same person who in 2009 was removed from the chairmanship of EAC, following our complaint to MEF that he is also on board of several power companies, including Nagarjuna Construction Company Limited, as was highlighted in our letter to MEF, see: [http://sandrp.in/hydropower/PR-Project\\_Promoter\\_is\\_chairing\\_Environment\\_Clearance\\_Committee\\_15June2009.pdf](http://sandrp.in/hydropower/PR-Project_Promoter_is_chairing_Environment_Clearance_Committee_15June2009.pdf). The NHPC or Power Ministry did not take note of this for years after this was public knowledge. Even Mr Abraham took more than a year after our press release in June 2009 and resigned from the committee only in August 2010 (see section 6.2 (e) of CAG audit. All this only shows the serious complicity of all involved, and CAG should have made strong recommendation on this issue, but has made NONE.