

CHAPTER III: MINISTRY OF COAL

Bharat Coking Coal Limited

3.1 *Blending of precious steel grade coal with inferior washery grade coal*

Steel grade coal is precious, fetches higher revenue and can be used directly by consumers in the steel sector. Due to relatively low ash content, it does not require washing. However, Bharat Coking Coal Limited (BCCL) blended steel grade coal with inferior washery grade coal in its four washeries, instead of supplying the steel grade coal directly to customers and earning higher revenue. This has resulted in loss of ₹95.09 crore to the Company during 2013-14 to 2015-16, worked out on a conservative basis.

Bharat Coking Coal Limited (BCCL), one of the coal producing subsidiaries of Coal India Limited (CIL) is engaged in mining, washing and distribution of coal to meet the energy requirement of its consumers. BCCL produces both coking and non-coking coal. Coking coal having less than 18 *per cent* ash is termed steel grade coal which can be used directly by consumers in the steel sector. Coal having higher ash content (18 *per cent* to 35 *per cent*) is termed washery grade coal and requires washing to make it suitable for use in production of steel.

During 2013-14 to 2015-16, BCCL fed 26.33 lakh tonne of coking coal into its four washeries (Sudamdih & Dugda-II for entire period and Mahuda & Bhojudih only in 2015-16) by blending 13.91 lakh tonne steel grade coal¹ with 12.42 lakh tonne washery grade coal, which finally yielded only 6.64 lakh tonne of washed coal (25 *per cent*) along with middling, slurry and rejects. Audit observed the following in this regard:

- (i) Washerries of BCCL do not require any blending of steel grade coal with washery grade coal. Steel grade coal fetches a much higher revenue compared to washery grade coal and hence, steel grade coal should be directly sold to customers in the steel sector to fetch higher revenue.
- (ii) BCCL had a Memorandum of Understanding (MOU) with M/s Tata Steel and SAIL for supply of raw steel grade coking coal. BCCL was to supply 25 lakh tonne of raw coking coal to M/s Tata Steel in 2013-14 which it could not supply. BCCL had also agreed to supply 12 lakh tonne of steel grade raw coking coal to SAIL during 2014-15 to 2015-16, against which the company could supply only 1.02 lakh tonne. There was thus, adequate demand for raw steel grade coal mined by BCCL.
- (iii) It was seen that the washerries of BCCL are designed to wash raw coking coal having more than 24 *per cent* ash which needs to be ensured by the Company. Audit noticed that to ensure this, a mechanism of Linkage Committee has been

¹ *Comprising 0.16 lakh tonne steel grade I coal and 13.75 lakh tonne steel grade II coal*

instituted in Central Coalfields Limited (a subsidiary of CIL and a sister concern of BCCL). The Linkage Committee decides annually the quality, quantity and the sources of raw coal to be dispatched to the washeries. BCCL, however, has no such linkage committee and raw coking coal of different grades including steel grade coal is dispatched from the collieries to washeries as a part of day to day operations, in a routine manner, without determining their requirement for washing. Different grades of coal are mixed at the washeries and washed coal is produced.

- (iv) During the three year period (2013-16), BCCL fed 13.91 lakh tonne of steel grade coal along with 12.42 lakh tonne of washery grade coal in their washeries (52 per cent of steel grade coal) and generated only 6.64 lakh tonne of washed coal, the yield during this period being 25 per cent . During prior period (2010-13), BCCL washed 58.50 lakh tonne of coking coal containing 33.80 lakh tonne steel grade coal (accounting for 58 per cent of feed) in these washeries and produced 26.42 lakh tonne of washed coal, yield being 45 per cent. During subsequent period (2016-17) also, the Company processed 13.37 lakh tonne of coking coal containing 5.95 lakh tonne steel grade (accounting for 44 per cent of feed) and produced 5.58 lakh tonne of washed coal, yield being 42 per cent. Thus, the yield from these four washeries during 2013-16 at 25 per cent was significantly lower compared with yields achieved from the same washeries in prior (45 per cent) and subsequent (42 per cent) periods.

