Coal India Limited

Auction of Coal Linkages in the Sponge Iron Sub-Sector –Tranche II

Pre Bid Presentation

This presentation is for ease of understanding of the Scheme by the Bidders. In case of any discrepancies between this presentation and the Scheme Document, the provisions of the Scheme Document will prevail.

January 10, 2017

AGENDA

- Background
- Key Auction Principles
- Auction Methodology
- Key Terms
- Eligibility Criteria
- Conditions to E-Auction
- E-Auction Process
- Payments
- Key FSA Terms & Modifications to existing FSA

BACKGROUND

Policy Guidelines for Auction

- Proportion of coal allocation between power and non-power sector at 75% and 25% respectively **as per CCEA decision**
- Sub-sectors **could be** Cement, Sponge Iron/Steel, Aluminium and Others [excl. Fertiliser (Urea)] including their CPPs etc.
- Existing FSAs of non-regulated sector
  - No premature termination
  - No renewal except FSAs of CPSEs and Fertiliser (Urea)
  - In case CPSE's want additional linkages they will have to participate in the auction for such additional quantity.
- To start with, in the first Tranche, quantity shall be aggregate of FSAs of non-regulated sector maturing in FY2016 onwards & 25% of incremental CIL/SCCL production during FY2016 over FY2015.
- Separate quantities to be earmarked for sub-sectors
- CIL will allocate coal from area or mine within a subsidiary, as deemed fit
- FSA tenure may be as decided by MoC, subject to a **maximum tenure of 15 years**

Policy Guidelines for Auction …2

- Bid parameter shall be Premium over Notified Price of coal
- Auction methodology shall be **Non Discriminatory Ascending Clock Auction**
  - Auctioneer increments the Premium on electronic platform till demand supply equilibrium is established

Premium shall remain constant over contract period; Notified price to be paid shall be suitably indexed on semi annual basis

- Bidders can bid up to **normative annual coal requirement of the end use plant (EUP)**
- Provision for **third party sampling** for coal supplied
- CIL/SCCL shall chalk out annual or 6-monthly auction calendar

Benefits to consumers over existing NCDP/ FSA provisions

Earlier	Now
• Linkage quantity was 75% of normative quantity	• Linkage quantity will be 100% of normative quantity
• Consumers did not have freedom to choose source of supply as per their requirement	• Consumers have freedom to choose source of supply as per their requirement
• Transportation cost varied as per allocation of sources	• Transportation cost can be controlled as sources will be known beforehand
• Third Party Sampling provision was available only to consumers with ACQ of 4 LT and above	• Third Party Sampling provision is available to all consumers

KEY AUCTION PRINCIPLES

Sub-sectors for Auction

- It has been decided to conduct the current auction of coal linkages under non-regulated sector (Tranche II) under the following sub-sectors:

  a) Sponge Iron (excluding its CPPs)

  b) Cement (excluding its CPPs)

  c) All Captive Power Plants (CPPs)

  d) Others [excluding Fertilizer (urea) sector]

- All EUPs that do not fall under (a), (b), and (c) above are included in "Others" sub-sector.

- To start with Tranche II, auction for the sub-sector '**Sponge Iron**' is scheduled from Jan 17, 2017 **("Phase I")**

- Quantity allocated to the '**Sponge Iron (without CPPs)**' Sub-Sector is ~ 5 MT .

Cut-off date of Auction

- For linkages which have expired / are due to expire by **March 31, 2017**, the following guidelines will apply:
  - For bidder who participated in the auction and won back part / full of such quantity, the quantity won back shall be supplied till the execution of new FSA
  - For bidder who has either not participated or not won back part / full of such quantity, the supply for quantity not won back shall be stopped after the last day of month in which the auction for the particular phase (i.e. sub sector) is concluded or after the expiry of such FSA whichever is later.
- Bidders will not be allowed to bid for any linkage quantity against which they have a valid FSA which is expiring post **March 31, 2017**
- For linkages which are due to expire post **March 31, 2017**, the extant coal supply arrangements from such linkages may continue till the next linkage auction's Cut-off date (will be specified later)
- Bidders with tapering linkages are allowed to participate in the linkage auction

Bidding Parameter

- The auction will commence at the Reserve Price (Floor Price) and the bidders shall bid for premium above the Reserve Price and for a particular Quantity.

- **Reserve Price**
  - Reserve Price shall be the notified price published for a particular grade of coal

