

Chapter II

Compliance Audit Observations

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Energy Department

Overburden Removal, Coal and Stowing material transportation Contracts in The Singareni Collieries Company Limited

2.1 Introduction



Figure 1: State of Telangana showing Godavari Valley Coalfield

The *Godavari Valley Coalfield (GVCF)* situated in the Godavari River basin is spread over six districts of Telangana. The GVCF is the only coal repository in South India with proven coal reserves of 11,849.54 Million Tonnes as on 31 March 2023.

The Singareni Collieries Company Limited (SCCL/Company) was incorporated on 23 December 1920. The Company's accredited function is to explore and exploit the coal deposits in the Godavari Valley Coalfield. The Company was jointly owned by the Government of Telangana (GoT) and the

Ministry of Coal, Government of India (GoI) in the ratio of 51.09 *per cent* and 48.90 *per cent* respectively¹.

The Company has 18 Opencast (OC) and 24 Underground (UG) mines in six districts² of Telangana as on 31 March 2023 and extracted 1,778.45 Million Tonnes of coal up to the year 2022-23. Apart from extraction of coal, the Company also entered into power generation by setting up (2016) Singareni Thermal Power Plant at Jaipur, Mancherial district with two units of 600 Mega Watt capacity each. The GoI allotted (August 2015) Naini Coal Block in Odisha to the Company outside the GVCF area in which the operations are yet to commence (August 2024). The performance of the company during the period 2018-19 to 2022-23 is detailed in **Table 2.1**.

¹ 0.002 *per cent* (₹0.04 crore) of the shares are held by other parties/public shareholders

² Kumuram Bheem Asifabad, Mancherial, Peddapalli, Jayashankar Bhupalaplli, Bhadradi Kothagudem and Khammam districts

Table 2.1: Operational & Financial Performance of the Company

(₹ in crore)

Year	Production (Million Tonnes)	Dispatch (Million Tonnes)	Total Income	Profit After Tax
2018-19	64.40	67.67	20,699.36	1,822.91
2019-20	64.04	62.47	19,778.32	1,003.52
2020-21	50.58	48.51	15,870.94	441.59
2021-22	65.02	65.53	21,890.22	1,193.21
2022-23	67.13	66.69	28,755.47	2,222.46

Source: Annual Reports and Records of SCCL

During the preceding five-year period up to 2022-23, the Company earned significant profits and dispatched more than 60 Million Tonnes of coal per year except during 2020-21 due to the impact of Covid-19 Pandemic.

The Management of SCCL is vested with the Board of Directors (BoD), comprising Chairman and Managing Director (C&MD), five functional Directors namely [Director (Finance), Director (Personnel, Administration and Welfare), Director (Operations), Director (Electrical and Mechanical) and Director (Planning and Projects)], two Directors nominated by the GoT and three Directors nominated by the GoI. The C&MD and the functional Directors are assisted by Executive Director (Coal Movement), Executive Director (STPP), Advisor (Forestry) and 42 General Managers/Heads of Departments. The OC and UG mines are grouped into 11 Area Offices each headed by a General Manager.

2.1.1 Audit Framework

This Audit reviewed the Overburden Removal, Coal and Stowing material transportation contracts undertaken by the Contract Management Cell (CMC). Procurement and civil works contracts are not covered in the present audit.

The audit was conducted to ascertain whether the award of contracts for removal of Overburden, Transportation of Coal and Stowing material was transparent, and the execution of contracts was in compliance with the applicable guidelines and contractual terms and conditions.

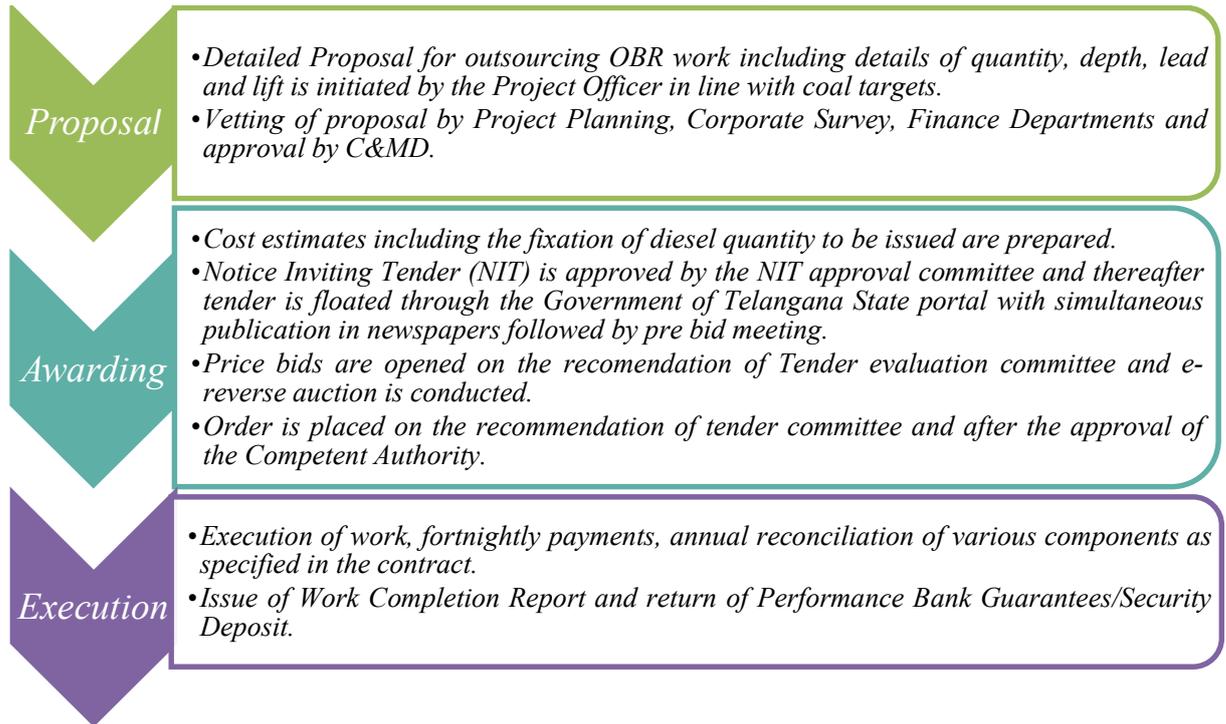
This Subject Specific Compliance Audit (SSCA) was conducted during the period July 2023 to January 2024 covering the contract management activities undertaken by the CMC of the Company during the five-year period from April 2018 to March 2023. An Entry Conference was held in November 2023 with the Management and Exit conference was held in December 2024. The draft Audit report was issued to Government in August 2024, and reminders issued in October 2024 and February 2025; however, no reply has been received from Government (March 2025). Management reply received in December 2024, has been suitably incorporated in the Report.