Audit worked out the additional revenue that BCCL could have earned during 2013-16 if the steel grade coal had been directly dispatched to steel consumers instead of blending with washery grade coal as indicated in the following table:

Sl. No.	Particulars	Year		
		2013-14	2014-15	2015-16
1	Sale value assessed by audit of 13.91 lakh tonne steel grade (I & II) coal at notified price ² (including crushing charges ³ , clean energy cess ⁴ , stowing excise duty ⁵ and royalty)	208.12	50.70	424.86
2	Actual sale value of 6.64 lakh tonne of washed coal received	145.96	28.05	236.95
3	Actual sale value of by-products received for not producing washed coal of 7.27 lakh tonne steel grade coal but produced by-products only	45.74	12.28	119.60
4	Total sale value received [Sl.No.2+Sl.No.3]	191.71	40.33	356.55
5	Loss of revenue due to blending of steel grade coal in washery[Sl.No.1-Sl.No.4]	16.41	10.37	68.31
6	Total loss of revenue [Sum of Row No. 5]	95.09 crore		

² Notified price is the sale price fixed by CIL for various grades of coal and is normally lower than MOU Price. Notified price of raw steel grade Coal I & II are Rs.4880 per tonne and ₹4080 per tonne respectively. Notified price has been used to assess the sale value on conservative basis

³ Charges recovered by Coal Companies from the customers for supply of crushed coal of different sizes

⁴ Clean Energy Cess is a kind of carbon tax levied as a duty of Excise on Coal w.e.f. 1 July 2010 to finance and promote clean environment initiatives

⁵ Stowing Excise Duty is levied by Government of India on Coal for rehabilitation, stowing and infrastructure development of abandoned mines

Audit has worked out the loss on a conservative basis, without considering the value of 12.42 lakh tonne washery grade coal, the cost of washing steel grade coal and assuming notified price which is lower than the MoU price for steel grade coal.

The Management of BCCL (January 2017) stated that stock of steel grade coal had accumulated which had no buyer, posing risk of quality deterioration and fire. Therefore the Management had no alternative but to use it in washery for supply of washed coal to SAIL at a higher value (₹6550 per tonne) to avoid loss to the company.

The reply of the Management is not acceptable in view of the following:

- The contention that there was no buyer of steel grade coal is not based on facts as BCCL could not fulfill its commitments for supply of steel grade coal as per existing MOUs with Tata Steel and SAIL.
- The contention that the Company derived a higher value by washing steel grade coal is not tenable. The quantity of washed coal that was produced from the blended coal during 2013-14 to 2015-16 was only 6.64 lakh tonne for which BCCL earned a revenue of ₹588.59 crore (value of washed coal and by-products). Alternatively, if the entire quantity of 13.91 lakh tonne of steel grade coal was supplied directly to consumers even at notified price, it would have fetched an amount of ₹683.68 crore. If the MOU prices are considered (as BCCL had the option of sale of the steel grade coal against MOUs with SAIL and M/s Tata Steel), the loss of revenue would be much higher⁶.
- Availability of indigenous coking coal in India is scarce. SAIL had to import 128.70 lakh tonne of coking coal in 2014-15 and 133.00 lakh tonne in 2015-16. Thus, blending of precious steel grade coal, without any commensurate commercial benefit amounted to wastage of national resources.

The decision of BCCL to blend precious steel grade coal with washery grade coal resulted in loss of additional revenue during 2013-14 to 2015-16, conservatively worked out as ₹95.09 crore.

Recommendations

- (i) The Management should review their practice of routinely blending precious steel grade coal with washery grade coal. The desirability of adopting the mechanism of linkage committee instituted in CCL for determining the quantity and quality of washery feed should also be reviewed.
- (ii) The yield of washed coal, even after blending of steel grade coal, was abnormally low during 2013-16, when compared to prior and subsequent periods. The abnormally low yields during this period may be critically

⁶ MOU price of ₹7176 for Steel Grade-II coal with Tata Steel and ₹6765/ ₹5985 for Steel Grade-I/ Steel Grade-II coal with SAIL vis-à-vis notified price of ₹4800/ ₹4080 for Steel Grade-I/ Steel Grade-II coal

reviewed to assure that the interests of the Company have not been compromised.

The matter was referred to the Ministry in November 2017/ February 2018; their reply was awaited (February 2018).

3.2 Improper procurement of 100 tippers

Bharat Coking Coal Limited procured 100 tippers of 35 tonne capacity replacing dumpers of the same capacity. The decision to purchase tippers for replacing dumpers, without following due procedure and assessing technical feasibility of such change, resulted in improper expenditure of ₹79.59 crore. Moreover, BCCL had to incur unfruitful expenditure of ₹11.31 crore on supervision charges of idle tippers during 2014-17.