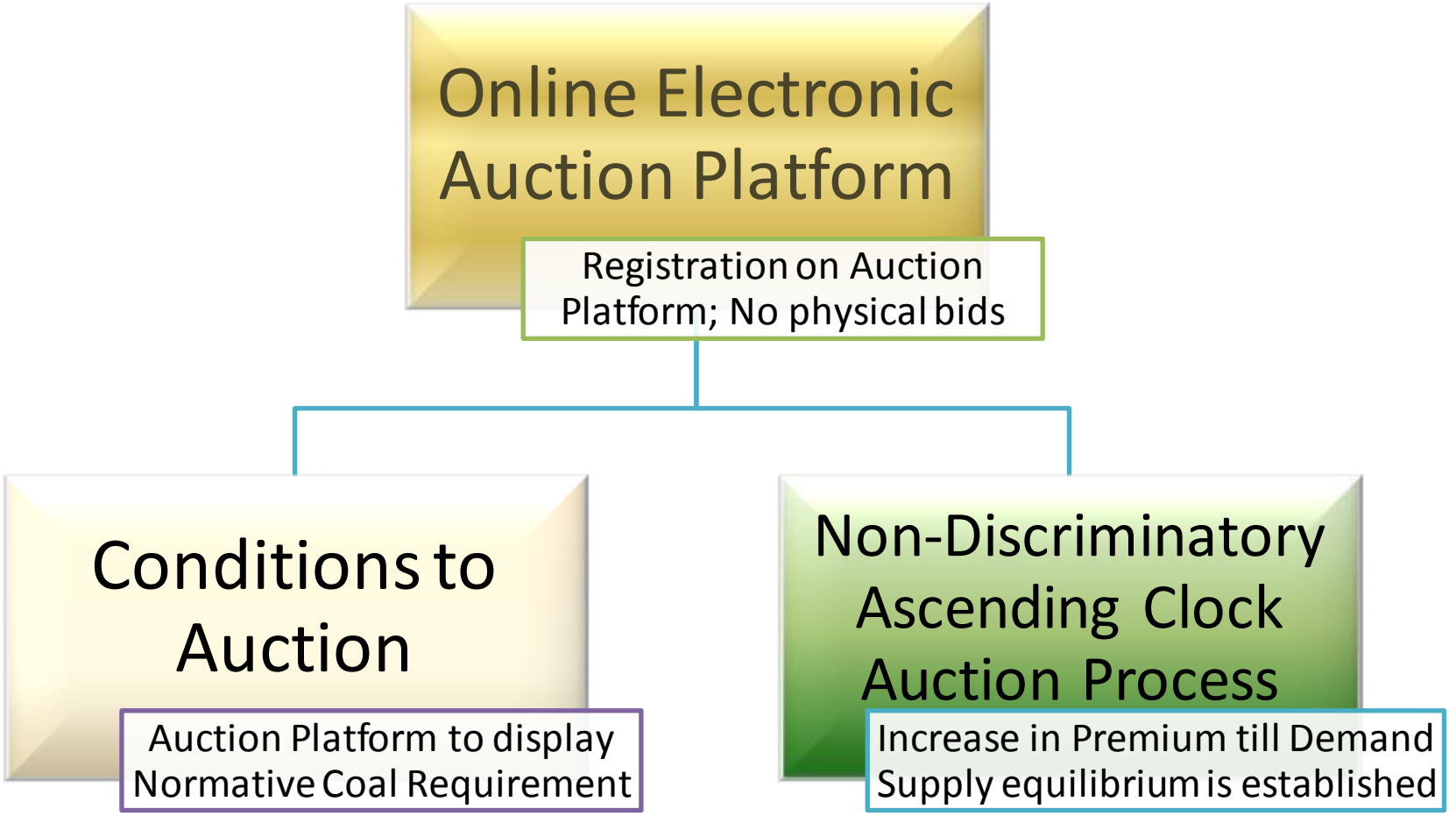
Timeline for Auction

Event	Estimated Date
Publication of Notice Inviting Application	Tuesday, January 10, 2017
Launch of Electronic Platform and Start of Registration Process	Tuesday, January 10, 2017
Upload of Scheme Document	Wednesday, January 11, 2017
Period for submission of information, documents and payments pertaining to Conditions to Auction	Tuesday, January 10, 2017 to at least one business day prior (till 18:00 hrs IST) to the date of auction of the lot in which the bidder intends to participate
Pre-Bid Conference	Tuesday, January 10, 2017
Mock Bidding Session	MSTC to send out notifications
Scheduled Start of e-auction	Tuesday, January 17, 2017

AUCTION METHODOLOGY

Auction Process

Method of Bidding – Non-Discriminatory Ascending Clock Auction Process



Auction Process …2

- Bidder should visit the website of MSTC website for registration www.mstcecommerce.com/auctionhome/coallinkage/index.jsp
- Bidder registration on the Auction Platform is proposed to be linked to an End Use Plant (EUP)
- EUPs can be a single unit DRI unit or a combination of DRI units located within the same plant boundary
- Bidder will have to register each EUP on the MSTC system. **Existing registered EUPs do not need to register again.**
  - Combination of units located within the same plant boundary is allowed to be registered as one EUP. However, once the units are combined and registered as single EUP, they cannot be split subsequently.
  - It may be noted that bidders already registered for the coal linkage auctions under Previous tranches conducted by Coal India Limited or SCCL must necessarily use the same registration for the same End Use Plant.

Auction Process …3

- Bidder registering under the auction portal for the first time , shall provide the following as part of the registration process:
  - Company Name
  - Name of EUP (auction portal will generate a unique registration number for each EUP)
  - Sub-sector in which each EUP is applying (currently the default is ‘Sponge Iron”)
  - Self-attested copy of Income Tax PAN Card
  - Self-attested copy of VAT/ CST Registration certificate

Auction Process …4

- Auction process shall consist of: **Conditions to Auction** and **Non-Discriminatory Ascending Clock Auction Process**
- As a part of Conditions to Auction, Bidders shall provide the following details:

EUPs registering for the first time

- Technical data of EUP (for Sponge Iron, only the DRI plant capacity is to be provided)
- Details of any existing coal linkages (expiring post March 31, 2017) for the above EUP
- Details of any coal mine allocated under CMSP and/or MMDR Acts

EUPs already registered on the auction platform

- Details of coal linkages that has expired or going to expire between June 30, 2016 and March 31, 2017

Auction Process …5

Based on the information provided by the Bidder, the system will calculate the Normative Coal Requirement of the EUP:

- Following this the Bidder shall deposit the necessary Bid Security and the Process Fee
- Bidders shall also submit certain other documents (**both hard copy and soft copy format)** such as Notarized Power of Attorney and Affidavit, Board Resolution (if required) etc.
- Post submission of the requisite information/payments, e-auction process will commence wherein the bidders are required to bid for quantity against a certain price

Auction Process ...6

- After completion of the auction of each Lot, Successful Bidder(s) for that lot will be announced.
- Such Successful Bidder(s) shall be issued a Letter of Intent **("LOI")** within 15 (fifteen) days of completion of the Phase I Auction which will include the cumulative Allocated Quantity of such Bidder from the relevant CIL subsidiary, pursuant to the Phase I Auction.
- The Successful Bidder shall, within 45 (forty five) days of issuance of the LOI to it, submit the Performance Security to the relevant Subsidiary.
- The Agreement (FSA) shall be executed between the Successful Bidder and the relevant Subsidiary in respect of the Allocated Quantity within 30 (thirty) days of:
  - receipt of the Performance Security; and
  - submission of the documents specified in Scheme Document.
- Bidders will have to execute separate FSAs for each Lot where they emerge as Successful Bidders.

