Chapter 4

Import of Coal

The Company has been importing coal since 2005-06 to supplement domestic coal supplies. Prior to 2011-12, The Company was importing coal through Public Sector Undertakings (PSUs), v*iz.,* MMTC Limited and State Trading Corporation of India Limited. These PSUs imported coal through suppliers and charged a service margin over and above their cost. The New Coal Distribution Policy (NCDP) notified in October 2007 by Government of India, Ministry of Coal (MoC) stipulated that CIL shall supply coal to meet the normative requirement of consumers. NCDP provided that CIL could import coal and adjust its overall price accordingly.

In April 2009, ACQ of stations was reviewed by CEA in consultation with CIL, NTPC and power utilities. While the stations whose Commercial Operation Date (COD) was declared prior to 31 March 2009 were given ACQ as per the extant level of supply; the new stations, *i.e.,* stations commissioned after 31 March 2009, got ACQ corresponding to normative requirement, *i.e.,*85 *percent* Plant Load Factor (PLF). Hence for declaration of capacity[17] of stations above normative levels as well as for meeting disruptions in domestic coal supplies, the Company resorted to import of coal. The Company did not exercise the option of import of coal through CIL and imported coal on its own through tendering from November 2011 onwards.

The quantity of coal to be imported was fixed on a country-wide basis by Ministry of Power (MoP) on the basis of domestic coal availability and generation level for the year as assessed by CEA. A 'target' for import of coal was given to each generating utility. Details of import of coal by NTPC during the last six years ending 2015-16 and price comparison with domestic coal are tabulated in Table 4.1.

[17] As per Indian Electricity Grid Code 2010, the generating stations shall make an advance declaration of their capacity foreseen for the next day, based on which the beneficiaries schedule drawal of power from the stations.

Table-4.1: Year-wise quantity and price of imported *vis-à-vis* domestic coal

Year	Target given for import	Quantity awarded	Actual coal import	Average landed cost of imported coal per tonne at stations (in ₹)*	Average landed cost of domestic coal per tonne at stations (in ₹)*	Difference in price between imported and domestic coal (in ₹)
	(in million tonnes)					
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(5-6)
2010-11	13.90	12.00	10.50	7788	2325	5463
2011-12	15.45	4.00	12.00	8992	2790	6202
2012-13	16.00	12.00	9.10	6745	3017	3728
2013-14	16.60	7.83	10.80	6880	3374	3506
2014-15	16.60	18.88	16.40	5999	4653	1346
2015-16	12.00	7.00	9.70	5951	4415	1536

* Column 5 denotes average landed cost of imported coal of 10 stations and column 6 is the average weighted average cost of domestic coal procured through FSA, MOU and e-auction by 10 stations (out of 13 in the audit sample), data of which was provided to Audit. Badarpur was excluded since it used imported coal during 2010-11 only. Dadri and Vallur stations did not provide necessary data. These rates were further multiplied by 1.5 in order to arrive at normalized price of domestic coal vis-à-vis imported coal considering that 1.5 kg of domestic coal is equivalent to one kg of imported coal for consumption purpose.

Actual import of coal registered an increasing trend during the period from 2010-11 to 2011-12 and again during 2013-14 to 2014-15 but reduced in 2012-13 and 2015-16, however, prices showed a mixed trend. The quantity awarded exceeded the 'target' in 2014-15. Audit reviewed various aspects relating to import of coal and the observations are indicated below.

4.1 Policy framework for import of coal

Audit noticed that no specific policy was laid down by the Company for importing coal. While examining (November 2012) the draft Coal Import Policy 2012 recommended by the Committee of Directors, the Board constituted another sub-committee (Committee for Review of Coal Import Policy) to examine the evolution of Coal Import Policy since 2009 onwards, identify reasons for changes made in the policy from time to time, chart out future course of action and finalize a coal import policy. However, no comprehensive policy for coal import has yet been finalized over the past four years.

Ministry stated (November 2016) that policy for import of coal shall be put up to Board of Directors by the end of the year.

In absence of a comprehensive policy, there were instances of different approaches to key decisions such as splitting of quantity among bidders, qualification requirements, type/GCV of coal to be procured *etc*., as pointed out below:

A. Splitting of packages

During the period from April 2011 to March 2016, the Company awarded 64 contracts (40 packages) for import of coal. 36 of the 40 packages[18] {worth ₹ 22796.91 crore (approx.), for

[18] Including two packages awarded as L2, due to spitting.