Audit sample included four out of 11 Area Offices of the Company (namely Bellampalli, Manuguru, Srirampur and Yellandu) which were selected using Stratified Sampling method based on the parameter of total value of contracts awarded.

2.1.2 Overburden Removal Contracts

In opencast mining³, Overburden (OB) has to be removed and dumped in the earmarked place to expose and extract the coal. Overburden Removal (OBR) is very crucial as it exposes the coal seams for production. Since 1992, the Company's operations have seen a gradual shift in the execution of OBR/coal extraction works from departmental means to outsourcing given the cost advantage. The Contract Management Cell (CMC) at the Company's Headquarters is the nodal department for awarding the OBR works. The process for outsourcing of OBR works is detailed below:

Chart 2.1: Process for outsourcing OBR



The company awards two types of OB removal contracts viz., conventional equipment contracts and Heavy Earth Moving Machinery (HEMM) contracts in combination with conventional equipment contracts. The deployment of HEMM equipment is costlier than conventional equipment. During the years 2018-19 to 2022-23, the Company awarded 36 OBR contracts⁴ valued at ₹23,486.59 crore⁵. Audit reviewed 16 OBR contracts⁶ valued at ₹11,661.85 crore in four area offices. During this period, OB removed by contractors was 1,548.90 Million cubic meters (Million Cu.m) i.e. 84.22 per cent of total 1,839.22 Million⁷ Cu.m OB removed.

³ Open cast mines are used when deposits of commercially useful coal are found near the surface where the overburden is relatively thin

⁴ Comprising four HEMM contracts of ₹9,535.67 crore and 32 conventional equipment contracts of ₹13,950.92 crore

⁵ Excluding GST

⁶ Including three HEMM contracts of ₹6,551.20 crore and 13 conventional equipment contracts of ₹5,110.65 crore

⁷ Departmental- 290.32 Million Cu.m + Outsourcing- 1,548.9 Milion Cu.m

2.1.2.1 Deficiencies in the admittance of Diesel to the OBR contractors

The cost estimates of OBR offloading proposals included excavation rate and quantity of diesel admittance. The excavation rate was further discovered through the bidding process whereas diesel admittance was extended as per norms specified in the estimates. The rates quoted by bidders for excavation were benchmarked against the costs while awarding the contracts.

High-Speed Diesel (HSD) oil costs 58.71 *per cent*⁸ of the OBR contracts awarded during 2018-23. Ministry of Coal, GoI, emphasised deploying fuel-efficient equipment in the coal mine operations. However, the Company has been fixing the diesel norms on its own and inviting bids on the excavation rate basis leaving no opportunity to the bidder for quoting the quantity of diesel in the bid. In May 2022, the Company slightly modified the system of tendering whereby the bidders were allowed to quote their diesel quantity with a maximum cap of (+) five *per cent* of the Company's estimated quantity.

As per the contractual terms of the OBR Contracts, the Company would provide a notified quantity of diesel. The formula for the diesel quantity to be supplied to the contractors was revised in January 2014⁹, September 2018¹⁰, and February 2019¹¹. The company initiated a study in February 2019 to estimate diesel consumption but the study was not concluded. In May 2022, another committee was formed to study equipment norms, including diesel consumption and formula. It had recommended estimates of HSD subject to validation through field studies. The field studies were not conducted. The report of the third committee formed in December 2023 to revise the diesel formula was inconclusive and suggested for more detailed study by engaging an expert agency.

Audit observed that:

- Despite the lapse of five years and constitution of several committees, the Company was yet to finalise diesel norms rationally.
- A review of 13 OBR contracts¹² awarded after February 2019, revealed that in all the conventional equipment contracts, the diesel quantity allowed as per the norms was insufficient in actual execution leading to recoveries from the Contractors. This ranged from 0.09 lakh litres to 26.99 lakh litres. Contrary to this, the actual diesel consumption in Heavy Earth Moving Machinery (HEMM) Contracts¹³ was much below the norms which resulted in huge surpluses ranging from 71.49 lakh litres to 179.79 lakh litres. These wide variances between actual and normative diesel consumption *viz.*, shortfalls in conventional equipment contracts and excesses in HEMM contracts indicate that the norms fixed for diesel consumption were unrealistic.

⁸ Value of the diesel supplied ₹13,789.56 crore/total contract value ₹23,486.59 crore during 2018-23

⁹ $D=(0.262+L/7.53)$

¹⁰ $D= 0.267 +(L/8.05) *(1+AS\% *0.199)$

¹¹ $D= 0.267+(L/8.56) *(1+AS\% *0.184)$

¹² 10 contracts were of conventional equipment contracts and balance three were HEMM contracts

¹³ Contracts involving combination of conventional and HEMM equipment

- Hedging of unknown losses on account of insufficient diesel quantity against excavation rates would act as a deterrent in the price discovery for excavation rate. In case of HEMM contracts, due to the fixation of diesel quantity over and above the requirements, the contractors were neither encouraged to deploy fuel-efficient equipment nor were required to follow fuel-saving practices in the excavation operations. Though the Company allowed the bidder to quote (+) five *per cent* of the Company's estimated quantity, there was no flexibility for the tenderers to quote less than the floor rate using fuel efficient equipment.

The Management replied (December 2024) that, (i) diesel quantity was increased by 2.64 *per cent* in March 2024 considering the annual capacity of shovel¹⁴ based on the recommendations of committee constituted in January 2024. The formula for the HEMM was not yet modified as awarding contracts with HEMM is not being done at present (ii) non discovery of quantity of diesel through the bidding process was a policy decision and has its own implications like quoting less quantity of diesel by bidders and consequential leaving the contract without completion.

The reply is not tenable because the decision to increase 2.64 *per cent* was based on the study conducted in February/March 2023 ignoring the latest committee's suggestion in February 2024 to engage an expert agency to arrive at a formulae as done in Coal India Limited. The apprehension of contractors leaving the work before completion is only notional and can be addressed by obtaining sufficient bank guarantees and enforcement of penal clauses strictly.