KEY TERMS

Normative Coal Requirement

- As per Para 2(g) of the Policy, maximum bid quantity by a particular bidder shall not exceed the Normative Coal Requirement of the End Use Plant (EUP).
- Normative Coal Requirement for each EUP in the “Sponge Iron” sub-sector will be calculated by the auction platform based on the norms provided in CIMFR’s report titled “Setting up of modalities for Normative Coal Requirement in respect of cement and sponge iron industries” with reference no TR/CIMFR/1.39/14-15.

Normative Coal Requirement…2

Normative Coal Requirement (MTPA)	$$\frac{Normative\ Energy\ Requirement\ (kcal\ per\ annum)}{10^9\ \times Average\ Gross\ Calorific\ Value\ of\ a\ particular\ Grade\ of\ Coal}$$
Normative Energy Requirement (kcal per annum)	Annual coal requirement of the Specified End Use Plant (calculated in kcal on the basis of the CIMFR Norms) ***minus*** Coal requirement of the Specified End Use Plant (in kcal)@ met through any other existing coal linkage(s) ***minus*** Coal requirement of the Specified End Use Plant (in kcal) met through any captive coal mine(s) ***minus*** Coal requirement of the Specified End Use Plant (in kcal) met through any allocation of coal linkage(s) pursuant to auction process of any lot conducted by CIL and/ or by SCCL *@Coal requirement of the Specified End Use Plant (in kcal) met through any other existing coal linkage(s) shall be estimated on the basis of Annual Contracted Quantity under the existing linkage(s) wherein such Annual Contacted Quantity shall be deemed to be of G10 grade of coal.* ***Any valid FSA held by the Bidder, which is expiring after March 31, 2017 will be considered as an existing linkage.***

Example – Normative Coal Requirement Calculation

- Capacity of the Specified End Use Plant (DRI Unit A) - 225 TPD
- ACQ of existing coal linkage for DRI Unit A - 4,200 TPA
- PRC of Captive Coal Mine allocated to DRI Unit A and DRI Unit B – 1,00,000 TPA
- Coal requirement of DRI Unit A = Twice the coal requirement of DRI Unit B
- Allocation of Coal from Captive Coal Mine between DRI Unit A and DRI Unit B
  - DRI Unit A: 66,667 TPA
  - DRI Unit B: 33,333 TPA

Note: The PRC of the mine has been split up in the ratio of 2:1 based on the coal requirement of the two DRI units of the Bidder based.

Example – Normative Coal Requirement Calculation…2

Capacity of Specified End Use Plant	TPD	(A)	225
Annual Capacity of Specified End Use Plant	TPA	(B = A*365)	82,125
Capacity Utilization		(C)	85%
Existing Linkage Quantity	TPA	(D)	4,200
Deemed Grade of Coal Allocated through Linkage			G10
Quantity of Coal allocated for the Specified End Use Plant from the Captive Coal Mine	TPA	(E)	66,667
Grade of Coal from Captive Coal Mine			G10
Average GCV of G10 grade of coal	kcal/kg	(G)	4,450
Consumption Norm based on G10 grade (for plants with capacity >100 TPD)	kg of coal/ tonne of DRI	(H)	1,087
Annual Coal Requirement of the Specified End Use Plant (based on G10 grade)	TPA	(I = B*C*H/1,000)	75,879
Annual coal requirement of the Specified End Use Plant	kcal	(J = I*G*1,000)	3,37,66,33,02,188

Example – Normative Coal Requirement Calculation…3

Annual Coal requirement of the Specified End Use Plant met through existing coal linkage	kcal	(K = D*G*1,000)	18,69,00,00,000
Annual Coal requirement of the Specified End Use Plant met through captive coal mine	kcal	(L = E*G*1,000)	2,96,66,81,50,000
Normative Energy Requirement	kcal	(M = J-K-L)	22,30,51,52,188
Average GCV of G8 grade of coal	Kcal/kg	N	5,050
Normative Coal Requirement for G8 Grade	TPA	[O = M / (N*1,000)]	4,417

Example – Normative Coal Requirement Calculation…4

Further in addition to the earlier example, if the bidder is successful in the Lot of G8 grade of coal for a quantity of 2,200 TPA , the Normative Coal Requirement for say a Lot with G9 grade of coal would be as under.

Normative Coal Requirement (based on G8 Grade)	TPA	(A)	4,417
Allocated Quantity in Lot with G8 grade	TPA	(B)	2,200
Available Normative Coal Requirement (based on G8 Grade)	TPA	(C = A - B)	2,217
Average GCV of G8 Grade of Coal	kcal/ kg	(D)	5,050
Average GCV of G9 Grade of Coal	kcal/ kg	(E)	4,750
Normative Coal Requirement (based on G9 grade)	TPA	(F = C *D/E)	2,357

Lots

- 'Lot' shall mean a specified quantity of coal belonging to a particular grade which is to be offered for sale and which may be dispatched by road or by rail.
- Each Lot will contain only one Grade.
  - Each Lot will also have a pre-identified Secondary Source.
- Each Lot will have a specified mode of dispatch i.e. road or rail. Bidders will have to off-take coal from Lots via the specified mode of dispatch only.
- In case of a force majeure event or other operational constraints, CIL may supply coal from other mine(s) (Road Sale Points)/ railway siding i.e. Secondary Source and make necessary steps to revert to the primary source as soon as it is operationally possible.