Bharat Coking Coal Limited (BCCL), a subsidiary of Coal India Limited (CIL), is engaged in mining of coal from opencast and underground mines through departmental means as well as outsourcing. In the opencast mines of BCCL, departmental production is carried out with the help of Heavy Earth Moving Machineries (HEMMs) such as shovels, dumpers, dozers etc. These machines are procured either for meeting the requirement of a new project or for replacement of existing machineries. The procurement of these machines is guided by the purchase manual of CIL and relevant plans of HEMM deployment contained in the approved project reports of the concerned mines.

BCCL received (July-August 2012) indents against their surveyed off⁷ 35 tonne dumpers, from ten different mining areas. Accordingly, Notice Inviting Tender (NIT) for domestic bids was floated (October 2012) for procurement of hundred 35 tonne dumpers, including Maintenance and Repair Contract (MARC) of these dumpers for six years. Though the indents were for dumpers, BCCL included specifications of both dumper and tipper in the NIT on the grounds that this would widen the participation of vendors who were engaged in the manufacture of dumpers as well as tippers.

BEML Limited (a Government of India company under Ministry of Defence), one of the bidders of this NIT, objected (February 2013) to the mixing of specifications of dumper and tipper in the NIT to the Independent External Monitor⁸ (IEM). In their representation, BEML stated that dumpers and tippers were not technically comparable and emphasised that the NIT would not invite proper competition as no dumper would be able to score the qualifying level in comparison with tipper, since tippers were given higher weightage on various technical grounds in the NIT. IEM opined that technical parameters of dumpers and tippers were different and like to like comparison between them for evaluation of technical merit was not possible. Accordingly, IEM recommended cancellation of the tender and invitation of fresh tender either for dumpers or for tippers, as considered appropriate by BCCL, without combining the features of both.

⁷ *Surveyed off equipment are those which have become worn out beyond economic repair or become obsolete with the passage of time*

⁸ *As per Integrity Pact of Central Vigilance Commission, Independent External Monitor is appointed to review independence, transparency and objectivity of the agreement signed between prospective vendors/bidders and the buyer*

Subsequently, the mining areas of BCCL submitted revised indents (March 2013) for 35 tonne tippers, against replacement of 35 tonne dumpers. CMPDIL⁹ specifically proposes dumpers in their project reports for primary operation of coal/ overburden transportation in coal mines. While dumpers are used in combination with shovels in the core mining areas for movement of extracted coal from coal face to stock yards, tippers are generally used in the mining industry for transportation of coal from stockyard to loading/ despatch point. However, BCCL indented for tippers to replace dumpers without any recorded reasons or justification for such change. BCCL floated (March 2013) a fresh tender for procurement of tippers with MARC for six years.

M/s Larsen & Toubro Limited (L&T) was selected as the lowest bidder and purchase order (July 2013) valuing ₹309.58 crore (₹79.59 crore for equipment and ₹229.99 crore for MARC for six years) was issued to them for purchase of hundred 35 tonne tippers manufactured by M/s. Scania Commercial Vehicle India Private Limited¹⁰ (SCVIPL). L&T was the sole distributor for Scania made tippers in India. All the 100 tippers were supplied within the scheduled time (December 2013 to January 2014) and commissioned at different mines of BCCL during December 2013 to May 2014. The payment for tippers was made directly to SCVIPL and MARC supervision charges were paid to L&T. Over 2014-17, the average annual utilisation of these tippers was of the order of 25 *per cent* to 26 *per cent*.

Audit observed the following in this regard:

- (i) Dumpers have been traditionally operated in mines of BCCL for more than four decades. While considering the advisability of a combined tender for dumpers and tippers (February 2013), the IEM had opined that the time tested practice of use of dumpers for mining operation should not be altered all of a sudden unless there were compelling reasons for doing so. IEM had also emphasised that safety and security of miners needed to be considered while introducing tippers in the mine for the first time as no other subsidiary of CIL was using tippers for departmental mining. However, the decision to introduce tippers was not found to be backed by any justification.
- (ii) Clause 5.4.4 of the purchase manual of CIL provides that clearance of CMPDIL is required in case any variation is made to the specifications of the machine/equipment approved in the project report of the mine during procurement. Since procurement action was being taken for replacement of dumpers, decision to replace dumpers by tippers should have been ratified by CMPDIL, which was not done by BCCL management.
- (iii) A proposal for procurement of hundred 35 tonne tippers from L&T was submitted for approval to the BCCL Board. However, the Board agenda (meeting of June 2013) did not include vital information that the tippers were being procured as a