2.1.2.2 Lacunae in the contractual terms and conditions

Telangana Financial Code¹⁵ and General Financial Rules, 2017¹⁶ prescribe that the terms of the contract should be precise and definite and there should be no room for any ambiguity in interpretation of any of its provisions.

OBR contracts involving HEMM equipment are awarded in combination with Conventional equipment. The rates awarded for deployment of HEMM equipment are higher¹⁷ than that of Conventional equipment. Hence deployment of costlier HEMM has to be monitored closely in order to achieve value for money spent. However, it was observed that non-deployment of the contractually specified HEMM by OBR contractors was neither viewed seriously by the Company nor sufficient clauses had been incorporated in the Contracts to safeguard its interest. Resultantly, the Company ended up paying higher prices to the OBR contractors despite non-deployment of contracted HEMM. Cases observed in the selected contracts are explained in the subsequent paragraphs:

(i) The Company awarded (June 2020)¹⁸ an OBR work¹⁹ to M/s GRN Constructions Limited for excavation of 2,401.18 LBCM (Lakh Bank Cubic Meter) of

¹⁴ large excavating machines used to dig and load overburden or coal

¹⁵ Article 51(a)

¹⁶ Rule 225-General principles of contract

¹⁷ Between 12.36 *per cent* and 32.00 *per cent* for the contracts discussed in subsequent paragraphs

¹⁸ Amended in May 2021

¹⁹ Order No. 76-8293

overburden with a combination of HEMM and conventional equipment at Khairagura Opencast Project, Bellampalli for a period of 84 months for a value of ₹2,521.50 crore (₹47.09 per BCM). The contract stipulated the use of conventional equipment in the first year of operations for which 87.64 *per cent* of the awarded rate shall be paid and deployment of HEMM in combination with not more than 10 units of conventional equipment during second to seventh year of contract.

Audit observed that, (1) the contractor deployed four HEMM shovels and 16 /14 dumpers²⁰ against the agreed quantity of 10 shovels and 65 dumpers respectively resulting in under-deployment of HEMM, (2) despite the contract emphasising HEMM use, the contractor primarily used conventional equipment of 82 Nos and 84 Nos of tippers²¹ in the second and third year of operations against the agreed quantity of 50 Nos resulting in over-deployment of Conventional Equipment and (3) the agreement lacked specific clauses for limiting the deployment of conventional tippers and levy of penalties for under deployment of HEMM shovels and dumpers. As a result, payments were done at higher HEMM rates despite the higher use of conventional equipment and an extra expenditure of ₹9.98 crore²² was incurred.

The Management replied (December 2024) that the contractor was taking shelter under agreement Clause 1.7(i) as per which the company will not insist on fleet deployment as committed in the bid/negotiations as long as the contractor excavates the month wise/year wise quantities. The Management further replied (December 2024) in the exit meeting that Clause 1.7(i) was deleted in new OBR contracts awarded from 30 August 2023.

The reply admitted that the terms and conditions of the agreement were poorly framed which led to an avoidable expenditure of ₹9.98 crore for the company and this would further increase as the contract progresses to the fifth year and beyond. Removal of Clause 1.7(i) is not sufficient unless suitable penal provisions are also provided to safeguard the interest of the Company.

(ii) A contract²³ was entered (January 2019) into with M/s Sushee Hitech Projects Private Limited for excavation of 2,568 LBCM of overburden at a composite rate²⁴ of ₹117.90 per cubic meter, for a value of ₹2,984.46 crore for a period of 84 months.

The payments were to be regulated at (a) 68 *per cent* of the awarded rate for the first year (b) 79 *per cent* after achieving 90 *per cent* of monthly targets, otherwise 68 *per cent* for second year and (c)100 *per cent* from third year onwards. The contract did not contain penal clauses for non-deployment of agreed HEMM or supporting equipment²⁵.

²⁰ Heavy-duty haul trucks used to transport coal and overburden usually of larger capacity

²¹ Small/medium size trucks used for transport of coal or overburden usually of capacity lesser than dumpers

²² Excavation carried by conventional instead of HEMM of 171.46 Lakh BCM*₹47.09 per BCM *(100-87.64) *per cent*

²³ Order No 76-7644

²⁴ Includes cost of excavation and diesel

²⁵ Mobile water sprinklers, bull dozers, motor graders

The first-year payments and second year payments were regulated at 68 *per cent*. The tender committee recommended 68 *per cent* for third year given the non-achievement of 90 *per cent* monthly scheduled quantity and also due to inadequate deployment of HEMM by contractor. However, the standing counsel of the Company opined that in view of lack of specific contract provision, there is no option other than to make payments in respect of third year onwards at full rate and accordingly payments were made. The contractor has completed four years of operations, and the fifth year of the contract was in progress (December 2023).



Figure 2: Dust suppression activity with water sprinkler (Supporting equipment)

Audit observed that (i) though the contractor did not deploy²⁶ the required HEMM and also did not achieve 90 *per cent* monthly scheduled quantities, the company paid at 100 *per cent* rates during the third to fifth years mainly due to lack of enabling clauses to regulate the deployment of equipment and related payments, (ii) this had resulted in an avoidable expenditure of ₹241.07 crore²⁷ from third to fifth year²⁸ and (iii) non-deployment of the agreed number of supporting equipment such as water sprinklers would be detrimental to the environment.

The Management in its reply (December 2024) acknowledged the absence of a specific clause in the order to penalise for non-deployment of supporting equipment and also stated that the same was incorporated in the OBR contracts awarded from November 2021 onwards.

The reply confirmed the audit observation. However, the reply was silent about the treatment of first and second-year operations distinctly from the rest of the contract period and also about the avoidable expenditure of ₹241.07 crore due to lack of necessary clauses regarding deployment of equipment in the agreement.

2.1.2.3 Faulty execution of contracts

(i) Inaction on the undue benefit to the contractor

The Company placed (June 2016) an order²⁹ on the contractor³⁰ (M/s PSJV) for 6 years at a total estimated value of ₹2,118.85 crore. The total price was inclusive of ₹1,126.81 crore being the diesel component at 1.12 litres³¹ per BCM to be supplied by the Company at the rate of ₹46.62 per litre. Even though the contract allows mix of conventional and HEMM equipment, the diesel quantity was provided as per formula prescribed for

²⁶ The Contractor deployed two excavators and seven dumpers during second year and seven excavators and 34 dumpers during third year as against 12 excavators and 55 dumpers of HEMM specified in the contract

²⁷ Third to fifth year payment of ₹753.33 crore x 32 *per cent* (100-68)

²⁸ Upto December 2023

²⁹ Order No. 76-6484

³⁰ M/s. Prasad-Sushee (Joint Venture), Hyderabad

³¹ At HEMM formula of Diesel (1.124 litres) = 0.305 + Planned lead (4.110 KM)/5.02

HEMM equipment. The Contractual terms and conditions also specified the estimated quantity of diesel and in case the diesel consumption is less than the estimates, the saved quantity shall be accumulated/adjusted against excess consumption in the subsequent months. Diesel consumption beyond estimates is recovered monthly from bills. Refund on account of savings is released at the end of the financial year on achieving 90 *per cent* of progressive performance from the beginning of the Contract.

