

F.No. 23011/79/2014-CPD (Vol.III)

Government of India

Ministry of Coal

Shastri Bhawan, New Delhi

Dated the 5th June, 2020

To

1. The Chairman-cum-Managing Director,
Coal India Limited, Coal Bhawan,
Premise No-04 MAR, Plot No-AF-III, Action Area-1A,
Newtown, Rajarhat, Kolkata-700156

2. The Chairman-cum-Managing Director,
Singareni Collieries Company Limited,
18, Red Hills, Khairatabad PO, Hyderabad,
Telangana.

Subject: Methodology for rationalization of coal linkages / swapping of coal

Sir,

I am directed to refer to Ministry of Coal O.M of even no. dated 18.10.2018 vide which an Inter-Ministerial Task Force (IMTF) was constituted to examine the possibility of further rationalization of coal linkages, including swapping of imported coal being transported to hinterland with domestic coal transported near coastal areas.

2. Based on the recommendations of the IMTF, the Competent Authority has approved the Methodology for rationalization of coal linkages / swapping of coal. The approved Methodology is enclosed herewith. Coal India Limited / SCCL are requested to take necessary action to implement the methodology accordingly.

Encl. as above


(Sujeet Kumar) 5/6/20

Under Secretary to the Government of India

To

1. Secretary, Ministry of Power, Sharam Shakti Bhawan, New Delhi
2. Chairman, Railway Board, Ministry of Railways, Rail Bhawan, New Delhi
3. Secretary, Ministry of Shipping, Transport Bhawan, New

Delhi

4. Secretary, Ministry of Steel, Udyog Bhawan, New Delhi
5. Secretary, Ministry of Fertilizer, Shastri Bhawan, New Delhi
6. Secretary, DIPP, Udyog Bhawan, New Delhi
7. Chairman, Central Electricity Authority, Sewa Bhawan, R.K. Puram, New Delhi
8. Chairman, Coal India Limited, Coal Bhawan, Rajarhat, New Town Kolkatta
9. Chairman / Managing Director, Singareni Collieries Company Limited, Singareni Bhawan, Red Hills, PB No. 18, Khairatabad PO, Hyderabad, Telangana

Copy for information to:

1. PS to Hon'ble Minister of Coal
2. PSO to Secretary, Coal
3. PPS to AS (Coal)
4. Sr. PPS to JS (RKS)
5. PS to JS & FA
6. PS to Director (CLD)

METHODOLOGY FOR RATIONALIZATION OF LINKAGES/ SWAPPING OF COAL

1. The rationalization of linkages/ swapping of coal (**“Arrangement”**) can be done across coal consumers from public sector and private sector and across domestic coal linkage and imported coal.
2. There shall be no change in the commercial terms of the existing contracts, viz. FSAs. The scheme envisages merely transfer of coal quantity in terms of GCV equivalence. The existing linkage holder shall continue to pay the price for the quantity of coal in accordance with the terms of the existing contract for the quantity being transferred under the Arrangement. The underlying objective behind the exercise is to rationalize coal transportation by easing the evacuation constraints and effect a consequential reduction in landed cost of coal.
3. The Arrangement is applicable to non-coking coal only, coking coal does not fall within the ambit of the proposed methodology.
4. The Arrangement shall be allowed only within the same sector viz. NRS (non-regulated sector) with NRS and Power (regulated sector) with Power. This is due to pricing variation between the regulated and the non-regulated sectors as well as the difference in priority in movement of coal. Rationalization/swapping arrangement across NRS and Power sector may thus create operational issues. Hence, in order to keep the operational procedure simple in its implementation, it has been considered to restrict the rationalization/swapping arrangement within the respective sector.
5. Rationalization/Swapping Arrangement shall be allowed between linkage holders of CIL and SCCL, with an appropriate price offset clause. A price offset clause shall prevent coal consumers swapping coal from subsidiaries where coal price is high to subsidiary / company where coal price is low. Such a price offset clause shall also be in place in case any

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coal consumer with a linkage from WCL enters into a Rationalization/Swapping Arrangement with a coal consumer who is a linkage holder from any other coal company of CIL.

6. Participation in the scheme shall be voluntary. Arrangement between the parties shall be bilateral.

7. All sectors, viz. Power and NRS, whether public or private, are eligible for entering into Rationalization/Swapping Arrangement pursuant to this Scheme.

8. One party to the Arrangement shall necessarily be a domestic non-coking coal linkage holder. The Arrangement shall not be applicable between two imported coal consumers.