S. No.	Subsidiary Name	Mine/ Siding	Mode	Grade/Size	Quantity	Notified Price	Secondary Source

- Details of Lots have been provided in the Scheme Document

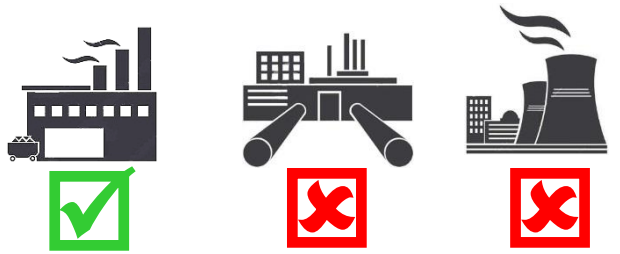
Specified End Use Plant

Specified End Use Plant" shall mean a DRI unit (or a combination of DRI Units within a single plant boundary) located in India and owned by the Bidder

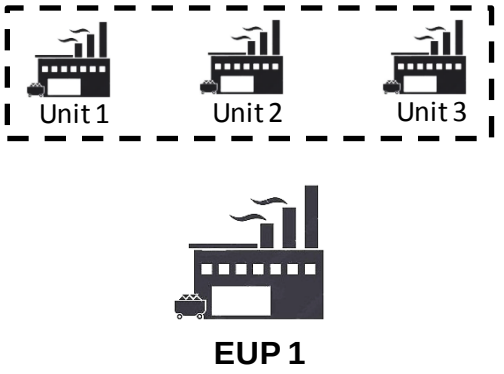
Company 'A' has an Integrated Steel Plant with DRI unit, Rolling unit and Captive Power Plant

Only DRI unit will participate for auction of Lots under Sponge Iron sub-sector

Accordingly, Bidder to mention the plant capacity of DRI units strictly



Bidders having multiple DRI units within the same plant boundary can combine such units and register as one EUP.



Auction Sequence

- Auction will be conducted sequentially and the sequence of Lots will be provided upfront to the Bidders.
- 3 (Three) Lots will be put up for auction each day as under

Lot No.	Time of Day
1	12:00 hrs
2	15:00 hrs
3	18:00 hrs

- First round of auction will be of 15 mins followed by subsequent round(s) of 8 mins each. The process will continue till the Demand Supply Ratio is less than or equal to 100% for a particular round
- This process will be repeated each day for auction of subsequent lots *i.e.* Lot 4 will be put up for auction on Day 2 at 12:00 hrs, Lot 5 at 15:00 hrs and so on
- In case the auction of any Lot spills over to the time of the next Lot(s), then the auction of next Lot(s) will be deferred and will be conducted at the end of auction of the last Lot as per the auction sequence.

For Example: *There are 15 Lots (numbered L1 to L15) for a sub-sector with a proposed auction sequence of 3 Lots per day at 12:00 HRS, 15:00 HRS and 18:00 HRS respectively. In case the auction of Lot L1 continues till 18:01 HRS on Day 1, auction of Lot L2 and Lot L3 will be deferred and will be conducted after the auction of Lot L15.*

ELIGIBILITY CRITERIA

Eligibility Criteria

Composition of the Bidder

- Any resident Indian Person including a Proprietorship/partnership firm registered in India
- Companies incorporated in India

Ownership of End Use Plant (EUP)

- Bidder to own the EUP
- EUP to be located in India
- Coal to be used for own consumption

Status of End Use Plant

- EUPs should have commenced commercial operations

Normative Coal Requirement

- Calculated at **85% Plant Capacity Utilisation** and bidders may bid up to 100% of their Normative Coal Requirement
- To be net of requirement being met from other linkages and / or captive coal mine
- **Minimum Normative Coal Requirement should be 4,200 TPA**

Eligibility Criteria …2

No. of Bids by a Bidder

- With respect to one specified EUP, Bidder is required to submit information/documents and payments as required under Conditions to e-Auction
- With respect to one EUP, the Bidder may submit financial bid for multiple Lots

Other Conditions

- Bidders with criminal conviction with respect to misutilisation of coal allocated through FSA will not be eligible.
- No transfer of linkage is allowed under the current linkage auction process. However change of control may be considered as specified in the Scheme Document.

CONDITIONS TO E-AUCTION

EUP Details

- As a part of Conditions to Auction, Bidders shall provide their EUP details for computation of the Normative Coal Requirement of the plant.
- Following Details are required for this purpose:

Bidders registering for the first time

- Details of the EUP including capacity of the DRI Unit(s) in Tonnes Per Day
- Details of existing coal linkage(s) if any
- Details of existing Captive Coal Mine, if any

Bidders already registered on the auction platform

- Details of coal linkages that has expired or going to expire between June 30, 2016 and March 31, 2017

The same are required in the format as provided on the electronic platform.