⁹ *Central Mine Planning and Design Institute Limited (CMPDIL) is a subsidiary of CIL, functioning as a consultancy agency for the coal sector, prepares project report and fixes utilisation norms for HEMMs*

¹⁰ *A subsidiary of Scania AB, a Swedish manufacturer of heavy duty commercial vehicles*

replacement for dumpers and that tippers were being introduced for the first time in departmental mining of BCCL as well as other subsidiaries of CIL.

- (iv) There were no norms for availability and utilisation of tippers though CMPDIL norms exist for dumpers (availability at 67 per cent and utilisation at 50 per cent). Considering that the tippers were a replacement for the dumpers, their availability and utilisation can reasonably be expected to be of the same order as dumpers. Since commissioning of 100 tippers in different mines of BCCL (during 2014-15 to 2016-17), their average annual utilisation¹¹ was very poor in the range of 25 to 26 per cent though they had a high availability¹² of 77 to 80 per cent of total shift hours. The utilisation details of these 100 tippers for the last three years ending 2016-17 were as follows:

Year	Utilisation of 100 tippers with reference to available working hours					
	0%	More than 0% but less than 5%	5% and above but less than 10%	10% and above but less than 20%	20% and above but less than 50%	50% and above
	Number of tippers					
2014-15	2	10	15	24	49	0
2015-16	7	13	16	24	37	3
2016-17	15	4	12	34	31	4

As seen from the table, no tipper achieved utilisation of 50 per cent of available working hours prescribed by CMPDIL for dumpers in 2014-15 and only 3 tippers in 2015-16 and 4 tippers in 2016-17 could meet these norms.

- (v) BCCL informed Audit that the low utilisation of tippers was on account of mismatch of tippers with other equipment and tippers not being aligned to the working conditions of the departmental mines. Tippers have to be used in tandem with shovels; the tippers procured by BCCL did not match with the existing shovels as highlighted below:-
- In Sijua Area of BCCL, Scania made tippers did not match with the available EKG 5.0 cum shovel.
 - In EJ Area of BCCL, Scania made tippers worked with only hydraulic shovel which was already surveyed off and went under breakdown frequently.
 - In Katras Area of BCCL, drivers of dumpers were not trained for running the tippers.

Besides, night operation and operation during monsoon with tippers was reported to be difficult under departmental mining conditions.

¹¹ Percentage of Utilisation= [(Total shift hours – Break down hours –Idle hours)/Total shift hours] X 100, where total shift hours is 24 X 365

¹² Percentage of Availability =[(Total shift hours – Break down hours)/Total shift hours]X 100

- (vi) As per MARC contract, supervision charges were payable on the basis of available working hours of the tippers. Since the actual utilisation hours of the tippers were significantly lower than the available working hours, BCCL had to pay supervision charges of ₹11.31 crore to L&T for the hours the tippers remained idle during March 2014 to April 2017.

Thus, procurement of hundred 35 tonne tippers without assessing their technical suitability for working in the existing mine conditions of BCCL has resulted in improper expenditure of ₹79.59 crore. Moreover, unfruitful expenditure of ₹11.31 crore had to be incurred on supervision charges of tippers for the hours they remained idle as they could not be put into operation in the departmental mine areas due to their incompatibility with the existing mine conditions and other HEMMs.

The Management of BCCL stated (January 2018) that:

