

**GOVERNMENT OF INDIA
COAL
LOK SABHA**

UNSTARRED QUESTION NO:3588
ANSWERED ON:19.08.2003
FUEL SUPPLY AGREEMENTS BY COAL COMPANIES
SULTAN SALAHUDDIN OWASI

Will the Minister of COAL be pleased to state:

- (a) whether it is a fact that coal companies are entering into Fuel Supply Agreements (FSAs) with the most of the consumers with penalty and bonus clauses to ensure better take of and firm up commitments;
- (b) if so, the details thereof;
- (c) whether the State owned power utilities are unwilling to enter into FSAs;
- (d) if so, the reasons therefor;
- (e) whether coal companies are adopting double standards one for independent power producers and other for State owned power utilities;
- (f) if so, the reasons therefor; and
- (g) the steps taken or being taken by the Government to ensure uniform system for both private and State owned power utilities?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COAL (SHRI PRAHLAD SINGH PATEL) :

(a) and (b) Yes, Sir. Coal India Limited (CIL) has evolved model agreements/guidelines for different segments of consumers like cement, CPP (Captive Power Plant), Sponge Iron etc. which are based on 'firm obligation' basis meaning that both seller and purchaser have to perform their obligations failing which defaulting party has to pay penalty to the other party not in default.

(c) and (d) Some of the power utilities like APGENCO (Andhra Pradesh Power Generation Company) and NTPC (National Thermal Power Corporation) have already signed firm commitment agreements with coal companies for supply of coal. However, most of the state owned power utilities are having reservation in signing the FSAs (Fuel Supply Agreements) due to the difficulty they face on account of the terms and conditions of payment prescribed in the model FSA despite the fact that the model FSA was finalized by CEA (Central Electricity Authority) after due consultation with the SEBs (State Electricity Boards) and power utilities.

(e) and (f) No, Sir. The agreements have distinctly different provisions in respect of quantity obligations for IPPs (Independent Power Producers) and SEBs for short lifting and short delivery, penalty clause for the former and best effort basis for the latter. The SEBs are traditionally linked consumers and the IPPs are the emerging new group who prefer to have firm commitment agreement, particularly on quantity to make their projects bankable and also to enable them to have easy access to international finance.

(g) Does not arise in view of reply to parts (e) and (f) above.