During the execution of the contract,

- The Internal Audit Department (IAD) of the Company observed (January 2018) that there was less consumption of diesel which resulted in eligible bonus of ₹57.52 crore for 17 months and recommended (July 2019) to take up the matter with off-loading contractor for making the bonus payments on the operated mix of equipment instead of HEMM alone and to obtain legal opinion for the recourses in case of non-acceptance by the contractor.
- The committee constituted by Company reported (December 2018) that the NIT and the work order provided a standard formula applicable for deployment of HEMM equipment for supply of diesel without considering the simultaneous use of mix of Conventional equipment and HEMM equipment.
- The company also found that there were diversions of diesel issued to the contractor to the open market and a police complaint was also lodged.
- The company had also issued (August 2020) a show cause notice to the contractor for the termination of the contract due to contractors' failure to meet annual OBR targets during the four years period, non-achievement of 75 *per cent* of monthly targets in the fourth year, non-deployment of HEMM and diversion of diesel but had not acted upon further.

Despite the above, the contractor was allowed to continue and the contract period completed in March 2023. During the contract period, the contractor excavated 1,632 LBCM of OB against awarded quantity of 2,154 LBCM, bills amounting to ₹861.37 crore were admitted and the diesel quantity saved was arrived at 265.57 lakh litres worth ₹103.86 crore³². The company released ₹7.11 crore bonus in June 2018 and the balance amount was not yet admitted (January 2024).

In this regard, audit observed the following:

- i. As per Clause 1.4(h) of the order, the diesel bonus shall be payable on achieving 90 *per cent* of progressive performance. Though the contractor's progressive performance for the entire contract period was only 75.70 *per cent*, the Company had already paid an amount of ₹7.11 crore as bonus.
- ii. The recommendations of the IAD were not acted upon and efforts were not found on record to indicate that the matter was taken up with the contractor or obtaining legal remedy as suggested.

³² 265.57 lakh litres X ₹39.11 per litre (price of diesel as per the Contract)

- iii. The Company is yet to settle the final bill (December 2024) though the contract terms prescribe settlement of final bill within three months of the completion of work.

The Management replied (December 2024) that the case was referred to the State Vigilance & Enforcement department who recommended to recover ₹108.42 crore towards non-deployment of ancillary equipment. The amount is to be recovered from the final bill. Further, in view of non-achievement of 90 *per cent* progressive performance, the contractor would not be eligible for bonus and already paid bonus of ₹7.11 crore will be recovered.

The reply is silent about the inaction on the Internal Audit Department and Committee Reports during the contract period, inaction on the outcome of investigations and non-settlement of the final bill within three months as per the terms of the agreement.

(ii) Avoidable extra expenditure of ₹54.68 crore due to poor performance of the contractor

The performance of the OB removal under Contract No. 76-6484³³ dated 29 June 2016 at Srirampur OC Project was very low at 62.74 *per cent* in its fourth year of operations. The project authorities anticipated that the same performance would be continued in fifth and sixth years also. Since the coal demand was picking up, it was proposed to offload OBR work to another contractor for two years. The proposal was to offload 250.61 LBCM of OBR work for two years period. However, the proposal was modified as independent of the existing contract though the volumes of OB remained the same.

Since separate roads were to be provided for both the contractors, a new route with a lead of 6.50 KM was provided which was far longer than the existing lead of 4.11 KM. Consequent to the tendering process, M/s Gaurav Contracts Company (GCC) was awarded (April 2021) OB removal work³⁴ of 250.61 LBCM for a period of two years at the rate of ₹67.14 per BCM and diesel shall be provided at 1.08 litres per BCM. The rate awarded to M/s GCC was more by ₹21.87 per Cu.m³⁵ compared with the existing contract.

Audit observed that: (a) though the sub-optimal performance of the existing contractor had led to awarding a new contract, the Management modified it into an independent proposal and (b) as per Clause 2.3.5(c) of the order, in case a new contract is awarded for the quantity not excavated by the contractor, the difference in cost shall also be recovered. However, this clause was not invoked resulting in incurrance of avoidable expenditure of ₹54.68 crore³⁶.

The Management in its reply (February 2024) had cited the poor performance of M/s PSJV for which a show cause notice was issued, besides its inability to achieve the coal production targets which led to the issuance of a new OBR proposal as a contingency

³³ Awarded to M/s Prasad Sushee JV (PSJV)

³⁴ Order No.76-8670

³⁵ Excavation rate in the new order ₹67.14 – Rate in old contract ₹45.27

³⁶ 250 LBCM x (excavation rate of M/s GCC at ₹67.14- excavation rate of M/s PSJV at ₹45.27)

plan. The Management further replied (December 2024) that Clause 2.3.5(c) cannot be invoked as the contractor was neither terminated nor left the contract before scheduled period. In the Exit meeting, Management stated that it is an administrative decision to award a separate contract after analysing the pros & cons to achieve the main objective by the Company. Further, before awarding the contract, a lot of deliberations take place in the Tender committee on whether to club the contract or award separate contract.

The reply confirms the audit observation that the performance of the existing contractor was poor and Clause 2.3.5(c) in the Contract was not invoked despite awarding a new contract to execute the left over quantities. Further, the Management could not provide any supporting documents for substantiating the fact that deliberations were done in Tender committee as the deliberations were not recorded in the minutes for all the meetings.

(iii) Non-establishment of Effluent Treatment Plants by OBR Contractors

The Consent orders issued (August 2016) by Telangana State Pollution Control Board (TSPCB) to operate the coal mine mandates that the disposal of water used for HEMM equipment washing should be treated and utilised for gardening on land, duly meeting the standards stipulated in this regard. Accordingly, the terms and conditions of the OBR contracts awarded by the Company require the contractors to establish Effluent Treatment Plant (ETP) and also mandate that all the machinery being used in the mine premises should be washed off on ETP platform.

