Chapter 3

Procurement of Domestic Coal

Coal is primarily procured by NTPC domestically through long term coal linkages from subsidiary companies of Coal India Limited (CIL) and Singareni Collieries Company Limited (SCCL). Any shortfall is met by domestic procurement through Memorandum of Understanding (MOU) or e-auction and also by import. Coal is generally procured through long term linkages at CIL/SCCL notified rates. For all other procurements (through MOU, e-auction and import), the rates are higher.

Audit examined supplies through both domestic and imported sources. Observations regarding procurement of domestic coal are summarized in this Chapter while those relating to imported coal are at Chapter 4.

3.1 Fuel Supply Agreements (FSA)

Coal linkage for power stations was granted by Standing Linkage Committee (Long Term) (SLC-LT) of Ministry of Coal (MoC) based on recommendation of Central Electricity Authority (CEA) and inputs from the generating and coal companies. MoC notified the New Coal Distribution Policy (NCDP) in October 2007, outlining the policy framework for distribution of coal to various categories of coal consumers including power stations. Execution of Fuel Supply Agreements (FSA) between coal companies and consumers of coal became mandatory under NCDP. FSAs lay down conditions regarding contracted quantity, quality of coal to be supplied, procedure for checking quality of coal, source of supply, commercial terms *etc*. Two versions of FSA were signed, one for stations commissioned prior to 31 March 2009 (regarded as existing consumers under NCDP) and another for stations commissioned after 31 March 2009 (called new consumers under NCDP).

The rates for supply of coal under FSAs were notified by CIL. Additional quantities of coal (over and above FSA quantities) would be available to the power stations at a higher rate, fixed at 40 *percent* above the notified rates. Audit noticed shortcomings in implementation of FSAs to the detriment of the power stations of NTPC.

3.1.1 Stations having inadequate fuel linkage

The Company had 34 FSAs (21 for stations commissioned prior to 31 March 2009 and 13 for stations commissioned after 31 March 2009) for its coal fired power stations (March 2016). Total Annual Contracted Quantity (ACQ) under these FSAs was 164.17 MTPA (million tonnes per annum). Audit examination on the adequacy of coal linkages in power stations revealed the following:

3.1.1.1 Barh-II power station

Coal requirement of Barh-II (2 x 660 MW) power station was to be met from the captive coal blocks allocated to the Company, but production from these coal mines was delayed. Though the scheduled Commercial Operation Date (COD) of first unit of Barh-II was in January

2013, the Company took up the matter regarding tapering linkage[7] for Barh-II only in April 2013. In September 2015, Ministry of Coal decided to supply coal at notified price, as a special case, till decision regarding tapering linkage was taken. Two MOUs for supply of coal were signed in October and November 2015.

The first unit of Barh-II was commissioned on 15 November 2014 and for the period from November 2014 to November 2015, the Company tapped costly sources like e-auction and imported coal for running the station, incurring extra expenditure of ₹527.43 crore. Audit observed that the FSAs signed by the Company for other stations commissioned prior to 31 March 2009 allowed transfer of coal among stations wholly owned by the Company. But this provision was not invoked to meet the coal requirement of Barh-II. Even, the initial carpeting[8] of the coal yard was done using costly coal by incurring extra expenditure of ₹5.28 crore.

Ministry stated (November 2016) that it was the first time Super Critical Technology based 660 MW thermal power plant was being installed by an Indian Company (BHEL), and during the execution of the project it was felt that actual commissioning of the unit may take more time due to various complex technological issues being faced at the station. Regarding inter-plant transfer, Ministry stated that this was not possible from Barh-I and other stations covered by new FSA[9]. Ministry added that NTPC had requested MoC for tapering coal linkage to Barh-II in April 2013 and as a as a special case, MoUs at notified prices were agreed (September 2015) by MoC till grant of tapering coal linkage. Ministry further stated that the station got approval for Bridge Linkage (earlier referred to as tapering linkage) in March 2016 and MOUs with coal companies for supply were signed in August 2016.

