



**THE SINGARENI COLLIERIES COMPANY  
LIMITED**

***WELCOME***



# **AUCTION OF LINKAGES OF NON-REGULATED SECTOR**

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**24-05-2016, HOTEL GOLKONDA, HYDERABAD**

# PRESENT COAL ALLOTMENT SYSTEM

## MINISTRY OF COAL

### (SLC –LT)

- POWER
- CEMENTS
- CAPTIVE POWER
- SPONGE IRON
- FERTILIZER
- DEFENCE
- RAILWAYS

## STATE GOVT RECOMMENDATIONS

- COMMISSIONER OF INDUSTRIES OF TELANGANA & OTHER STATES .  
*(AGRO, TOBACCO, PAPER, CERAMIC DAIRY, PHARMACUTICALS, OIL, STEEL ROLLING etc.)*
- NREDC TS/AP/ FOR **BIOMASS** BASED POWER PLANTS

# 1. Policy guide lines

- The proposal of competitive bidding for auction of **coal linkages/LoAs to non-regulated sector** has been approved by **Cabinet Committee on Economic Affairs (CCEA)/GOI** & certain policy guidelines for auction of linkages of Non-Regulated Sector have been decided.

# Policy guidelines contd....

- Proportion of coal allocation between power and non-power sectors may be continued at the same level as average production of the last five years i.e. **75% Power and 25% Non-power**. The Ministry of Coal may review the proportion as and when required.
- All allocations of linkages/LoAs for non-regulated sector viz. Cement, Steel/Sponge Iron, Aluminum and others excluding Fertilizer (Urea sector), including their CPPs, shall **henceforth be auction based**.
- The tenure of new Fuel Supply Agreements (FSAs) based on auction may be as decided by Ministry of Coal, subject to a **maximum of 15 years**.

# Policy guidelines contd...

- There **may not be premature termination of FSAs** of non-regulated sector as of now. However, there will be no renewal of existing FSAs of non-regulated sectors except FSAs of CPSEs and Fertilizer ( Urea) which are maturing in 2015-16 onwards, after completion of their current agreement tenure.
- **The extant coal supply arrangements may continue till commencement of coal supply under the auction process.**
- **The existing FSAs with CPSEs may continue to be renewed on expiry.** However, in case CPSEs require linkages **over and above the existing linkages**, they may participate in auction of linkage.

# Policy guidelines contd....

- To start with, in the first tranche, **the quantities corresponding to FSAs of non-regulated sector** except CPSEs and Fertilizer ( Urea) maturing in 2015-16 onwards and **25% of incremental CIL/SCCL production during 2015-16 over 2014-15 may be put up for auction.**
- For auction of linkages, **separate quantities shall be earmarked for sub-sectors of Non-Regulated sector.**
- The sub-sectors shall compete within themselves. The sub-sectors could be Cement, Sponge Iron/Steel, Aluminum and others (excluding Fertilizer (Urea) sector), including their CPPs etc.
- The Ministry of Coal may review the sub-sectors as and when required.

# Policy guidelines contd....

- Auctions shall be conducted by CIL/SCCL. Details of procedure for the methodology shall be worked out by the CIL.
- Based on experience gained in the first tranche, the operational issues such as the quantities, sectoral allocations and sub-sectoral ear markings, auction methodology and other operational details may also be appropriately reviewed.



## 2. Methodology of auction

- **SCCL will allocate/earmark coal from Area or mine as deemed fit.**
- The tenure of new Fuel Supply Agreements (FSAs) may be as decided by Ministry of Coal, subject to **maximum of 15 years.**
- The methodology for auction of linkages shall be **Non-Discriminatory Ascending Clock Auction**, where the Auctioneer increments the price (premium) on the electronic platform till demand-supply equilibrium is established.
- In this methodology, prices shall be directed by the supplier coal company through algorithmic iteration.

## 2. Methodology of auction contd...

- **The initial floor price shall be set at the relevant SCCL basic notified non-power price** and bidders shall bid for premium above this price for the relevant grade and for a particular 'link quantity'.
- If bids are received for quantity greater than 'link quantity' offered, then the premium is increased in steps.
- Auction stops when bids are received for exact quantity i.e. 'link quantity' offered. Each successful bidder pays the same price.

# The auction method is illustrated below:

Link quantity offered	1 MT
<b><u>Bidding Round 1</u></b>	
Premium over SCCL Notified price	Rs.0/Tonne
Bids received for	3 MT
<b><u>Bidding Round 2</u></b>	
Premium over SCCL Notified price	Rs.100/Tonne
Bids received for	2.5 MT
<b><u>Bidding Round 3</u></b>	
Premium over SCCL Notified price	Rs.200/Tonne
Bids Received for	1.5 MT
<b><u>Bidding Round 4</u></b>	
Premium over SCCL Notified price	Rs.250/Tonne
Bids Received for	1 MT

**RESULT: 1 MT quantity awarded @ Rs.250/Tonne over SCCL Notified Price**

# Other Important points

- **The Notified price to be paid shall be suitably indexed by SCCL for subsequent years.**
- **The successful bid premium shall remain constant over the contract period.**
- **Maximum bid quantity by a particular bidder shall not exceed the normative requirement of the End Use Plant.**
- **For auction of linkages, CIL/SCCL shall chalk out annual or 6-monthly auction calendar.**
- **There shall be provision for Third Party Sampling of coal supplied.**

## Other Important points contd....

- Since the Competent Authority has approved the proposal of Auction of linkages of Non-Regulated sector through competitive bidding as mentioned above, further course of action is to be taken by CIL/SCCL for implementation of the decision of CCEA.
- The said decision involves working out detailed procedure/methodology for conducting auctions by CIL/SCCL.
- CIL/SCCL is, therefore, has to take immediate necessary action for conducting the auctions and CIL to work out details of procedure for the methodology.

# Advantages of the Policy

1. Transparent coal allotment system.
2. It is a customer choice of selecting despatch point.
3. 100% of normative requirement can be procured as against 75% earlier.
4. Provision for Third party sampling for all customers
5. Sector wise demarcation of auctioned quantity which result in continuous delivery of coal
6. New units who are not having coal linkage or allotment at present are also eligible. Valid CFO is required.
7. FSA will be signed for 5 years instead of present 3 years period.

# STATUS OF SCCL

1. All the present FSAs will cease on expiry. In SCCL all present FSAs will expire on 31-03-2017. These FSAs will not be renewed.
2. Before their expiry, all FSA customers have to participate in 'Auctioning of Linkages" and sign fresh FSAs. This "Auction of linkages " will be conducted tentatively from June 2016 and sector wise schedule will be notified shortly.
3. The units having coal allotment below 4200 T/yr will have option to continue as per the existing procedure .

# SUMMARY

- 7. To begin with, initially SCCL will conduct “Auctioning of Linkages” for ONE SECTOR including Terminated FSA units & new units in the month of June 2016 tentatively.***