Audit observed that three OBR contractors in the test checked Area Offices of Yellandu, Manuguru, Bellampalli and Srirampur had not established ETPs. Despite persuasion by Area Offices, there was no progress in establishing ETPs. Further, the contractual terms and conditions do not contain provisions for levy of penalties for non-establishment of ETPs.

Management while accepting (December 2024) the audit observation stated that ETPs in Manuguru area were constructed. In Yellandu, Srirampur and Bellampalli area, the ETP plants were under construction.

Non-establishment of ETPs, as laid down by TSPCB in the Consent for Establishment orders, would cause environment damage due to disposal of water without treatment.

(iv) Inaction on the poor performing contractor

An order³⁷ was placed (25 February 2019) on M/s Gayatri Projects Limited for removal of 179.642 LBCM overburden at the Khairagura Opencast Project, Bellampalli area for a value of ₹162.69 crore for a period of 24 months. The Company reserved its right to terminate the work if the contractor's progressive performance was less than 75 per cent.

The firm commenced the work on 3 March 2019 with a delay of 15 days. The firm did not deploy the required fleet of equipment. The progressive performance of the firm was

³⁷ Order No. 76-7678

33.16 *per cent* till September 2019. The performance of the firm did not improve even in the second year of operations. During the entire contract period, the firm had excavated 74.663 LBCM (41.56 *per cent*) quantity against the awarded quantity of 179.642 LBCM.

The OBR work was halted by the workmen on several occasions owing to non-payment/reduction of wages. In January 2021, the firm's representative stated that there would be no improvement in the performance as it was not possible to add additional equipment due to the firm's financial problems.

Audit observed that the Management took a very lenient approach towards the contractor despite poor performance with no signs of improvement or commitment. Area Office, Bellampalli had stated that only 3.46 Lakh Tonnes (LT) of coal was exposed as against the planned target of 16 LT of coal exposure during the contract period and this affected the coal supplies against the demand. Though a penalty of seven *per cent* on the value of unexcavated quantity amounting to ₹6.76 crore was imposed on the firm, only an amount of ₹4.13 crore was recovered so far and recovery of ₹2.63 crore is still pending (March 2024).

The Management replied (December 2024) that a notice for termination of the contract was issued in first year of the contract followed by several letters in second year of the contract period. As per the contractual terms, a penalty of seven *per cent* of the unexcavated quantity was levied and the Company is initiating legal action to recover the balance penalty of ₹2.63 crore.

The reply only confirms the observation that a lenient approach was followed despite poor performance of the contractor. However, the reply is silent about the consequential loss of coal production.

2.1.2.4 Non-imposition of Penalties for unexecuted quantities

The OBR contracts provide for *force majeure* conditions³⁸ on the basis of which contract period can be extended. The Contracts also lays down under Clause 2.3.5(c) that in case a new contract is awarded for quantity not executed by the contractor, then the differential cost will also be recovered. The extended period on account of *force majeure* was duly considered by the Company for performance evaluation of the contract and for working out the monthly and yearly penalties. However, the penalty under Clause 2.3.5(c) of recovering differential cost was not enforced in two cases which are discussed in the following paragraphs:

(a) Jawahar Khani (JK)5 OCP, Yellandu

A contract³⁹ was entered (28 April 2018) with M/s Durga Infra Mining Private Limited for excavation of 372.71 LBCM of OB at JK-5 OC Project, Yellandu for a value of ₹222.10 crore in a period of 36 months. The firm commenced work in May 2018 and 301.42 LBCM was excavated during the contract period up to April 2021. The contract

³⁸ Such as natural calamities, non-availability of land, explosives or diesel, Rainfall, Accidents due to fire or sliding etc.,

³⁹ Order No. 76-7299

was extended initially for 126 days, later for another 26 days in the second spell and 26 days in the third spell up to 29 November 2021 on account of *force majeure* days accrued to the firm.

However, the firm excavated only 25.57 LBCM at the rate of 4.26 LBCM⁴⁰ per month up to October 2021 against 8.37 LBCM⁴¹ per month excavated during the initial contract period of 36 months. Further, the firm did not take up the work at all in the third spell of 26 days.

To excavate left-over quantity of 35.53 LBCM, another contract⁴² was awarded (7 June 2022) to the same firm at an excavation rate of ₹45.97 and diesel at 0.46 litres per BCM.

(b) Manuguru OC-II Extension Project

A contract⁴³ was entered (17 July 2018) with M/s Durga Infra Mining Private Limited for excavation of 416.31 LBCM of OB at Manuguru OC-II extension project (Phase-II) for a period of 36 months with a total contract value of ₹275.18 crore. The firm commenced work in July 2018. The firm excavated 342.84 LBCM in the initial contract period up to 8 July 2021. The contract was extended to 126 days till 8 December 2021. However, the firm pre-closed the work on 31 August 2021 citing rainy season. The firm had excavated 4.04 LBCM only during the extended period, leaving a balance of 53.31 LBCM of in-situ and 4.32 LBCM of re-handling OB⁴⁴.

A relay contract⁴⁵ was awarded⁴⁶ (12 July 2021) to the same firm M/s. Durga Infra Mining Private Limited for excavation of 1,148.56 LBCM of OB at PKOC-IV, Manuguru Area for a period of 48 months. The leftover quantity in the previous contract was included in the scope of the new Contract in May 2022.

Audit observed that the firm's performance during the extended period was very poor at 2.69 LBCM⁴⁷ per month against 9.52 LBCM⁴⁸ per month during the initial contract period of 36 months. The firm discontinued its work before the completion of the extended period. The reason of the rainy season cited for discontinuation earlier was not justified as the same firm commenced work under the new contract despite rainy season.

Though in both the cases, the contractors have not worked till completion of the contractual period (duly extended on account of *force majeure*), penalty under Clause 2.3.5(c) of the contract which mandates recovery of difference of cost in case a new contract was awarded for the quantity not excavated by the contractor, was not invoked

⁴⁰ 25.57 LBCM/6 months

⁴¹ 301.42 LBCM/36 months

⁴² Order No 76-9109

⁴³ Order No. 76-7414

⁴⁴ Process of moving or shifting previously excavated overburden material from one location to another within a mining area

⁴⁵ Continuation Contract

⁴⁶ Order no. 76-8756

⁴⁷ 4.04 LBCM/1.5 months

⁴⁸ 342.84 LBCM/36 months

by the Company. This resulted in non-levy of penalty of ₹5.65 crore⁴⁹ and ₹11.23 crore⁵⁰ respectively and extension of undue benefit to the contractors.