The reply is to be viewed against the fact that fuel tie-up was one of the pre-requisites for project implementation. Hence the Company should have taken timely action for obtaining tapering/bridge linkage or considered inter-plant transfer which was permissible under the old FSAs. Audit also noticed that for supplies under Bridge Linkage for Barh-II, the Company has agreed to coal prices demanded by the coal company which were 10 *percent* above notified rates[10], though notified rates were applicable for coal supplied under the 'linkage' route. The higher prices, agreed to (August 2016) by the Company would correspondingly increase energy charges for the station.

3.1.1.2 Kahalgaon-II power station

Existing power stations as on 31 March 2009 were given coal linkages (Annual Contracted Quantity - ACQ) as per the recommendation of CEA. In the case of Farakka (1600 MW) and Kahalgaon-I (840 MW), CEA recommended (April 2009) a combined ACQ of 15 MTPA as against the requirement of 22.94 MTPA. The reason for the reduced linkage was the delay in production from linked mines and constraints in railway logistics cited by CIL. In the case of

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[7] Tapering linkage is the short-term linkage provided to those coal consumers who have been allotted captive coal blocks for meeting their coal requirements of their linked end-use plant where production of coal from these blocks does not synchronize with the requirements of the end-use plant.

[8] It is a layer of compressed coal, which is spread on the yard to serve as a carpet upon which further heaps of coal are placed.

[9] As per this FSA, diversion for plants linked to captive coal blocks was not permissible.

[10] Except for higher grade coal (Up to G5 grade and WCL coal).

two units of Kahalgaon-II (2 x 500 MW), CEA stated (June 2009) that ACQ for these units would be recommended separately as and when additional coal was available from the linked mines or movement of additional coal was made possible by Railways. CIL, however, clubbed the coal requirement of Farakka, Kahalgaon-I and Kahalgaon-II and the Company signed (August/September 2011) FSAs for 15 MTPA for all the three stations. Though NTPC took up the issue both with CEA, CIL/Ministry of Coal, it could not succeed in enhancing coal allocation for these three stations. Finally, Ministry of Coal informed (March 2014) NTPC that the issue could not be decided at that point in time.

Audit observed that the coal companies actually supplied more than the ACQ but demanded performance incentive (PI) at applicable rates, *i.e.*, 40 *percent* over and above the notified rates, which was the highest slab rate payable for supplies beyond ACQ. The station paid PI amounting to ₹476.14 crore for coal supplies beyond ACQ, at 40 *percent* above notified rates during the period from 2012-13 to 2015-16.

Ministry stated (November 2016) that the request to increase the ACQ was turned down by CIL and it had no option but to sign FSAs with Eastern Coalfields Limited for ACQ of 15 MTPA. It was added that NTPC continuously took up the issue at different levels for an upward revision in ACQ ever since ACQ was finalized but did not succeed. Ministry further added that in the deliberations between NTPC and CIL in July 2016, CIL has agreed to supply additional 3.69 Million MTPA to Kahalgaon under the FSA terms and conditions.

Ministry's reply indicates that additional supply at FSA rates has been agreed to, implementation of which would be watched in future audits. However, running two units of Kahalgaon II having capacity of 1000 MW entirely on costlier sources of fuel for four years (2012-13 to 2015-16) increased the fuel cost of the station which in turn was passed on to the consumers through power tariff.

3.1.1.3 Ramagundam III power station

In order to meet the coal requirement of Ramagundam-III, the Standing Linkage Committee (Long Term) of Ministry of Coal (MoC) offered (September 1998) a linkage of 2.5 MTPA from Western Coalfield Limited (WCL). Later, MoC accorded in principle approval for coal linkage of 2.5 MTPA from South Eastern Coalfields Limited (SECL) in September 1999. However, NTPC did not sign the FSA for coal linkage of 2.5 MTPA with either WCL or SECL before commissioning the unit on 25 March 2005.

In October 2007, the New Coal Distribution Policy (NCDP) was notified stating that coal at notified price would be available only on signing of FSA. NTPC signed FSAs with SECL (26 July 2011) and Mahanadi Coalfields Limited (MCL) (15 July 2011) for supply of ACQ of 1 MTPA (0.5 MTPA each). As against the requirement of 2.5 MTPA, the FSAs ensured 1 MTPA of coal as CIL expressed its inability to supply more. Consequently, NTPC incurred extra expenditure of ₹1474.54 crore due to procurement of coal through costly sources (MOU and e-auction) during the period from 2010-11 to 2015-16.