Bid Security

- Bidder shall furnish, a bid security in the form of an Earnest Money Deposit (EMD).
- The Bid Security shall be Rs. 100 per tonne of the quantity the bidder intends to bid across various Lots.
- The payments made by Bidders towards the Bid Security shall be collected in a designated bank account as mentioned in the Scheme Document
- The Bidder shall ensure that at any time during the auction process, its Bid Security is adequate vis-à-vis the intended Link Quantity.
  - The Bidder has the flexibility to top up the Bid Security **at least 1 business day prior** to the scheduled auction of Coal Linkages pertaining to the Lot.
  - **Under no circumstances, the bidder shall be allowed to bid for a quantity for which the Bid Security has not been deposited.**

Refund of Bid Security

- The Bid Security pertaining to the Allocated Quantity of the Successful Bidder will be returned by the relevant Subsidiary to the Successful Bidder, without any interest, post submission of executed copies of FSA to the relevant Subsidiary
- The balance Bid Security of the Successful Bidder, if any, and the entire Bid Security of unsuccessful Bidders shall be returned without any interest, post completion of the Phase I Auction

Bid Security …2

Conditions for forfeiture of Bid Security

- The information, documents and/ or payments with respect to the Conditions to Auction are determined to be non-responsive
- Engagement in a Corrupt Practice, Fraudulent Practice, Coercive Practice, Undesirable Practice or Restrictive Practice
- In case of a Successful Bidder, failure to submit within 45 days of issuance of the LOI, the following:
  - Performance Security
  - The documents specified in Annexure IX of the Scheme Document and other documents as may be requested by CIL or the relevant Subsidiary
- Failure to execute the Agreement within the time period specified in the Scheme Document

In which case, the Bidder will also cease to be a Successful Bidder.

Process Fee

- Along with Bid Security, the Bidders shall also be required to submit a process fee in the form of an earnest money deposit within the stipulated timeline which is **Rs. 2.50 per tonne (inclusive of service tax) multiplied by the Link Quantity across various Lots**
- The Bidder shall ensure that the Process Fee shall, at any time during the auction process, correspond to its intended Link Quantity across various Lots
- In case a Bidder decides to change the bidding strategy by opting to Bid for a different Link Quantity in a specific Lot, which requires additional Process Fee to be paid, the Bidder shall be required to top up the Process Fee no later than **1 business day prior** to the scheduled auction of the Coal Linkages from the relevant Lot
- The payments made by Bidders towards the Process Fee will be paid into a bank account as stipulated in the Scheme Document
- The Process Fee pertaining to the Allocated Quantities of each Successful Bidder will be debited towards transaction expenses for running the auction process and the balance shall be refunded, without interest
- In the event that a Bidder does not qualify as a Successful Bidder, the entire amount of the Process Fee, without any interest, shall be refunded to such Bidder after completion of the Phase I Auction

Other Documents

- A power of attorney along with a certified true copy of the relevant authorizations in support thereof e.g. letter of authority, resolution of the board of directors, resolution of the shareholders etc.
- An affidavit certifying inter alia that they meet all the Eligibility Conditions required for participation in the auction process hereunder.
- An Undertaking to perform activities required for submitting the bid in the manner prescribed in the Scheme Document and certifying that he shall continue to satisfy all the Eligibility Conditions.

Formats for the Power of Attorney, the Affidavit and the Undertaking will be provided in the Scheme Document.

E-AUCTION PROCESS

Electronic Auction Process

- Coal quantity will be allocated by Non-Discriminatory Ascending Clock Auction
- For a particular sub-sector, Lots shall be auctioned sequentially
  - However, two or more Lots for different sub-sectors may be auctioned simultaneously
- For a particular Lot,
  - The auction process shall be conducted in rounds
  - The Auction Platform will calculate the premium for each auction round depending on the Demand – Supply Ratio of the immediately preceding round

$$Demand\ Supply\ Ratio(\%) = \frac{Total\ Bid\ Quantity\ of\ all\ Bidders\ in\ a\ Lot\ (TPA)}{Lot\ Size\ (TPA)}$$

  - Bidders are required to indicate quantity **("Link Quantity")** against premium quoted for each successive round of auction
  - The Bidders cannot increase the quantity between the previous and subsequent round
  - **Not entering any quantity in a particular round will imply "Zero" quantity entered and therefore the bidder will not be able to bid for any quantity in the subsequent rounds.**
  - Auction stops when Demand Supply Ratio is **less than or equal to 100%** for a particular round
  - The round at which the auction stops and penultimate round will be compared and the sale of coal from the round generating maximum revenue will be selected

Electronic Auction Process…2

- The Bid Quantity **("Link Quantity")** will be the minimum of Normative Coal Requirement or the quantity offered in a particular Lot.
- The Link Quantity will be integer multiples of the 100 TPA, the "**Transport Factor**"
- The minimum Link Quantity in any round for rail mode shall be 4,000 TPA
- At the end of each round, bidders will be told the Demand Supply Ratio of that round and the corresponding Premium of the next round and the bidder shall quote the Link Quantity required under each Round subject to the following conditions:
  - The Link Quantity is lower than or equal to the Link Quantity quoted in the previous Round
  - The Link Quantity will be an integer multiple of 100 TPA