- In the hired patches of opencast projects of BCCL, tippers have been successfully deployed both for production of coal and removal of overburden¹³.
- Only BEML is manufacturing 35 tonne dumpers and as such fair competition is not available in 35 tonne dumper market. NIT terms and conditions were prepared keeping in mind higher participation and for fetching competitive pricing. Had there been an exclusive tender for 35 tonne dumper, then probably only one prospective bidder i.e. BEML would have participated as presently it is the only manufacturer of 35 tonne dumper.
- Geo-mining parameters of mines are the main guiding factor for deciding types of HEMM which vary in different mining fields and in different subsidiaries of CIL. In other subsidiaries of CIL, dumpers are mostly bigger than 35 tonne dumpers. BCCL mines are different from mines of other subsidiaries as BCCL mines are surrounded by thickly populated areas and various hazards like fire, presence of developed underground mining, etc create restrictions in shifting of HEMM equipment due to restricted space/smaller size of patches, necessitating smaller size of HEMM/transport equipment, i.e. tippers.
- In general, Scania made tippers are working for BCCL and their percentage utilisation during 2014-15 to 2016-17 ranged between 25-26 *per cent*, while the utilisation of 35 tonne dumpers in BCCL during the same period was between 16 to 20 *per cent*.
- There are smaller size/capacity hydraulic shovels available in BCCL mines which can be worked successfully in combination with 35 tonne tippers.

The reply of the Management is not acceptable in view of the following:

- Dumper is used for departmental production of coal in opencast mines in all subsidiaries of CIL, including BCCL. No subsidiary of CIL has replaced dumpers

¹³ *Overburden is the rock, soil and eco-system that lies above a coal seam or ore body which is removed during surface mining*

with tippers for departmental production of coal till date. The major decision to change the HEMM in BCCL mines alone for the first time needed to be appropriately justified. In fact, initially the mining areas of BCCL had indented for dumpers which were subsequently revised to tippers without justifying the change.

- Project report of each mine is prepared considering the existing geo-mining conditions. Project reports have recommended dumper in combination with shovel for production of coal in all mine areas of CIL including those for BCCL. Variation in the specification of HEMM from dumper to tipper required the clearance of CMPDIL as per clause 5.4.4 of the CIL manual, which was not complied with by BCCL.
- That tippers are not suitable for departmental mines of BCCL has been acknowledged by users of the tippers in the mining areas. It has been stated that the mines of BCCL are deep and conical shaped with high gradient and use, *inter alia*, 35 tonne dumpers in combination with 4-5 cubic metre capacity electrical shovels. The tippers either did not match with the shovels or matching shovels were not available restricting deployment, particularly in monsoon, to avoid toppling/accidents due to slippery road of the mine. Further, due to wide gap between rear tyres and heavy weight of the dumpers running in the departmental mines, ridges had formed in the middle of haul road, which impeded functioning of tippers.
- Performance of newly procured tippers and that of older dumpers which were last procured in 2008 and commissioned between April 2001 and October 2009, are not comparable. In fact, considerable numbers of old dumpers were not available at all for utilisation during 2014-17. Records revealed that utilisation of the available older 35 tonne dumpers was up to 40 *per cent* during this period.

Thus, BCCL's decision to purchase tippers for replacing dumpers, without following due procedure and assessing technical feasibility of such change in HEMM, resulted in improper expenditure of ₹79.59 crore on procurement of 100 tippers. Moreover, BCCL had to incur unfruitful expenditure of ₹11.31 crore on supervision charges of idle tippers.

The matter was referred to the Ministry in January 2018; their reply was awaited (February 2018).

Central Coalfields Limited

3.3 Avoidable Payment of Penal Charges

Central Coalfields Limited (CCL) has traditionally drawn more power than the contracted demand with Damodar Valley Corporation (DVC) at Kathara area. Despite introduction of penal charges by Jharkhand State Electricity Regulatory Commission (JSERC) for drawing higher than contracted power in September 2014, CCL failed to revise its contracted demand resulting in avoidable payment of penal demand charges of ₹6.79 crore during the period from September 2014 to March 2017.

Central Coalfields Limited (CCL) draws power from Damodar Valley Corporation (DVC) for carrying out mining operations at Kathara Area, located in Jharkhand. A contract demand of 5000 KVA was agreed between CCL and DVC in 2006 for this area. CCL draws additional power from DVC over and above the contract demand, as and when required. Traditionally CCL has drawn much beyond the contracted power from DVC (average monthly demand was 15957 KVA during April 2013 to August 2014 against the contracted demand of 5000 KVA).

In September 2014, Jharkhand State Electricity Regulatory Commission (JSERC) issued Multi Year Tariff (MYT) order for DVC command area of Jharkhand, which *inter alia*, introduced penal demand charges. The order fixed normal demand charge of ₹410/KVA per month upto consumption of 110 *per cent* of the contract demand. Beyond this consumption, the consumer had to pay penal demand charges @ 1.5 times the normal tariff of ₹410/KVA per month (₹615 /KVA).