Ministry stated (November 2016) that coal supply under FSA became mandatory only after introduction of New Coal Distribution Policy (NCDP) in October 2007 and till such time Standing Linkage Committee Short Term (SLC- ST) used to approve coal linkage on

quarterly basis from time to time. Ministry added that SECL and MCL mines were located far away from the station. Ministry further stated that ACQ from MCL and SECL have now been transferred to Singareni Collieries Company Limited (SCCL) on 21 January 2016 as per the recommendations of New Inter-Ministerial Task Force (IMTF) and subsequently, NTPC requested (March 2016) SCCL to revise the ACQ for Ramagundam as per approved linkage.

The reply is not tenable. FSA mechanism was prevalent even before NCDP. In the instant case, NTPC had failed to sign the FSA with either WCL or SECL, when it had the approval of Ministry of Coal (in September 1999), much before commissioning of the unit in March 2005. Subsequently, the Company had to sign the FSA for supply from the same distant mines and agree to a lower ACQ, which resulted in extra expenditure.

3.1.2 Coal pricing done on cost plus basis for Mouda FSA

Mouda station was granted (21 June 2010) coal linkage of 1.78 MTPA from WCL mines for Unit II of Stage-I. FSA was signed by the station in September 2013. At the time of implementation of FSA, WCL stated that it was not in a position to supply coal at notified rates and offered coal on 'cost-plus basis'. Coal supplied under cost-plus agreement was costlier than notified rates. Execution of another FSA on cost-plus basis was initially resisted by the Company but eventually agreed to at a review meeting held on 30 August 2013 and cost plus FSA for 0.6 MTPA was signed in January 2015.

Audit observed that NCDP envisaged supply of coal at rates declared/notified by CIL for power utilities and there was no provision for coal supply on cost-plus basis. As such, the Company's acceptance of cost-plus prices was not in line with NCDP and has resulted in extra fuel cost of ₹31.11 crore[11] during the period from February 2015 till March 2016.

Ministry stated (November 2016) that the Letter of Assurance (LOA) dated 21.06.2010 issued by WCL provided that in case the quantity of normative requirement necessitates opening of a dedicated mine, then coal shall be priced at the higher of the cost plus reasonable return or such notified price. Ministry added that as WCL did not have coal quantity available for supply at notified prices, it had identified New Majri mines from which cost plus coal can be supplied to Mouda Unit 2 in terms of the LOA. Ministry further stated that the issue was taken up with WCL/CIL, MoP/MoC for signing of FSA at notified price after finalization of the model FSA-2012. However, MoC, vide letter dated 02 September 2013 communicated to MoP that WCL could supply coal from only cost-plus mines and requested MoP to advise NTPC to sign cost-plus FSA with WCL. There was no option available to NTPC but to sign cost plus FSA with WCL, as directed.

The reply is to be viewed against the fact that Standing Linkage Committee – Long Term, in its meeting dated 30 April 2002, had decided that cost plus pricing should be resorted to only in those cases where the consumer seeks supply from a specific mine. As in the present case, NTPC did not seek supply from a specific mine, NTPC ought not to have agreed to cost plus pricing. Moreover, NCDP provided for supply of coal at notified rates only and did not envisage cost plus pricing for coal.

[11] Cost plus price agreed by the Company was ₹1926.62 per tonne, while notified price was ₹1070 per tonne (G9 grade). Quantity delivered was 3,63,213.55 tonne. Hence, excess cost is equal to ₹31.11 crore (₹1926.62 – ₹1070 x 3,63,213.55).