The Management in its reply (December 2024) stated that penalty under Clause 2.3.5(c) of the contracts is applicable only when the contractor leaves the work before the scheduled period or is terminated due to poor performance.

The reply is not tenable because the extended period on account of *force majeure* is also part of the scheduled contract period and leaving the work before the completion of the extended contract period should similarly be penalised.

2.1.3 Coal Transportation Contracts

Creating transport infrastructure and managing logistics to transport coal from the point of origin to consumption centres are major challenges for sustainable development of coal sector in the country. Following extraction of coal from mines, coal is moved to a dispatch point which can be a railway siding, port or inland waterways terminal using the road, conveyor, Merry-Go-Round (MGR) train, or rail.

The Company draws Annual Coal Linkage Plans duly linking the mine and dispatch points, detailing the quantity of coal to be delivered through each linkage. During the years 2018 to 2023, 79 coal transportation contracts valued at ₹1,641.99 crore were awarded for transporting coal from the mines to dispatch points through tippers. Out of 79 contracts, audit examined 35 contracts in four area offices valued at ₹594.51 crore. The expenditure incurred on coal transportation is recovered from customers by way of Surface Transport Charges (STC).

2.1.3.1 Excess Collection of ₹1,078.94 crore Surface Transport Charges

The expenditure incurred on coal transportation from the pithead of the mine to the loading point is recovered from customers in the form of Surface Transport Charges (STC) in addition to the notified basic price. Coal India Limited (CIL) delegated the fixation of STC to its subsidiary boards in August 2017 based on the weighted average transportation charges of preceding two quarters plus 10 *per cent* in the respective lead distance slabs. Following this, the Company also revised STC but adopted the methodology of charging STC on average rates of Western Coalfields Limited and Mahanadi Coalfields Limited instead of its own weighted average transportation charges.

The Company had revised the STC from ₹17, ₹57 and ₹116 per tonne to ₹40, ₹71 and ₹130 respectively for the slabs of 0-3 KM, 3-10 KM and 10-20 KM *w.e.f.* 11 February 2020. In respect of the transportation beyond 20 KM, the STC was revised to a fixed amount of ₹130 plus ₹2.97 per extra KM, apart from actual expenditure incurred towards repair and maintenance of roads leading to the Company's loading points. The STC was further revised in March 2022 to ₹45, ₹90 and ₹140. Surface Transport Charges for

⁴⁹ 35.536 LBCM x (rate in new contract ₹45.97 - excavation rate in old contract ₹30.07); Excavation rate in old contract = ₹59.59(composite rate)- (0.471*₹62.66)(notified diesel value)

⁵⁰ In-situ OB 53.31 LBCM x (₹48.80-₹28.80) + Re-handling of loose OB 4.32 LBCM x (₹37.52-₹24.33)

transportation beyond 20 KM was revised to ₹140 plus ₹4.09 per extra KM in March 2022 and to ₹140 plus ₹2.65 per KM in September 2023.

Audit observed that, the actual expenditure was not considered for fixing the STC for slabs upto 20 KM. Further, though the quarterly review in May 2022, August 2022, November 2022, February 2023 and May 2023 of STC for distances beyond 20 KM revealed that STC being collected from the customers was more than actual transportation costs being incurred by the Company, however, the STC prices were not revised and the benefit was not passed on to customers.

During the five year period of 2018 to 2023, the Company incurred an expenditure of ₹1,185.33 crore on coal transportation, ₹38.55 crore on hiring charges of trucks and ₹53.17 crore towards repair and maintenance of roads totaling ₹1,277.05 crore. On markup of the expenditure by 10 *per cent*, the STC recoverable from the customers was ₹1,404.76 crore. However, the Company collected ₹2,483.69 crore from coal customers during the same period, resulting in undue enrichment by ₹1,078.94 crore⁵¹.

The Management replied (December 2024) that considering the notional rehandling cost at 25 *per cent* of dispatched quantity and also overheads at 25 *per cent* and Internal Rate of Return (IRR) of 12 *per cent*, the excess collection would be only ₹154.15 crore and even this surplus was insignificant when compared to total revenue.

The reply is not acceptable because Management has not furnished any details in support of the actual rehandling cost incurred. Further, as per CIL, only 10 *per cent* of overheads have to be factored in STC and there was no mention of either rehandling cost or IRR. Since, the state-owned power generators are the major coal consumers, charging of STC in excess would ultimately burden the power consumers.

2.1.3.2 Movement of Coal

Coal linkage plans linking mine and dispatch points are drawn by the Company's Headquarters after considering expected output from the mine, grade of coal, pithead deliveries and movement of balance quantity. Coal linkage plans are implemented by Area Offices by awarding coal transportation contracts. Coal linkage plans aim to avoid unnecessary movement of coal and ensure smooth supply of coal to customers considering economies of transportation. Road transportation has an adverse impact on the environment and health in and around coal mining projects. Audit reviewed the movement of coal by road in selected area offices of Bellampalli, Manuguru, Srirampur and Yellandu and observed that in the following cases, the Company did not ensure economies in the transportation resulting in unnecessary movement of coal which could have been avoided.

⁵¹ ₹2,483.69 crore - (₹1,277.05 crore*110 *per cent*)

(i) Transportation of coal by Road despite operationalisation of Railway line in violation of directives of Ministry of Environment, Forest and Climate Change



Figure 3: Sattupally Coal Handling Plant
Source: Annual Report of SCCL for the year 2022-23

A new railway line between Bhadrachalam Road and Sattupally was operationalised in May 2022 which facilitates the evacuation of coal from the Jalagam Vengala Rao and Kistaram Open Cast projects. Ministry of Environment, Forest and Climate Change (MoEF &CC), GoI while granting (October 2021) Environmental Clearance to expansion of Jalagam Vengala Rao OC mine had stipulated that after the

completion of the railway line, transportation of coal by trucks should not be undertaken. However, a proposal was initiated in February 2023 for undertaking coal transportation by road for three months to achieve the dispatch target for the year 2022-23. Consequent upon approval by the C&MD of the Company, Area Office Kothagudem had transported 51,738.04 MT in March 2023 and 3,30,125.52 MT during April to July 2023 by road from these mines to Rudrampur Coal Handling Plant located at a distance of 50 KM in contravention of the MoEF & CC stipulations.