Round Premium

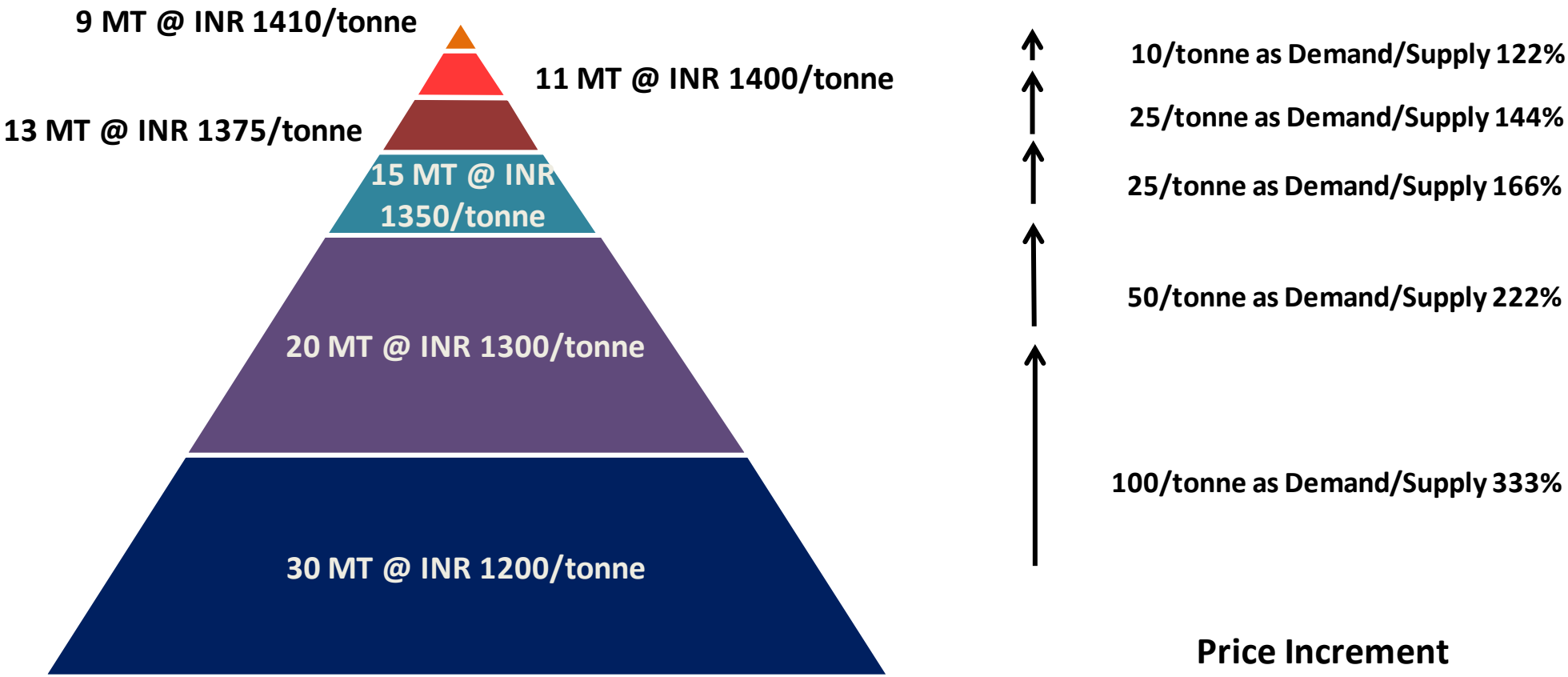
- Premium for the first round will be Rs. Zero/ tonne
- Round Premiums (other than the first Round) will depend on the Demand/Supply Ratio of the immediately preceding round and will be determined by the Auction Platform as follows:

Demand/Supply Ratio in a particular round	Incremental Round Premium (Rs. per tonne)
Greater than 100% and less than or equal to 125%	10
Greater than 125% and less than or equal to 200%	25
Greater than 200% and less than or equal to 300%	50
Greater than 300%	100

- Premium would be cumulative i.e. Premium for a particular round would be the premium at the preceding round plus the premium computed for the current round.

Example - Non-Discriminatory Ascending Clock Auction

Ascending Price with Demand Converging to 9 MT Quantity Offered



Allocated Quantity

- Each round will be considered a valid offer to purchase the Link Quantity at the stated price. Moving to the next round does not mean the previous offer is discarded or becomes invalid.
- The auction will stop once the Demand Supply Ratio is lower than or equal to 100%.
- In case in any of these rounds the Demand Supply Ratio is more than 100%, bidders will be allocated their pro-rata share (rounded down to the nearest multiple of the Transport Factor).
  - *For example in case the pro-rata allocation of a bidder is 11,515 TPA for a Lot, the final allocation to be computed by the portal would be 11,500 TPA.*
- The revenue from the last and the penultimate rounds will be compared and the and the round generating maximum revenue for CIL will be selected.
  - *For rounds where Demand Supply Ratio is more than 100%, the rounded down pro-rata quantity will be used for calculating the revenue to CIL.*

Example – Allocated Quantity …2

- Assuming a railway siding as the delivery point, If the round at which the auction stops has Demand Supply ratio of 98% with a notified price of Rs 1,700/tonne and total premium of Rs 360/tonne. The penultimate round has Demand Supply ratio of 102% with a notified price of Rs 1,700/tonne and total premium of Rs 350/tonne. In such a scenario, for comparing the two round, following methodology will be considered:

	Allocation and Revenue Calculations for Penultimate Round			**Allocation and Revenue Calculations for Round at which the auction stops**		
Description	**Bidder 1**	**Bidder 2**	**Bidder 3**	**Bidder 1**	**Bidder 2**	**Bidder 3**
Link Quantity (TPA)	52,900	47,100	1,04,000	48,000	44,000	104,000
Pro-rata Allocated Quantity (TPA)	**51,863**	**46,176**	**101,961**	NA	NA	NA
Final Allocated Quantity (TPA)	**51,800**	**46,100**	**101,000**	**48,000**	**44,000**	**104,000**
Total Quantity Available for Sale	**1,99,800 TPA**			**1,96,000 TPA**		
Notified Price	Rs. 1,700 per tonne			Rs. 1,700 per tonne		
Applicable Round Premium	**Rs. 350 per tonne**			**Rs. 360 per tonne**		
Total Applicable Price	Rs. 2,050per tonne			Rs. 2,060 per tonne		
Total Annual Revenue	Rs. 40.96 Crore			Rs. 40.38 Crore		

- *Since revenue at the penultimate round is **more than the revenue in the round at which the auction stops***, CIL may *choose this round and allocate each Bidder their pro-rata share with a premium of Rs. 350 per tonne*

