GUIDELINES FOR PROCUREMENT OF COAL ON SPOT BASIS

Coal power plants shall ensure that procurement of coal on spot basis is conducted fairly and transparently. The procurement process should be efficient and economical and must strive to ensure value for money for the consumers. On the same principles following guidelines shall be complied by IPPs:

i. Imported coal based IPPs shall first ensure whether local coal such as Thar coal is available which can be used keeping in view plants' technical requirement.

ii. IPPs shall estimate total quantity/quality of coal to be procured in the next six (06) months and shall contact Thar Coal Energy Board (TCEB) and seek their input regarding availability of Thar coal from any of the blocks.

iii. If no local coal is available which meet the desired specs, then IPPs shall progress with spot purchases as per this mechanism.

iv. The process to procure coal on spot basis should be transparent and the buyer shall ensure to reach out to all suppliers through advertised publications with sufficient time given for response. The publication of advertisement shall be for monthly bidding as well as for the purpose of pre-qualification of coal traders for extended period of 3-6 months as the case maybe. The term of bid, whether monthly or 3-6 months, may be decided by IPPs.

v. The currency of contract shall be in Pak Rupees

vi. The comprehensive Request for Quotation (RFQ) document should include all supply, quality, and payment-related details and should also state the grievance redressal procedure for the interested parties. RFQ shall have the minimum acceptance and rejections standards of coal along with the penalty for any deviation from the required quality of coal including but not limited to ash, moisture, VM, sulphur etc.

vii. The process of tendering should be well-documented and traceable.

viii. The quality of the coal shall be determined on weighted average basis of the complete order accepted quantity. Quantity rejected will not be part of total weighted average of the complete order.

ix. Bidder should meet minimum eligibility criteria which shall among other include submission of bid bond which shall be worked out as:

$$\text{Quoted Price} \times \text{Quoted Quantity} \times 5\%$$

x. The successful bidders shall either replace bid bond with performance bond/guarantee of 10% or submit additional performance bond/guarantee of 5%

xi. Tendering should be in the form of sealed bids and the same shall be opened in front of all the bidders.

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xii. IPPs shall pre-qualify a pool of coal suppliers for a monthly tendering or for extended period of 3-6 months on the following parameters:

a. Minimum experience of 2 years in commodity trading

b. Contract compliance, e.g. payment terms

c. Compliance with coal specifications

d. Submission of bid bond along with financial bid when called

xiii. If the IPPs invite tenders for extended period beyond one month, it shall approach the pre-qualified suppliers to seek bids on monthly basis through registered emails and/or fax/letters. Contract shall be awarded on the basis of lowest bid price (100% price weightage) and ceiling price for each month shall be computed as per the parameters provided in succeeding paragraphs.

xiv. IPPs shall ensure that final bid/negotiated price is competitive, market reflective and comparable with that of other power plants. The Authority may seek justification from the IPPs if abnormal difference in coal prices are observed provided that the bids between the two IPPs were negotiated in the same week and bid quoted by the same supplier.

xv. Calculation of Ceiling/Benchmark Price: The delivered cost of coal in Rs./MMBTU should remain lower than the imported coal on the basis of API4/ICI3 as the case may be. In case, delivered price of coal on spot is more than the imported coal delivered price than the price of imported coal shall be used for allowing fuel price component. Hence, the ceiling price shall be worked out including but not limited to the following parameters:

a. Coal price index along with applicable price differentials published on last Friday on bid closing date shall be used. Marine freight shall be computed on the basis of corresponding average weekly Time Charter Rate and Bunker price for supramax vessel. Weekly average exchange rate of corresponding period shall be used to calculate coal price in Pak Rupees.

b. Following coal price index shall be applicable depending upon NCV of the coal:

- API-4 for benchmarked NCV of 6000 kcal/kg (ARB) for all origins. Rejection limit for such coal shall be NCV 5400 kcal/kg

- ICI-3 for benchmarked NCV of 4600 kcal/kg (ARB) for all origins. Rejection limit for such coal shall be NCV 4200 kcal/kg

c. In case of China Power Hub Generation Company Limited, for the purpose of calculation of ceiling price for comparison purposes, marine freight shall be calculated on the basis of Supramax vessel during Monsoon period. However, during non-monsoon period, freight shall be calculated on the basis of Panamax vessel

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d. Other incidental charges e.g. insurance, port charges, taxes and duties, inland freight charges etc. etc.

xvi. The award price shall be subject to linear upward and downward adjustment (till rejection limit), as per the actual NCV (ARB) received at plant and tested by an independent 3rd Party testing facility. It should however be ensured that procuring higher quality coal justifies its purchase in terms of lower fuel tariff in Rs/kWh

xvii. Minimum order quantity shall be 5,000 tons/month

xviii. The coal specifications shall be prescribed by each IPP as per its requirements.

xix. The selection and award process shall prioritize the lower quoted price irrespective of the volume committed hence enabling a pool of suppliers to complete the requested quantity on a per month basis.

xx. Since PPRA rules do not apply to IPPs, they may further negotiate prices from the lowest offered bid(s).

xxi. The requested quotes shall be based on the delivered price ex-stocks location defined in the RFQ. The supplier invoice shall be based on the delivered tonnage at the designated stocks and measured through the nominated weigh bridge. The quoted price shall not be adjusted for any loss of handling or transportation.

xxii. However, a handling/logistics loss of 1% is permissible in the final cost of the buyer in case the coal is being received at an off-site yard and transported through railways. No handling/transportation loss shall be admissible in final cost if the purchase terms agreed are on a delivered ex-plant basis.

xxiii. In case of default by a supplier, the short fall quantity may be purchased on lower/equal price from any other pre qualified supplier.

xxiv. IPPs shall ensure a complaint redressal mechanism for the coal suppliers w.r.t the bidding process, a copy of complaint may also be shared with NEPRA.

xxv. IPPs may also include a blacklisting mechanism for non compliant suppliers.

xxvi. For coal payments, IPP shall sought evidence from the bid winners/suppliers that sales tax included in the invoice is deposited by the supplier to FBR.

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