Audit observed that, on the pretext of meeting targets for 2022-23, transportation of coal from April to July 2023 and consequential expenditure of ₹5.88 crore was not only avoidable but also in violation of the terms & conditions of the Environmental clearance granted by MoEF & CC.

The Management replied (December 2024) that the transportation was undertaken to meet the annual dispatch targets in view of the teething problems of JVR OCP.

The reply is not tenable because Audit has commented on the dispatches by road from April 2023 to July 2023 which were beyond the annual targets for 2022-23. The initial approvals for road transport were taken to achieve the targets for the year 2022-23 and the same extended till July 2023. Further, movement by road after operationalisation of railway line on the pretext of meeting dispatch targets was unwarranted. During April to July 2023, railways had supplied 803 rakes as indented by the Company and could not supply eight rakes only.

(ii) Unnecessary movement of coal to a distant loading point

The coal produced at the Koyagudem OC Project (K-OCP) mine was linked to both Tadikalapudi Railway siding (TPD) and Yellandu Coal Handling Plant (YCHP) under coal linkage plans. The road distance between K-OCP to TPD is 20 to 21 KM whereas the distance from K-OCP to Y-CHP is 41 to 43 KM. Since the distance to TPD is less than 21 KM, it was economical to move coal from KOCP to TPD instead of to YCHP. Further, the TPD railway siding is a forward point resulting in savings in distance and costs to customers in railway freight also. During the year 2018-19, against the coal linkages of 7.50 LT each for YCHP and TPD from KOCP for G-13 grade coal, the actual quantity transported to YCHP was 14.03 LT and only 3.09 LT was moved to TPD. A total of 4.41 LT⁵² of coal was diverted to YCHP from TPD resulting in transportation for an excess distance of 20 KM.

Similarly in 2019-20 and 2020-21, the quantity of coal diverted to YCHP instead of transporting it to TPD was 7.75 LT⁵³ and 1.80 LT respectively. Due to the above unnecessary longer movement of coal to a backward loading point, the Company had incurred an avoidable expenditure of ₹13.51 crore on the movement of 13.96 LT⁵⁴ of coal for an additional 20 KM.

The Management replied (December 2024) that construction of a wharf wall along the platform in Tadikalapudi Railway siding was taken up in January 2019 which affected the coal dispatches from the siding. The transport contract to Tadikalapudi was also pre closed due to the contractor's inability to carry out the work for this route which also affected the coal dispatches resulting in diversion to Yellandu Coal Handling Plant.

The reply is not tenable because the diversion of coal to YCHP was in deviation to Coal linkage plans drawn by the Company. Further, construction work was undertaken only for two months, and the Company did not award a new transportation contract to achieve economies in operations.

⁵² 7.50 LT- 3.09 LT

⁵³ 12LT (TPD target)- 4.25 (TPD Actual dispatch)

⁵⁴ 4.41 LT+7.75 LT+1.80 LT

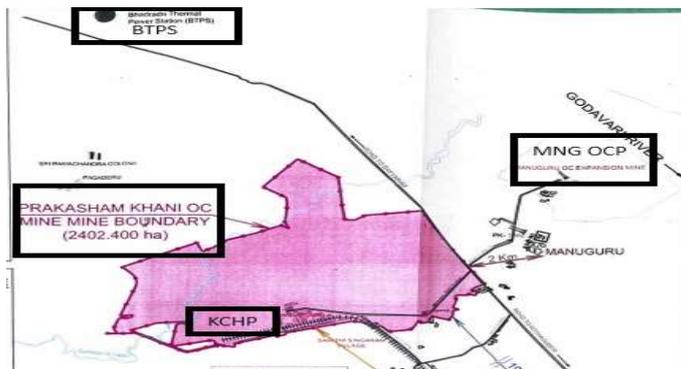
(iii) *Supply of coal from distant mines instead of nearest mines*

Figure 4: Sketch of Manuguru Area Mines and BTPS

Source: Records of SCCL

The Manuguru OC Project (MNG OCP) and Prakasham Khani OC Project (PK OCP) are administered by the Manuguru Area Office. However, only one railway loading point at Kondapuram Coal Handling Plant (KCHP) is available to undertake rail dispatches. Bhadradi Thermal Power Station (BTPS) which commenced operations in June

2020, is in the vicinity of the Manuguru area and served with only road movement in the absence of railway siding. The MNG OCP is the nearest mine to BTPS. The distance between MNG OCP and KCHP is 10.57 KM.

During 2020-21 to 2022-23, 11.18 Lakh Tonnes of G-9 to G-13 grades of coal were transported from MNG OCP to KCHP for onward dispatches by rail to other customers. In the same period, 55.52 LT of same grades of coal were dispatched from PK OC to BTPS by road resulting in unnecessary movement of 9.96 LT of coal by an additional 10.57 KM, incurring an avoidable expenditure of ₹6.20 crore.

Audit observed that the pit head dispatches from MNG OCP to BTPS are most economical to both the Company and BTPS. The coal linkage plans were not drawn considering the economies of dispatching the maximum available coal from MNG OCP to BTPS. Consequently, the coal was transported from all the mines⁵⁵ to BTPS and the same grades of coal were moved from MNG OCP to KCHP for onward delivery to other customers.

The Management replied (December 2024) that the movement was undertaken as per coal linkage plans and G-15 inferior-grade coal which was not required by BTPS was dispatched to KCHP.

The reply is factually incorrect as audit commented on other than G-15 grade coal dispatches resulting in avoidable expenditure. The reply also confirms the audit observation that the coal linkage plans were drawn without considering the economies.

2.1.4 Stowing Material Transportation Contracts

To protect important surface features like Public Buildings, Colonies, Rail lines, Public roads etc., underground Voids /goaf (after coal extraction) are filled up (stowed) with river sand, bottom ash or Processed Overburden (POB). The widely used process for stowing in collieries is hydraulic stowing wherein the stowing material is stowed to the site by transporting the material mixed with water in pipes

⁵⁵ KCHP, PKOC-II(West), PKOC-IV & MNG OCP

and allowing the water to percolate through bamboo matting or a similar perforated barricade erected at the site as shown in **Figure 5**.



Figure 5: Top and Horizontal views of Hydraulic stowing bunkers
Coordinates 18.86685°N, 79.51263°E

To prevent over-exploitation of river sand and to protect the environment, bottom ash and POB are preferred over river sand for stowing. During the five-year period of 2018-23, bottom ash of 51.45 Lakh Cu.m followed by river sand of 37.85 Lakh Cu.m and POB of 23.63 Lakh Cu.m were used for stowing the underground mines of the Company.