Audit observed that the average monthly demand of CCL for the Kathara area during the period, September 2014 to March 2017, was 18488 KVA. CCL, however did not revise its contract demand which remained at 5000 KVA. Since the actual demand was much beyond 110 *per cent* of the contract demand, CCL had to pay penal demand charges during this period as per MYT as indicated in table below:

(1)	Aggregate of monthly contract demand (in KVA)	220000
(2)	110% of the aggregate of monthly contract demand on which normal demand charge is applicable [(1) x 110%] (in KVA)	242000
(3)	Actual power consumption (in KVA)	573122
(4)	Power consumption on which penal demand charges were levied [(3) – (2)] (in KVA)	331122
(5)	Penal demand charges paid [(4) x ₹615 per KVA]	₹20,36,40,030
(6)	Avoidable penal demand charges paid [(4) x (₹615 – ₹410) per KVA]	₹6,78,80,010 or ₹6.79crore

Audit further observed that the Kathara Area requested CCL headquarters for enhancement of contract demand from 5000 KVA to 19000 KVA to avoid penalty in August 2015 and January 2016. However, CCL did not take action to revise the contract demand. Instead, CCL repeatedly requested DVC for waiver of penal demand charges for ad-hoc power requirement over and above the contract demand. This was declined by DVC stating (May 2016) that there was no provision in JSERC tariff for grant of any ad-hoc power. DVC had also conveyed (April, May 2016) that it was ready to examine a proposal for enhancement of contract demand by CCL within the ambit of JSERC tariff order. Even after being pointed out by DVC as well as by Kathara area, CCL did not take any action to revise their contract demand with DVC and continued to pay penal demand charges. Subsequently, from the month of April 2017, DVC suo moto revised the contract demand to 20000 KVA following which penal demand charges were not levied.

The Management stated (November 2017) that:

- After introduction of MYT, DVC stopped granting ad-hoc power to CCL on the plea that there was no provision of ad-hoc power in the JSERC tariff and started raising penal charges violating the mutual agreement between CCL and DVC for granting ad-hoc power as and when required.

- As per the tariff order from JSERC, DVC was required to get the MOU modified mutually in consultation with CCL, which had not yet been done. Moreover, CCL had attempted to place the fact before DVC time and again for continuing with existing arrangement for allocation of ad-hoc power and charging thereof on pro rata basis as per the terms and conditions of mutual agreement/ MOU.
- Had CCL executed new agreement with DVC for contract demand of 20000 KVA in order to avoid penal charges at Kathara, there would have been an approximate loss of ₹46 lakh¹⁴ per month on account of demand charges for non-utilisation of power from DVC as CCL would have been able to meet the power requirement of mining operation from its 20 MW captive power plant at Kathara.

The above reply of the Management is not acceptable in view of the following:

- Tariff for power supply in the DVC command area of Jharkhand is fixed by JSERC. Immediately after introduction of MYT, DVC intimated (October 2014) CCL that there was no provision of ad-hoc power as per JSERC tariff order. Thus, for additional power requirement over and above the contract demand, CCL had to pay penal charges as per MYT order.
- The power requirement of Kathara Area was not met from the existing 20 MW captive power plant at Kathara in any month of the period commented upon. In fact, the power drawn monthly from DVC was much higher than 5500 KVA (110 per cent of the contract demand of 5000 KVA) during this period leading to payment of penal demand charges. Hence, the question of loss on account of higher contracted demand does not arise.

Thus, CCL failed to take appropriate action in revising its contract demand with DVC for the Kathara area, despite being alerted by DVC as well as the unit management (of Kathara) which led to avoidable payment of penal demand charges of ₹6.79 crore over September 2014 to March 2017.

The matter was referred to the Ministry in December 2017; their reply was awaited (February 2018).

NLC India Limited

3.4 Excess payment of perks and allowances

NLC India Limited paid perks and allowances to its employees over and above the ceiling of 50 per cent of their basic pay in violation of DPE guidelines, resulting in excess payment of ₹21.14 crore.