3.1.3 Additional fuel cost due to long time taken in signing Fuel Supply Agreement

Audit observed that there were significant time gaps between Commercial Operation Date of units and signing of FSA by five stations in the audit sample. Two of these stations, *viz.*, Farakka and Korba entered into MOU with coal companies but the MOU quantity was not adequate to meet the requirement of the station. These stations were forced to procure coal under 'Performance Incentive' provision in the existing FSA of older units, incurring additional fuel cost as explained below:

Table-3.1: Performance Incentive paid due to long time taken in signing FSA

Name of the station	Details of Unit			Coal procured for new units against old FSA (In Tonnes)	PI paid for new units during the period between COD to FSA signing(₹crore)
	Commercial Operation Date (first unit)	FSA date	Time gap in signing FSA (months)		
Farakka-III	01.04.2012	11.7.2013	15	1280471	90.74
Korba-III	20.03.2011	17.07.2013	27	2366031	7.51
Vindyachal-IV	01.03.2013	02.09.2013	6	931649	19.24
Rihand-III	19.11.2012	02.09.2013	10	1685772	37.35
Sipat-I	25.05.2012	01.09.2013	16	6425236	168.53
Total					**323.37**

Ministry stated (November 2016) that delay in signing of MOU was on the part of CIL subsidiary. Ministry added that the model FSA was provided by CIL only in April 2012, with many one sided provisions in CIL's favour which led to protracted negotiations and consequent delay. Ministry further stated that the time invested in negotiation with CIL before signing of FSAs may not be deemed as delays since NTPC tried to protect the interests of consumers only.

It needs to be highlighted here that the time gap in signing FSA led to extra expenditure of stations for sourcing coal by paying incentive, which, in turn, was passed on to the consumers. Moreover, protracted negotiations did not yield significant dividends in commercial terms.

3.1.4 Performance incentive paid under FSA

Commercial terms in the FSA were incorporated after negotiations between the Company and CIL. Audit noticed that conditions for payment of performance incentives by power stations were agreed to in disregard of NCDP to the detriment of the Company as discussed in succeeding sub-paragraphs:

3.1.4.1 Payment of Performance Incentive for quantities within ACQ

As per NCDP, 100 *percent* of the quantity as per the normative requirement of the consumers would be considered for supply of coal through FSA at fixed prices to be notified by CIL. However, the Company agreed to pay performance incentive for supplies above 90 *percent* of ACQ (10 *percent* performance incentive for supply between 90 and 95 *percent* of ACQ and 20 *percent* performance incentive for supply between 95 and 100 *percent* of ACQ). This

resulted in increased fuel cost for the stations examined in audit. The incentive paid within ACQ in case of 10 stations[12] was ₹ 558.00 crore (2010-11 to 2015-16).

Ministry stated (November 2016) that NCDP authorizes CIL to declare/notify prices for coal supplies, and during discussions held on 08 April 2009 between CEA, CIL, NTPC and other power utilities, it was informed that in the coal shortage scenario, coal companies would be motivated to produce more coal with the incentive provision. Ministry added that Performance Incentive (PI) being applicable only for supplies above 100 *percent* of ACQ might have resulted in higher notified prices and under such a scenario, even the coal supplied below 80 *percent* ACQ would have attracted increased fuel charges. Ministry further stated that it was a collective decision of CEA, CIL and power utilities including NTPC and not a clause agreed to by only NTPC. Ministry further added that NTPC has taken up with CIL for PI to be restricted to supplies beyond 95 *percent* of ACQ (@ 10 *percent* only) and CIL/ECL have now withdrawn PI for the coal of G5 Grade and above.

The reply confirms that the commercial terms of FSA agreed to by NTPC were beyond the rates specified by NCDP. As NCDP is the overarching framework for coal linkage, NTPC ought to have stressed its implementation, particularly as the incentives agreed to in the negotiated FSAs were not in the interest of the Company.

3.1.4.2 Payment of PI on Deemed Delivered Quantity

The amount of PI to be paid by the Company is worked out on the basis of the quantity of coal delivered during the year. The FSA for stations commissioned after 31 March 2009 provided that PI was to be paid on Deemed Delivered Quantity[13] (DDQ) which included imported coal not actually delivered to the station, having been surrendered by the Company. The payment of PI for notional deliveries of imported coal increased the outgo of the power stations without any commensurate benefit.

Audit observed that two stations in the Audit sample paid ₹ 18.43 crore (Vindhyachal ₹5.86 crore and Rihand ₹12.57 crore) towards PI on such DDQ for the year 2013-14.

Ministry informed (November 2016) that during negotiations on FSA terms, NTPC insisted that PI should be payable on actual deliveries but CIL did not agree. Ministry added that CIL later amended the provision and from 2014-15 onwards, PI is payable on actual quantity only.