9. The coal procured from the various e-auction schemes viz. spot, forward, special forward, etc. and coal mined from captive coal blocks shall not be eligible in this scheme.

10. In case of coal linkages awarded pursuant to an auction process, wherein either nothing was mentioned or there were restrictions on rationalization of linkages/swapping of coal, the extent of coal quantities contracted under such auction process shall not be eligible for rationalization/swapping under this scheme. CIL may make necessary amendments in the tender/bid conditions of subsequent rounds of NRS linkage auctions, allowing for such linkages to be rationalized in pursuance of this scheme.

11. Consumers off-taking coal through rail are allowed to participate in the scheme for rationalization/swapping. However, for the purpose of computation of savings under the scheme, following shall be followed:

a. For consumers off-taking coal through rail mode : actual railway receipts shall be considered for calculation of existing cost of transportation. For any proposed transportation through rail

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mode pursuant to the Arrangement, railway freight applicable for the proposed distance shall be considered.

b. Shipping freight, port and handling charges shall not be considered towards transportation cost.

12. Coal India Limited (CIL) shall be the nodal agency for conducting the process of linkage rationalization/swapping of coal.

13. A committee shall oversee the implementation of the scheme and address key issues, as they may be identified ("**Committee**"). The Committee shall have representation from CIL (Member Secretary), SCCL, CEA, Indian Railways and representative (s) from the Ministry of Shipping. The Committee may also comprise of field functionaries, local officials from the concerned division of the Indian Railways, and port representatives from relevant ports may be nominated to the Committee by the concerned Organization/Department/Ministry. The Committee shall have the power to co-opt any members/experts as it deems fit. The role of the Committee is placed at **Annexure I** .

14. There shall be no minimum quantity, subject to restriction pertaining to the mode of transportation, if any, for entering into the rationalization/swapping arrangement. Maximum quantity under Arrangement shall the Entitled Quantity of a willing participant/consumer.

15. Entitled Quantity shall be as under:

- a. **For linkage holders** : The Entitled Quantity shall be the Annual Contracted Quantity (ACQ) as defined under the Fuel Supply Agreement (FSA).
- b. **For Imported Coal consumers:** The Entitled Quantity shall be the lower of a) Normative Coal Requirement of the EUP of the consumer less the ACQ under any existing linkage (as applicable) and, b) the twelve month average of actual quantity of coal imported during the last thirty six months preceding the date of submission of application.

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In case of Power sector consumers importing coal, the Normative Coal Requirement shall be computed based on applicable CEA norms. For NRS consumers importing coal, Normative Coal Requirement shall be computed as per the methodology implemented during the auction of coal linkages to the non-regulated sector.

16. Rationalization of linkages/swapping of coal shall be for the quantity which shall be the lower of the Eligible Quantities (calculated in GCV equivalence) of the two willing participants/consumers.

$$\begin{aligned} \text{Eligible} &= \text{Quantity proposed to be} \\ \text{Quantity (in} & \text{swapped/rationalized in a year} \times \text{the GCV} \\ \text{Kcal per} & \text{of the grade of coal under FSA/ import} \\ \text{annum)} & \end{aligned}$$

17. In case of multi-grade coal supplies to the FSA holder who is the willing participant/consumer in the arrangement, the weighted average of actual grade(s) of coal (as determined post Third Party Sampling (TPS) or as per declared grade wherever TPS is not available) supplied during the 12 months immediately preceding the month in which the application is submitted for rationalization of linkages/swapping of coal, shall be considered for entering into rationalization/swapping arrangement.

18. The minimum tenure of the arrangement shall be six months. A party can opt to terminate the Arrangement, providing a notice period of three months.

19. The maximum tenure of the Arrangement in case of two linkage holders shall be the lesser of the remaining tenures of the two FSAs of the willing participants/consumers. In case, a plant which is importing coal is one of the

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willing participants, the maximum tenure of Arrangement could be up to the tenure of FSA of the other willing participant/consumer. In the event of extension of the tenures of the FSAs of both the participants/consumers, the Arrangement may continue till the tenure of the FSA which is maturing earlier.

20. Priority in movement of coal through rail mode shall be decided based on the eventual end use.

21. Savings from reduction in transportation cost must accrue to both parties to the Arrangement.

22. Computation of the savings shall be the joint responsibility of willing participants/consumers. This shall be submitted to the Committee for scrutiny and establishment of veracity. The Committee may ask for additional information in this regard and the parties shall be obligated to provide the same. The decision of the committee on the calculation of savings shall be final and binding on both parties. However, the initial quantum of savings to be calculated by the Committee before approving a proposed rationalization/swapping arrangement shall be of an indicative nature. Only the actual savings on the account of reduced transportation costs, post operationalization of a proposed rationalization/swapping arrangement shall need to be transferred in accordance with the methodology.