The Department of Public Enterprises (DPE) issued (November 2008) guidelines on revision of scales of pay of the Board level and below Board level executives and non-unionised supervisors in Central Public Sector Enterprises (CPSEs) effective from

¹⁴ *Difference between the demand charges per month for 20,000 KVA ($0.75 \times 20000 \times ₹410$) – demand charges for 5000 KVA ($0.75 \times 5000 \times ₹410$), assuming minimum guaranteed power payment of 75 per cent of contract demand*

1 January 2007. As per the guidelines, the Board of Directors of CPSEs would decide on the allowances and perks admissible to different categories of the executives subject to a maximum ceiling of 50 *per cent* of the basic pay. Instead of having a fixed set of allowances, the CPSEs could follow 'Cafeteria Approach' allowing the executives to choose from a set of perks and allowances.

Based on the DPE guidelines, NLC India Limited (Company) approved (January 2011) the pay revision for the Board level and below Board level Executives and Non-Unionised Supervisors and issued (February 2011) orders for revision of perks and allowances, effective from 26 November 2008. As per the orders, the perks and allowances included (i) Common Allowance equivalent to 40 *per cent* of basic pay; and (ii) Area Based Allowance which included (a) Mines Allowance ranging from 6 *per cent* to 9 *per cent* of basic pay, (b) Thermal Allowance ranging from 5 *per cent* to 7 *per cent* of basic pay, and (c) Service Area Allowance equivalent to 5 *per cent* of basic pay. In addition to these percentage-based allowances, the Company also granted to the below Board level executives and non-unionised supervisors fixed-rate compensation such as Miner's personal compensation, Operation monitoring compensation, Night shift compensation, Project compensation, etc.

Audit observed that the Company paid allowances/benefits/perks to the Board level and below Board level executives and non-unionised supervisors in excess of the prescribed ceiling of 50 *per cent* of the basic pay. Consequently, excess payment of ₹21.14 crore was made by the Company during the period from 2010-11 to 2016-17 in contravention of the guidelines issued by DPE.

The Management stated (July/October 2017) that the NLC Board had approved the recommendations of a Committee constituted for deciding on the perks and allowances to the executives of the Company, wherein the aggregate amount of revised perks and allowances for Board level and below Board level executives and non-unionised supervisors for 2010-11 worked out to 48.97 *per cent* of their aggregate basic pay. The aggregate amount of perks and allowances paid to the Board level and below Board level executives and non-unionised supervisors during the period 2014-15 to 2016-17 was well within the maximum ceiling of 50 *per cent* of the total basic pay. Further, as DPE guidelines of November 2008 did not specify that the maximum ceiling of 50 *per cent* of the basic pay was applicable to individuals, the Company had not deviated from the DPE guidelines. The Ministry endorsed (October 2017) the reply of the Management.

The reply of the Management/Ministry is not acceptable as the DPE guidelines of November 2008 provided a maximum ceiling of 50 *per cent* of the 'basic pay' and not the 'aggregate basic pay' of all executives. The ceiling, therefore, needed to be applied with reference to the basic pay of the executives individually and not collectively. Further, while issuing a clarification on payment of performance linked incentive (PLI) by CPSEs, DPE had stated (July 2011) that PLI can only be distributed within the 50 *per cent* ceiling on perks and allowances of the basic pay of 'individual' executives. Thus, the ceiling on perks and allowances was applicable to the basic pay of each executive separately.

3.5 Avoidable expenditure on transportation of Lignite

NLC India Limited carried out production of Lignite in Mine-IA in excess of requirements and subsequently transported the Lignite to other mines which resulted in avoidable expenditure of ₹17.24 crore.

NLC India Limited (Company) is engaged in mining of Lignite and generation of power through thermal power plants using Lignite excavated from its mines. The Company has its own pit-headed Thermal Power Station-I (TPS-I) of 600 MW capacity and TPS-I expansion linked to Mine-I, and Thermal Power Station-II (TPS-II) of 1470 MW capacity and TPS-II expansion linked to Mine-II. The Company commissioned (March 2003) Mine-IA with an installed capacity¹⁵ of 30 lakh tonne per annum (LTPA) to meet the fuel requirement (19 LTPA) of TPS of 250 MW capacity of Taqa Neyveli Power Company Private Limited (TAQA), and to use the balance capacity of 11 LTPA for its best commercial advantage.