While the response regarding corrective action taken is noted by Audit, the fact remains that the correction has been done for 2014-15 onwards and the amount of PI of ₹ 18.43 crore (pertaining to 2013-14) paid by Vindhyachal and Rihand stations would not be recovered even with the change in FSA terms.

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[12] Dadri (₹ 1.85 crore), Vindyachal (₹ 130.18 crore), Talcher (₹ 15.14 crore), Sipat (₹ 27.76 crore), Rihand (₹ 60.85 crore), Farakka (₹ 42.70 crore), Korba (₹ 63.72 crore), Ramagundum (₹ 150.88 crore), Badarpur (₹ 4.28 crore) and Kahalgaon (₹ 60.64 crore). The incentive paid in case of Vallur and Jhajjar was Nil.

[13] As per FSA for stations commissioned after 31March 2009, the coal companies can offer imported coal up to a certain percentage to meet their minimum supply requirements (80 *percent* of ACQ). Such imported component agreed was 15 *percent* of ACQ for the years 2012-13 to 2014-15, 13 *percent* of ACQ in the year 2015-16 and 5 *percent* of ACQ for the year 2016-17 onwards. NTPC has the option to surrender the imported coal so offered, in which case it would be considered as Deemed Delivered Quantity or DDQ.

3.1.4.3 Additional payment of PI

As per the FSA (both old and new), the trigger level for PI was 90 *percent* of ACQ. The new FSA (applicable for units commissioned after 31 March 2009) introduced a compensation payable by coal companies in case supply falls below 80 *percent* of ACQ. Thus, as per the new FSA, there was a dead band for supply between 80 and 90 *percent* of ACQ which entailed neither payment of incentive nor receipt of compensation.

Audit observed that in six stations[14], both the old and new FSAs with the same coal companies were in operation. NTPC and CIL arrived (12 March 2013) at an understanding regarding apportionment of supply against old and new FSAs. CIL would consider supply of coal up to 90 *percent* of the ACQ in respect of old FSA and after fulfilling minimum commitments (80 *percent* of ACQ) under new FSA, the balance supply, if any, would be considered for incentive against old FSAs. This effectively implied that NTPC would need to pay additional PI for supplies beyond 80 *percent* of ACQ in new FSAs. Audit noticed that the extra incentive payment made by five stations[15] on this account was ₹32.65 crore for the period 2013-14 and 2014-15.

Ministry stated (November 2016) that this was a commercial agreement reached in apex level meeting between CMDs of the two organisations.

The reply is not acceptable as the understanding arrived at between NTPC and CIL was disadvantageous to NTPC. Moreover, the additional expenditure incurred by NTPC has been passed on to the consumers.

3.1.5 Implementation of Fuel Supply Agreement

While FSA terms were negotiated at the corporate level, its implementation was carried out at the station level. Audit observed following shortcomings regarding implementation of FSA:

3.1.5.1 Deviation in monthly and quarterly scheduled quantities

The ACQ was divided into quarterly scheduled quantities, *viz.,* 25 *percent* each of ACQ in first and third quarter, 22 *percent* in second quarter and 28 *percent* of in the fourth quarter. Quarterly quantity was further divided into monthly scheduled quantity, which is one third of the quarterly quantity. FSAs provided that the deviation in monthly scheduled quantity up to 5 *percent* can be made with the written consent of both the station and the coal company but total variation in any month shall in no case exceed 10 *percent* of the scheduled quantity. For quarterly scheduled quantities, old FSA did not permit any excess supplies, while the new FSA permitted deviation with the written consent of both the station and the coal company.

Audit examined data regarding actual supplies vis-à-vis scheduled supplies in respect of stations selected in audit sample and observed that there were significant deviations in deliveries to stations, as given in **Annexure 3.1.** It was noticed that the supplies were rarely as per schedule and the deviation in supplies were beyond the permitted level in majority of months at all stations.

[14] Farakka, Kahalgaon, Simhadri, Korba, Vindhyachal, and Rihand.

[15] Rihand - ₹ 12.00 crore; Vindhyachal - ₹ 8.08 crore; Kahalgaon - ₹ 1.47 crore; Farakka - ₹ 9.29 crore; and Korba- ₹ 1.81 crore.