36.79 million tonnes of coal accounting for over 75 *percent* of the procurement by value} were awarded to a single entity, Adani Enterprises Limited. In the initial 17 packages awarded from February 2012 to February 2013, the entire package quantity was awarded to the L1 bidder and no splitting of quantity among qualified bidders was done. Subsequently, to enhance participation level, the Company decided to split the quantity among the qualified bidders. In the first tranche of 2013-14, NTPC envisaged splitting up the package quantity in the ratio 50:30:20 for award amongst L1, L2 and L3 bidder respectively, at L1 prices for the package quantity 1 MMT and above. It was decided that for package quantity between 0.5 MMT and 1 MMT, the quantity would be split in the ratio of 60:40 amongst L1 and L2 bidders respectively. However, these ratios were followed only for one tranche of three packages awarded on 31 October 2013, and in subsequent eight packages, the ratio was changed to 70 (L1):30(L2), but reasons for the change were not recorded. Subsequently, splitting of contracts was dispensed with after 'Reverse Auction' was introduced in August 2014. Hence there was an inconsistency regarding the splitting mechanism adopted by the Company across packages.

Ministry stated (November 2016) that in case of split ratio of 60:40/ 50:30:20, five to eight bidders purchased bidding documents and only two bidders submitted their bids in each of the packages. It was later decided to change the splitting ratio to 70:30 to keep parties motivated to quote aggressively to become L1 bidder. With change of splitting ratio to 70:30, 15 to 24 bidders purchased the bidding documents and three to six bidders submitted their bids in each of the packages. Ministry added that after changing the split-up ratio to 70:30, better award prices were achieved and the same were also closer to the cost estimates. All packages were awarded at L-1 prices only. Ministry also stated that Reverse Auction was introduced to bring about highest level of transparency and further ensures that no bidder gets any advantage vis-à-vis others on any ground other than the lower prices. Ministry further stated that in order to have wider participation, NTPC has been floating tenders for each package of procurement of imported coal on International Competitive Bidding (ICB) basis.

The reply has to be viewed against the fact that the change in the splitting ratio increased the quantity to be awarded to L1 bidder from earlier 50 / 60 *percent* to 70 *percent*. The increased level of participation cannot be attributed to modification of splitting ratio alone as there would be other factors including market conditions which would affect participation. Besides, Audit noticed that key qualification requirements[19] were also changed in tandem with the change in splitting ratio, which may have affected the degree of participation. As such, it may not be possible to come to a conclusion based only on one tender that the poor response was due to the splitting ratio alone. It was also seen that prices were higher than cost estimates in 22 out of 36 packages examined by Audit.

[19] (i) When splitting ratio was 50:30:20/60:40, minimum qualification requirement for a bidder to participate in the tender was that he must had an experience of supplying 50 or 60 *per cent* of package quantity. However, when splitting ratio was changed to 70:30, this was modified to 44 *per cent* of package quantity. (ii) Modified QR provided that a bidder meeting the requirement of supply and handling attributes could also participate in bids after tying up with mine owner(s) through a 'Letter of Authority' from them.

B. Re-tendering/annulment of packages

A review of the import orders revealed that in 22 out of 36 packages examined by Audit, the L1 rates obtained through the tender process were higher than the estimates[20]. Audit noticed that the Company did not have a consistent approach in dealing with such cases.

- In 11 of these packages, the Company carried out re-tendering citing higher quotes received from bidders.
- In six cases (including 3 re-tendered packages), the Company carried out post-bid negotiations based on which the contracts were awarded.
- In the balance eight cases, the Company awarded the contracts without any negotiations or resorting to re-tendering.

Ministry stated (November 2016) that re-tendering/ annulment was carried out keeping in view NTPC's commercial interest and applying due prudence by taking note of coal stock position, demand for coal and coal prices arrived during tendering etc. Ministry added that all these decisions have been approved by Board/Sub-committee, as the case may be. Ministry further stated that higher expenditure would not reflect on the bottom line of NTPC since as per the business model, fuel cost was pass through.

The reply indicates that there was a certain degree of subjectivity involved in these decisions.

4.2 Source verification of quantity and quality of coal

The Company changed the Qualification Requirement (QR) for bidders in July 2013 in an attempt to bring about participation by mine owners abroad and obtain assurance about the quantity and quality of imported coal. The new QR stipulated that the bidder should be a mine owner or consortium with a mine owner as one of the parties. During pre-bid conference held on 23 July 2013, prospective bidders expressed that overseas mine owners were reluctant to sign such consortium agreements where they would be liable for supplying and handling part also. In order to address this, QR was modified and it was provided that a bidder having supply and handling experience could also participate in bids after tying up with mine owner(s) through a 'Letter of Authority' from them. Since the bid prices obtained with this condition was higher than cost estimates, the requirement regarding 'Letter of Authority' was relaxed in subsequent tenders. It was decided that the bidder would only submit a list of mines from which supply would take place.