Example – Allocated Quantity …3

- Assuming a railway siding as the delivery point, if the penultimate round has Demand Supply ratio of 203% with a notified price of Rs 1,700/tonne and total premium of Rs 310/tonne and the round at which the auction stops has Demand Supply ratio of 98% with a notified price of Rs 1,700/tonne and total premium of Rs 360/tonne, following methodology will be considered:

	Allocation and Revenue Calculations for Penultimate Round			Allocation and Revenue Calculations for Round at which the auction stops		
Description	**Bidder 1**	**Bidder 2**	**Bidder 3**	**Bidder 1**	**Bidder 2**	**Bidder 3**
Link Quantity (TPA)	91,200	1,05,000	2,10,000	48,700	45,300	1,02,000
Pro-rata Allocated Quantity (TPA)	44,904	51,699	1,03,397	NA	NA	NA
Final Allocated Quantity (TPA)	**44,900**	**51,600**	**1,03,300**	**48,700**	**45,300**	**1,02,000**
Total Quantity Available for Sale	**1,99,800 TPA**			**1,96,000 TPA**		
Notified Price	Rs. 1,700 per tonne			Rs. 17,00 per tonne		
Applicable Round Premium	**Rs. 310 per tonne**			**Rs. 360 per tonne**		
Total Applicable Price	Rs. 2,010 per tonne			Rs. 2,060 per tonne		
Total Annual Revenue	Rs. 40.16 Crore			Rs. 40.38 Crore		

- *Since revenue at the round at which the auction stops is **more than penultimate Round**, CIL may choose the last round and allocate each Bidder their pro-rata share with a premium of Rs. 360 per tonne.*

PAYMENTS

Periodic Payments & Price Indexation

- ***The premium determined through the auction process will be converted into percentage terms i.e. percentage of the notified price and this percentage premium will remain constant throughout the tenure of the FSA***

- Notified price will be reviewed semi-annually and any modification (upward or downward) in the notified price post such review shall be considered as indexation and such modified price will be referred as **"Indexed Notified Price"**.

- The price charged will be the sum of (a) notified price (or indexed notified price post review if any) and (b) the percentage premium multiplied by such notified price (or indexed notified price).

- An example is worked out below

Original Notified Price (Rs./tonne)	1,700
Premium (Rs./tonne)	250
Total Price Payable by Successful Bidder (Rs./tonne)	**1,950**
% Premium over Notified Price (to remain constant)	**14.71%**
Upward Revised Notified Price (Rs./tonne)	2,000
Premium Payable @ 14.71% of Rs. 2,000 / tonne	294
Total Price Payable by Successful Bidder after Price Revision (Rs./tonne)	**2,294**
Downward Revised Notified Price (Rs./tonne)	1,500
Premium Payable @ 14.71% of Rs. 1,500 / tonne	214
Total Price Payable by Successful Bidder after Price Revision (Rs./tonne)	**1,714**

Performance Security

- The Successful Bidder, shall provide to the relevant CIL Subsidiary, a Performance Security within 45 days of issuance of the LOI in the form of an Irrevocable and unconditional guarantee from an Acceptable Bank (in the format specified in the Scheme Document) or in the form of a non-interest bearing security deposit

Performance Security = 6% x [Allocated Quantity of the Successful Bidder] × [Aggregate of the (Notified Price or Indexed Notified Price, as the case may be) and (% Winning Premium x Notified Price or Indexed Notified Price, as the case may be)]

- The amount of Performance Security shall be suitably revised in case of change in Notified Price
- Validity of Performance Security is till 3 months from the date of expiry of the FSA
- The Performance Security may be forfeited by the relevant Subsidiary in the manner specified in the Agreement

"**Acceptable Bank**" shall mean a Scheduled Bank as listed in the Second Schedule of the Reserve Bank of India Act, 1934 excluding those listed under the headings of Gramin Banks, Urban Co-operative Banks and State Co-operative Banks

KEY FSA TERMS AND MODIFICATIONS IN EXISTING FSA

Grade Variation

- In case of a variation in grade of coal (decided on the basis of third party sampling) as compared to the Allocated Quantity grade, Bidder shall pay the Notified Price (or the latest Indexed Notified Price as the case may be) of the supplied grade plus the Winning Premium (in percentage terms) on the Notified Price (or the latest Indexed Notified Price as the case may be) of the supplied grade without factoring in royalty payments, taxes etc. as under:

Particulars	Case I: Supplied Grade is lower than Contracted Grade	Case II: Supplied Grade is higher than Contracted Grade
Allocated Grade to Bidder	G6	G6
Notified Price (Rs./ Tonne) (B)	2,280.00	2,280.00
Premium (Rs./ Tonne) (C)	300.00	300.00
Premium as % of Notified Price (D=C/B)	13.16%	13.16%
Actually Supplied Grade	G7	G5
Notified Price of Supplied Grade (Rs./ Tonne) (E)	1,920.00	2,750.00
Premium of Supplied Grade (Rs./ Tonne) (F=E*D)	252.63	361.84
Price Payable for Supplied Grade (Rs/Tonne) (I = E+F)	2,172.63	3,111.84

Independent Third Party Sampling

- Each Successful Bidder off-taking coal via rail mode may choose an agency from the following:
  - list of independent third parties provided by CIL from time to time or
  - CIMFR or CIMFR appointed agencies.
- Bearing logistical issues, in case of off-take of coal via road mode, a single independent third party sampling agency will be appointed by respective CIL subsidiary for sampling coal supplied to various purchasers from a particular source
- Third party sampling, if requested by the Successful Bidder, shall be done from the delivery/ loading point at supplier's end
- Costs of third party sampling
  - shall be borne equally in case of transport via rail mode
  - in case of transport via road 50% of the cost of third party sampling will be borne by respective CIL subsidiary and the residual 50% cost shall be shared by the parties who have requested for Third Party Sampling on a proportionate basis (depending on quantity of coal supplied).
- The procedure for conduct of Third Party Sampling shall be as detailed in the Agreement.