FSAs provided for monetary compensation for both short delivery by coal companies and short lifting by power stations when the annual supplies were below the specified trigger level. Audit observed that the earning of incentive by coal companies were not affected as long as there was no annual shortfall of supply. This led to a paradoxical situation where the stations suffered generation loss due to coal shortage while paying incentives for additional supplies made over the year. Review of records in audit did not indicate that the Company escalated this issue with coal companies to seek a remedy, though intra-year/temporary shortages forced the Company to tap costly sources of coal through e-auction, MOU and imports.

Ministry stated (November 2016) that NTPC regularly monitors the level of coal supplies and makes a very regular follow-up with coal companies for supplying coal. Ministry added that in a scenario of coal shortages, NTPC had no option but to agree to this clause and that NTPC shall again take up the issue with coal companies.

Considering that there was no disincentive in the FSA for short supply of monthly/quarterly quantities and the significant impact such short supply had on power stations, there may be a need to introduce safeguards in the FSA to enforce timely delivery of scheduled quantities, including monthly and quarterly supplies.

3.1.5.2 Non recovery of compensation for short supplies under FSAs

Review of payment of incentive by power stations on account of annual supplies beyond 90 *percent* and receipt of compensation from coal companies for short supplies below 80 *percent* of ACQ revealed the following:

(i) **Badarpur power station:** In the case of FSA with CCL, there was short delivery vis-a-vis ACQ in all the years of the period covered in audit. The stations claimed short delivery compensation of ₹21.23 crore for 2010-11, 2011-12 and 2013-14 but CCL did not accept the claim attributing the short delivery to force majeure conditions. The claim of ₹ 0.15 crore (2011-12) was waived off by the station and claim of ₹ 21.08 crore (2010-11 and 2013-14) was under consideration for waiver/verification. However, for a single year (2012-13), the delivery had been above 90 *percent* and for this, performance incentive of ₹1.21 crore was released to CCL. Thus on the one hand, Badarpur station failed to get the compensation amount for short delivery of coal from CCL amounting to ₹21.23 crore (2010-11 to 2015-16) as per the provisions of FSA, and at the same time, released performance incentive of ₹1.21crore to CCL.

(ii) **Ramagundam power station:** South Eastern Coalfields Limited (SECL) and MCL could not adhere to the ACQ and short supplied coal (except in 2013-14 by SECL and in 2010-11 by MCL). Audit noticed that the station had claimed compensation for the short supply of coal amounting to ₹35.18 crore (2010-11 to 2015-16), which was not received (October 2016). However, the station paid performance incentives amounting to ₹126.87 crore to the coal companies for additional supplies in 2010-11 and 2015-16. Payment of performance incentive without recovery of compensation for short delivery was, therefore, not in order.

(iii) **Jhajjar power station:** During 2013-14 and 2014-15, there was supply deficit of 69.89 *percent* and 68.17 *percent* respectively *vis-à-vis* the ACQ. The compensation amount of ₹58.27 crore was not recovered by the station from MCL with whom it had FSA.

(iv) **Vallur power station:** From 2013-14 to 2015-16, the level of delivery of coal by MCL was short of ACQ by 36.31 *percent* (2013-14), 48.07 *percent* (2014-15) and 46.18 *percent* (2015-16). However, the Company did not claim any compensation from MCL.

Ministry stated (November 2016) that short supply of coal by the coal companies was on account of less rakes supplied by Railways and hence, the power stations were not eligible for the compensation. Regarding payment of PI, Ministry stated that the same was done in terms of relevant clauses of FSA.

The reply points out reasons for short supply of coal by the coal companies. Audit, however, has highlighted the payment of incentives to the coal companies by power stations despite short supplies particularly as short supply of fuel as pointed out above has a significant impact on functioning of the power stations.