During the years 2018 to 2023, 22 stowing material transportation contracts valued at ₹211.04 crore were awarded for transporting the river sand, bottom ash and POB from sand reaches, thermal power plants and POB plants respectively. Out of four area offices selected under audit, only Srirampur area office had carried out stowing material transportation works. Out of 22 Contracts, Audit examined 11 selected contracts valued at ₹81.64 crore in the office of Srirampur. The audit observations are discussed in the following paragraphs:

2.1.4.1 Preference for environmentally detrimental river sand in Srirampur Area

During 2018-23, stowing operations were carried out in four⁵⁶ underground mines of Srirampur (SRP) area. The SRP area had utilised bottom ash of 12.30 Lakh Cu.m, followed by river sand of 11.84 Lakh Cu.m and POB of 5.34 Lakh Cu.m for stowing operations. The Bottom ash is freely available from Singareni Thermal Power Plant (STPP) which is a unit of the Company and is located 10 to 16 KM near SRP area. While the POB plant is in the vicinity of mines, river sand has to be transported from Chennur sand quarries located at a distance of 30 to 40 KM. The cost per cubic metre of bottom ash, POB and river sand to the SRP area was ₹78, ₹251 and ₹263 respectively.

During March 2021, STPP reported that the UG mines were not lifting the bottom ash at full capacity. It was also reported that, due to not lifting of POB by UG mines and in the

⁵⁶ Srirampur-1, Srirampur-3&3A, Indira Khani 1A and Ramakrishna Khani-7

absence of additional stockyards, the POB plant was temporarily stopped from April to September 2019. Audit observed that, the UG mines were drawing river sand during the same period. Despite being environmentally disadvantageous and thrice the cost of bottom ash, SRP area chose river sand for stowing operations.

The Management replied (December 2024) that tenders were not in place in some of the mines for transporting the POB & Bottom ash from STPP. Further, there was frequent damage to approach roads in the rainy season which affected the transport of POB.

The reply substantiates the audit finding and reflects failure on the part of the Management to make necessary transport arrangements and points out inadequacies in preparations for the rainy season.

2.1.4.2 Ineffective functioning of Processed Over Burden Plant

The Company placed (January 2014) an order⁵⁷ on M/s Sahay Metal & Minerals Pvt. Limited for the establishment of POB plants at Ramagundam-1, Srirampur and Bhupalpally areas at an order value of ₹399.06 crore. As per contractual terms, the agency had to supply 6,000 Cu.m POB per day at the rate ₹178 per Cu.m in the SRP region. The contractor commenced the production of POB in July 2015.

As against the target of 64.53 Lakh Cu.m, the contractor produced 12.53 Lakh Cu.m during July 2015 to March 2020. Further, the production was 5.99 Lakh Cu.m against the revised target of 24.80 Lakh Cu.m for the period April 2020 to June 2022. The contractor stopped operations in July 2022 due to the submergence of the plant and agreed to relocate the plant to the Mandamarri region which is yet to be commissioned (January 2024).

Audit observed, that the Company neither provided the required size of clay pond nor made arrangements to empty it for smooth functioning of POB plant. The operations of the plant were stopped from April to October 2019, due to not lifting POB from the stockyard. The site provided for the plant was amid dump yards which led to submergence in July 2022. Thus, inability to provide a suitable site and necessary evacuation arrangements contributed to the sub-optimal performance of the POB plant reflecting lack of seriousness on the part of the Company to utilise POB in stowing operations.

The Management replied (December 2024) that the Company has provided sufficient land for storage of clay and the operations were never stopped for want of clay ponds. Due to poor performance of the OBR contractor, another agency was put in place and due to non-availability of vacant land, a dump yard was provided adjacent to POB plant.

The reply is not tenable because there were frequent representations and internal correspondence on the steps to be taken to empty the clay pond. It was Company's responsibility to provide a suitable site and ensure lifting of produced POB.

⁵⁷ Order No. 76-5307

2.2 Conclusions

A review of 13 OBR contracts awarded after February 2019, revealed that in all the conventional equipment contracts, the actual quantity of diesel consumption was more than the norms. Contrary to this, the actual diesel consumption in Heavy Earth Moving Machinery (HEMM) contracts, was much below the norms. These wide variances between actual and normative diesel consumption viz., shortfalls in conventional equipment contracts and excesses in HEMM contracts indicate that the norms fixed for diesel consumption were unrealistic.

The rates awarded for deployment of Heavy Earth Moving Machinery (HEMM) were higher (between 12.36 per cent and 32.00 per cent) than those of Conventional equipment in OBR contracts. However, the Company did not incorporate appropriate clauses in the OBR Contracts as safeguard against under deployment of HEMM/over deployment of conventional equipment by the contractors. This resulted in avoidable expenditure of ₹251.05 crore.

The Company did not enforce the Contractual terms and conditions relating to OBR contracts timely which resulted in further avoidable expenditure of ₹74.19 crore.

In Coal transportation, the Coal linkage plans drawn were not optimal and there was also uneconomical movement of coal by field units, resulting in an avoidable expenditure of ₹25.59 crore. While fixing the Surface Transportation Charges, the actual expenditure was not considered resulting in excess collection of ₹1078.94 crore from the coal consumers.

Three OBR contractors in the test checked Area Offices⁵⁸ did not establish Effluent Treatment Plants as per the Contractual terms. In underground stowing operations, river sand was preferred by Srirampur area office over bottom ash and Processed Over Burden (POB) which was costlier and environmentally unfriendly.

2.3 Recommendations

In view of the above, the State Government/Company may consider

- *implementing measures to optimise diesel consumption;*
- *incorporating safeguarding clauses in the OBR Contracts to ensure deployment of specified mix of equipment and adherence to other contractual obligations by the contractors;*
- *reviewing the coal linkage arrangements and pricing mechanism of Surface Transport Charges to ensure economy and reasonableness respectively;*

⁵⁸ Yellandu, Manuguru, Bellampalli and Srirampur

- *Promoting environmental sustainability by installing Effluent Treatment Plants and giving preference to bottom ash or processed over burden over river sand in stowing operations.*

Hyderabad
The 08 OCT 2025


(P. MADHAVI)
Principal Accountant General (Audit)
Telangana

Countersigned

New Delhi
The 10 OCT 2025


(K. SANJAY MURTHY)
Comptroller and Auditor General of India