Audit observed that, the bidders, in line with the relaxed conditions, submitted a list of mines (from 33 to 740 mines)[21] from where they could source the coal. Hence the objective of obtaining assurance about the source, quantity and quality of coal from the coal producer never actually materialized as none of the bidders submitted the exact names of the mines along with quantity and quality (Gross Calorific Value-GCV) of coal to be imported from these mines.

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[20] Award values were more than cost estimates by 0 to 5 *percent* in 10 cases; 5 to 10 *percent* in 8 cases; 10 to 20 *percent* in 1 case; 20 to 30 *percent* in 1 case and 30 *percent* & above in 2 cases.

[21] The list of mines submitted by bidders mentioned 340 mines-AEL consortium; 535 mines- Knowledge Infrastructure System Private Limited (KISPL); 33 mines – MBG Commodities Private Limited (MBG) and 740 mines – Trimex International FZE (TIF) Consortium (in respect of 1.3 MMT package for Simhadri and Ramagundam)

Ministry stated (November 2016) that there are a number of small coal mines in Indonesia and hence bidders used to declare a substantial number of mines in the above mentioned format. Ministry added that once the source of coal mine(s) is declared by the successful bidder, he is bound to supply the coal from only the declared mine(s), meeting the technical specification of coal. It was also stated that the objective of obtaining assurance about the quantity and quality of coal was fulfilled with source declaration.

The reason for non-participation of mine owners abroad was supply and handling of coal up to station end. Instead of addressing this concern, the Company relaxed the requirement of declaration for specific mine (s). Though declaration of specific mine(s) would have caused some inconvenience to the bidders, the same would have provided assurance to the Company about quantity and quality of coal being procured by the bidder.

4.3 Indices adopted for price settlement of imported coal

NTPC imported coal from Indonesia under 15 packages involving 14.6 MMT during February 2012 to February 2013. As per bid conditions, FOB coal price quoted was subject to variations for payment purposes, considering lower of the specified indices[22] on base date and weekly basis, based on indexation.

Coal pricing was based on Gross Calorific Value (GCV) and GCV measured on 'Air Dried Basis' (ADB) was used for payment of imported coal. The Indonesian coal index, which was one of indices considered for payment settlement, reported GCV on 'Gross as Received' (GAR) basis. Audit noticed that the GCVs worked out on ADB and GAR basis were considerably different, the GCV being higher on ADB basis compared to GAR. The GCV of coal required for the imported coal packages was 6300 kCal/kg worked out on ADB basis. This would translate to GCV in the range of 5800 on GAR basis. NTPC indicated in the contract document that one of the parameters for price basis was GCV of 6300 kCal/kg (on ADB basis) and that FOB prices would be subject to variation considering specified indices, including Indonesian Coal Index of 6500 GAR. Audit observed that since the appropriate Indonesian Coal Index was not specified, (6500 GAR was specified instead of 5800 GAR), extra expenditure was entailed at the time of payment for coal deliveries.[23] Difference in price per tonne of Indonesian coal, as per 6500 GAR and 5800 GAR ranged from 11.97 USD to 18.75 USD (rates which prevailed on award dates). Since the imported coal supplies were from Indonesia, adoption of appropriate index was important.

Ministry stated (November 2016) that the bidders would include the impact of all the probable risks and other commercial conditions in their bid prices, irrespective of the

[22] (i) CERC methodology (which comprised of indices for the Richard Bay API4 for 6000 kCal/ Kg NCV, Newcastle Export Index (NEX) for 6700 kCal/ Kg GAD and Global Coal New Castle (GCNEW C) for 6000 kCal/ Kg NCV with weightage 50:25:25); (ii) Methodology using the Indices for the Country of Origin of Coal (in this case one of the indices considered was Indonesian Coal Index (ICI) 6500 GAR).

[23] For example, in the bid opened on 3.2.2012, the bidder quoted 97.35 $ per tonne for coal of GCV 6300 (GCV to be assessed on ADB basis). The market price of coal as per Indonesian Coal Index 6500 (GAR basis) at that time was 113 $. The quoted price, which was accepted, was lower than the market price as per this index. However, the market price as per Indonesian Coal Index 5800 (GAR basis), which was the appropriate index at that time was 94.25 $ but the quoted price was higher than this value. The same analogy was applicable during price settlement at the time of actual delivery also.

particular index number used. Ministry added that indices were used only for the payment of price escalation.

The reply is to be viewed against the fact that adoption of appropriate index was crucial for payment purpose, including escalation with reference to base date, since coal pricing varied according to moisture and basis of reporting (ADB or GAR).