23. The savings accruing on account of the Arrangement shall be treated as under:

- a. **Coal Supplied under the PPA** : Savings shall be passed on to the respective DISCOM(s). Ministry of Power shall issue necessary communication to the DISCOM(s)/regulator in this regard.
- b. **Coal Supplied to NRS consumers** : Savings shall be passed on to the Indian Railways.

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PROCESS: An indicative tentative process for the implementation is mentioned below. This process may be reviewed / redesigned at a later stage by the Committee to take into account the ground condition.

1. An electronic platform shall be provided on which willing participants/consumers shall register and submit information pertaining to their Specified End Use Plant(s) (EUPs) including details of existing linkages and import arrangements. A fee shall be charged to all willing participants who are registering on the electronic portal. The same shall be collected by the Nodal Agency, CIL as operational expenses towards conducting the process.
2. The information submitted by the willing participants/consumers shall be visible to all registered participants/consumers. Based on the information, the registered participants/consumers may prefer to enter into bilateral arrangement and submit a joint application on the electronic platform for rationalization/swapping which shall be put up to the Committee for scrutiny and recommendation.
3. The registration on electronic platform shall be a continuous process. However, the application window shall be opened periodically as per the schedule decided by the Committee.
4. Once the information pertaining to the Eligible Quantity and other key commercial terms are available on the Electronic Platform and visible to registered consumers, Willing Participants may identify and engage with each other in order to propose a Rationalization/Swapping Arrangement. The Electronic Platform shall update the Eligible Quantity post a Rationalization/Swapping Arrangement becoming effective.
5. The timeline for entering into such proposed Rationalization/Swapping Arrangement shall be provided by CIL at an appropriate time.

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6. The Willing Participants shall have to submit a Joint Application on the Electronic Portal, in accordance with the timelines as may be specified. The Joint Application shall be supported by detailed back-up documents, including the savings accruing to the Willing Participants from such proposed Rationalization/Swapping Arrangement.

7. The Joint Application shall be reviewed by the Committee. The Committee may seek additional information in relation to the proposed Rationalization/Swapping Arrangement, which the Willing Participants shall need to provide within the timelines prescribed.

8. In case the Joint Application is found to be in order, the Committee shall accord a provisional approval to the same. After a Joint Application is provisionally approved by the Committee, the Willing Participants shall be allowed a definite time period for entering into contractual arrangements with the respective DISCOM(s) and/or Indian Railways, as applicable, for the purpose of transfer of savings from the proposed arrangement.

9. A copy of such contractual arrangements shall need to be submitted on the Electronic Platform within the timelines prescribed. The Committee may seek a confirmation of such contractual arrangement from the DISCOM(s) and Indian Railways.

10. Upon fulfillment of all the conditions set out above, to the satisfaction of the Committee, the Joint Application shall be approved.

11. A supplementary agreement (Agreement) detailing the modus operandi of the Arrangement shall be executed and annexed to the original FSA. The Coal Company (CIL/SCCL) shall make a policy decision to accord its approval/acceptance to such Agreement.

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12. Any dispute arising out of the implementation of the scheme shall be resolved mutually between the two parties who have entered into the Arrangement.

13. The scrutiny of the Arrangement shall be done on a quarterly basis; however the reconciliation shall be done of annual basis .

14. In case of material breach of the Agreement, the Committee shall have the power to recommend the termination of the FSA of a party who is a linkage holder.

15. Any short-fall in off-take of quantity of coal rationalized, beyond 5%, calculated on a quarterly basis, would attract penalties.

16. No participant shall be allowed to set up a washery in the leasehold area of a coal mine .

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ANNEXURE I

ROLE OF COMMITTEE

- (i) To monitor implementation of policy recommendations and address key issues,
- (ii) To have the power to co-opt any other members, as it deems fit,
- (iii) Role of committee may include *inter alia*:
 - Scrutiny of applications.
 - Establishing veracity of savings calculations in the application.
 - Quarterly monitoring of Arrangement including actual quantity swapped.
 - Recommending levy of penalty.
 - Periodic re-calculation of savings.
 - Monitoring transfer of savings.
 - Resolution of disputes pertaining to the scheme (and not between the Parties involved).
 - May seek assistance of a dedicated team through appointment of a transaction advisor.

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