During the period 2014-15 to 2016-17, the Company produced 85.12 lakh tonne (LT) of Lignite from Mine-IA out of which 46.90 LT was dispatched to TAQA to meet the commitment of fuel supply agreement and 8.50 LT was sold to outsiders. The Company transported 21.97 LT of Lignite from Mine-IA to Mine-I (5.54 LT) during 2014-17 and Mine-II (16.43 MT) during 2015-17 at a cost of ₹17.24 crore. The transfer of Lignite was carried out on the grounds that (i) the supply of Lignite from Mine-IA would partially meet the requirements of TPS-I & II, (ii) spontaneous heating of Lignite at Mine-IA stockpile would be avoided, (iii) space would be created at Mine-IA stockpile for further Lignite production thereby enabling Mine-IA to meet its production target.

Audit observed that:

- (a) During the above period, the supply of Lignite from Mine-I and Mine-II was sufficient to meet the requirements of their linked TPS-I (and TPS-I expansion), and TPS-II (and TPS-II expansion) respectively, as is evident from the following information:

<i>(in lakh tonne)</i>				
Year	Opening Stock	Production	Consumption by linked TPS and expansion	Closing Stock
Mine-I (and expansion)				
2014-15	6.67	90.55	87.79	9.43
2015-16	9.43	91.01	82.03	18.41
2016-17	18.41	94.02	91.85	20.58
Mine-II (and expansion)				
2015-16	8.35	123.09	125.26	6.18
2016-17	6.18	140.23	136.40	10.01

As the requirements of TPS-I & II could be easily met from the supplies of Mine-I & II respectively, the justification that transportation of Lignite from Mine-IA to other mines would partially meet the requirements of linked TPSs was not valid.

- (b) The normal stacking capacity of Mine-IA stockpile was 3 LT of Lignite. Even after transportation of Lignite from Mine-IA to other mines, the average monthly

¹⁵ Installed capacity of a mine refers to its maximum productive capacity

closing stock of Mine-IA during 2014-15, 2015-16 and 2016-17 was 3.37 LT, 5.85 LT and 8.99 LT respectively. Thus, transportation of Lignite from Mine-IA did not mitigate the risk of spontaneous heating of Lignite as the quantity of Lignite in Mine-IA was much above the normal stacking capacity even after transportation. The quantity transported to other mines only added to their stock as the same was not required by the other mines and therefore the risk of deterioration¹⁶ in quality of Lignite still existed.

- (c) Against the agreed quantity of 57 LT to be lifted by TAQA during 2014-15 to 2016-17, the actual off-take was only 46.90 LT. Further, the outside sales was also minimal at 8.50 LT. Thus, over-production of Lignite in Mine-IA only to meet the production target and considering the same as a ground for transportation of Lignite to other mines was not justifiable. This also indicated that the production target for Mine-IA was not based on realistic parameters.

Thus, the production of Lignite from Mine-IA in excess of the requirements and subsequent transportation of Lignite to other mines resulted in avoidable expenditure on transportation to the extent of ₹17.24 crore.

The Management stated (June 2017) that the Mine-IA had to operate at 85 *per cent* capacity i.e., 25.50 LT to recover the fixed cost. If in one Mine 85 *per cent* capacity is not achieved, company needs to plan and increase Lignite production in other Mines so that it is able to ensure 85 *per cent* total mining capacity utilisation in any financial year. Further, there was poor off-take of Lignite by TAQA from Mine-IA stockyard and open sales as well. Due to technical and administrative reasons, the operation of mines could not be stopped and the production of Lignite was continued. Since the produced quantity required necessary storage, it became inevitable to transport Lignite to other mines.

The Ministry stated (November 2017) that the transportation of Lignite was done after considering factors such as (i) operation of the mine at normative capacity, (ii) to achieve the committed targets of Mine-IA, (iii) to avoid huge accumulation of stock, (iv) to sustain the characteristic of Lignite and prevent change in its quality due to prolonged storage.

The reply of the Management/Ministry is to be viewed against the fact that the Company operated Mine-IA at a capacity ranging from 93-97 *per cent* during 2014-15 to 2016-17 which was higher than the normative capacity. As the capacity utilisation of the other two Mines was also above their respective normative capacities during this period, the operation of Mine-IA above its normative capacity was not justifiable. Further, the annual production from the other mines was adequate to meet the requirements of their linked TPSs and supply of Lignite from Mine IA was not required. As such, the quantity transferred from Mine-IA only added to the stock of the other mines due to which accumulation of stock and the risk of deterioration in the quality of Lignite continued to exist.

¹⁶ *When Lignite is stored for a long period of time, spontaneous heating starts which adversely affects the quality of Lignite*