3.1.5.3 Rationalisation of quantities under FSAs

Badarpur station had FSAs with ECL for an ACQ of 2 lakh tonne and with CCL for ACQ of 40 lakh tonne. Audit observed that CCL had consistently short supplied coal in all years covered in audit (except in 2012-13), which had attracted compensation of ₹21.23 crore from CCL. This was claimed, but were being considered for waiver by the station. On the other hand, ECL had been supplying more than the ACQ in all the five years and NTPC paid performance incentive of ₹47.06 crore during this period (2010-11 to 2014-15) to ECL. However, audit examination did not indicate that NTPC tried to address this situation by taking up the matter either with SCL-LT, Ministry of Coal or with Ministry of Power for re-appropriation of the quantity among ECL and CCL.

Ministry stated (November 2016) that NTPC took up the matter regarding rationalization of ACQ with CIL and the ACQ with CCL has been reduced from 4.00 to 1.72 Million MTPA in September 2016 and the balance quantity has been allocated to other station(s). Ministry added that FSA with ECL has been cancelled.

The action taken by the Ministry/ NTPC and resultant correction in allocation is noted.

3.2 Procurement of coal through MOUs

In addition to FSAs, power stations entered into Memoranda of Understanding (MOUs) with coal companies to supplement coal supplies. Procurement of coal through MOUs was not mandated under NCDP which provided for FSAs and e-auctions. Audit noticed that high premium was being paid for MOU procurements, even compared to maximum incentive of 40 *percent* over notified rates under FSA:

- Premium agreed by NTPC under MOU with SCCL was higher by ₹1600.64 crore (during April 2010 to March 2016).
- MOU of NTPC with ECL (January 2014 to March 2016) provided for premium of ₹1433.19 crore while MoU with NCL allowed for premium of ₹394.45 crore.

While entering into MOUs, NTPC compared the imported rates for coal. It was, however, noticed that the procurement cost under MOU was in some cases higher than the cost of imported coal. This was noticed in three stations, *viz.*, Simhadri, Ramagundam and Talcher Kaniha. Besides, in July 2014, the import parity criterion was waived off for other stations, *viz.,* Barh, Mouda, Dadri, Korba and Sipat, citing declining trend of imported coal prices, which also resulted in high cost coal being procured under MOUs.

Ministry stated (November 2016) that the premium for MOU coal was mutually agreed based on the premium realized by the coal companies in e-auctions in the past period and hence it may be reasonably deemed as the price discovered through competitive procurement only. Ministry added that alternatively, NTPC could have participated in the e-auctions conducted by the coal companies, but in such cases there was no assurance of winning the bids and as such coal security essential for running the power plant would not be available. Ministry further stated that power stations were designed for domestic coal and there were technical restrictions of blending imported coal with domestic coal and to avoid loss of generation, stations had to tie-up domestic coal, in spite of prices being more than imported coal on some occasions. Ministry also stated that coal companies with whom MoUs have been entered are public sector entities.

The reply is to be viewed against the fact that there has been no price discovery in case of MOUs and the premium payable under MOU procurement was decided only through negotiation. Agreeing to significantly higher rates, even considering the maximum incentive amount under FSAs would increase the power generation costs which would eventually be passed on to the consumers. Moreover, MOU route of coal procurement was not envisaged in the NCDP.

3.3 Procurement of coal through e-auction

The Company procured coal through e-auction to supplement the supplies under FSA. Audit reviewed the e-auction process and noticed that the benchmark price used by NTPC for bidding in e-auction was based on price of imported coal with GCV of 5700 kCal/kg. The Company derived the price of the coal being auctioned (as per GCV of the offered coal) based on this import price[16]. Audit noticed that there were significant differences between the derived price and the actual import price for the grade of coal on offer in e-auction. In such a situation, two scenarios could occur:

- where the import price for the grade of offered coal is lower than the derived price, the bid amount would be on the higher side and the Company would win the bid by quoting a higher amount for an inferior quality of coal.

[16] For example, if the landed cost of imported coal of 5700 GCV was ₹5589 per MT, the landed cost of imported coal of GCV 1000 kCal/kg was taken as ₹0.981 (5589 divided by 5700). ₹0.981 was multiplied by the GCV of domestic coal being offered through e-auction and the prices were worked out backwards to achieve parity between domestic and imported coal prices.

- where the import price is higher than the derived price, the Company may be losing the bid.

NTPC stated (April 2016) that since the quantity procured is very low, this assumption may not significantly affect the fuel procurement for NTPC. Ministry noted the audit observation (November 2016).