Key Modifications required in Existing Model FSA

- **Duration and Lock-in**
  - As per Para 1(ii) of the Policy, tenure of the FSA may be as decided by MoC subject to a maximum of 15 years
  - Under the Auction Process, the Agreement shall come into force from the date of signing of the Agreement and shall be valid for a term of 5 (five) years from the date of signing. Upon expiry of the aforesaid period of 5 (five) years, the Agreement may be extended for a further period of 5 (five) years on mutually agreed terms
  - The Agreement shall have a lock-in period of 2 (two) years

- **Change in Control**

  Change in Control of the Successful Bidder and/ or any transfer of the Specified End Use Plant along with the rights in relation to the Allocated Quantity shall be permissible with prior approval of the relevant Subsidiary if:

  - Such change in Control does not result in the Successful Bidder becoming non-compliant with any of the Eligibility Conditions or the transferee of the Specified End Use Plant along with the rights in relation to the Allocated Quantity continues to satisfy all of the Eligibility Conditions
  - Such change in Control and/ or transfer occurs in accordance with Applicable Law and the conditions for transfer and/ or assignment contained in the Agreement

Key Modifications required in Existing Model FSA …2

- **Exit Options**
  - Post the expiry of lock-in period, the Successful Bidder may seek an exit after serving a prior written notice of three months.
  - If the Successful Bidder exits the Agreement prior to expiry of the lock-in period of 2 (two) years, the Performance Security shall be forfeited in its entirety and the Successful Bidder shall be disqualified from participating in the subsequent tranche of auction for the non-regulated sector conducted by CIL
- **Indemnification**
  - The relevant Subsidiary shall be indemnified by the Successful Bidder for any claims or action that may arise inter alia on account of any misrepresentation of the Bidder misrepresentation, unwilling or otherwise

Key Modifications over the earlier FSA …3

- **Quantity and Compensation for short delivery / lifting**

  — If level of delivery by the relevant Subsidiary or level of lifting by the Successful Bidder falls below 75% (seventy five per cent.) then the defaulting party shall be liable to pay compensation to the other party in the following manner:

Level of Delivery/ Lifting of Coal in a Year	Percentage of Penalty for the failed quantity
Below 75% but up to 70% of Allocated Quantity	0 - 5
Below 70% but up to 65% of Allocated Quantity	5 - 10
Below 65% but up to 60% of Allocated Quantity	10 - 20
Below 60% but up to 50% of Allocated Quantity	20 – 40
Below 50% of Allocated Quantity	40

  The penalty shall be computed in the same manner as done slab wise for computation of income tax. However, unlike income tax the percentage of compensation shall grow on a linear basis within each slab.

- **Performance Incentive**

  — There shall be no performance incentive under the Agreement because contracted quantity will be 100% of the EUP's Normative Coal Requirement.

- **Security**

  — Successful Bidder shall be entitled to create encumbrances over the Agreement or rights granted to it under the Agreement for the purposes of availing financing from a bank or financial institutions for financing the EUP without any prior approval by relevant CIL Subsidiary.

Key Modifications required in Existing Model FSA …4

- **Termination**
  - Failure of a party to perform its obligations under the Agreement because of a force majeure, for a period beyond 90 (ninety) days in any continuous period of 180 (one hundred eighty) days
  - Successful Bidder being prevented /disabled under Applicable Law from using coal, for reasons beyond their control
  - Any material change in the coal distribution system of the relevant subsidiary of CIL due to a Government directive/ notification, post the execution of the Agreement
  - The matter pertaining to the diversion or breach of end use of coal leads to suspension of the deliveries and the matter cannot be resolved
  - Encashment of the Performance Security or suspension of coal supplies
  - In the event a party suffers insolvency, appointment of liquidator (provisional or final), appointment of receiver of any of material assets, levy of any order of attachment of the material assets, or any order or injunction restraining the party from dealing with or disposing of its assets
  - A party commits a breach of terms or conditions of the Agreement

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Consumption Norms as per CIMFR – Sponge Iron

Particulars		Capacity up to 100 TPD	Capacity > 100 TPD
Grade	Average GCV (kcal/kg)	kg of coal/ tonne of sponge iron	kg of coal/ tonne of sponge iron
G1	7,150	752	676
G2	6,850	785	706
G3	6,550	820	738
G4	6,250	860	774
G5	5,950	903	813
G6	5,650	951	856
G7	5,350	1,004	904
G8	5,050	1,064	958
G9	4,750	1,131	1,018
G10	4,450	1,208	1,087
G11	4,150	1,295	1,165
G12	3,850	1,396	1,256
G13	3,550	1,514	1,362
G14	3,250	1,654	1,488

- Where a Bidder has specified one or more DRI units (in a single location within the same boundary) as the EUP, the Normative Coal Requirement shall be assessed on the basis of configuration of each such individual DRI unit based on the above mentioned consumption norms.
- The Normative Coal Requirement shall be calculated based on an assumption of 85% capacity utilization on an annual basis.
- Any existing linkage quantity (deemed to be G10 grade of coal) shall be reduced from the Normative Coal Requirement arrived based on the above.
- The peak rated capacity of any coal mine allocated under CM(SP) Act, 2015 and/or MMDR Act, 1957 (pro-rated for the EUP in the event of a combination of EUPs to which the mine was allocated), adjusted for grade, shall be reduced from the Normative Coal Requirement arrived based on the above