

ALL INDIA POWER ENGINEERS FEDERATION



(REGISTERED UNDER SOCIETIES ACT XXI of 1860), Regd. No. 24085/93

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No. 24 - 2022/ representation on Import of Coal

12-05-2022

Sri R K Singh

Minister of Power

Govt of India

New Delhi

Sub: Revised import of coal for blending purposes-reg.

Respected Sir,

The Ministry of Power has issued letter no. FU-21/2020 conveying the decision that the thermal power plants owned by State Gencos and IPPs must import coal for blending purposes to meet the requirement of 10% of total for ensuring continuous power supply. The time frame has also been specified as

31.5.2022	-	Placement of awards
30.6.2022	-	Delivery of 50%
31.8.2022	-	Delivery of 40%
31.10.2022	-	Delivery of 10%

The total requirement for blending @ 10% is 22.049 MLN tonne state Genco

15.936 MLN tonne IPPs

2. It may be recalled that in October 2021 there was a coal shortage which resulted in widespread discussion and debate regarding the causes and remedial measures.

2.1 The coal shortage was not developed overnight, but was the result of systematic policy failure, and gross mismanagement on part of Central Govt. which is also the owner of CIL

2.2 Sh. Anil Swarup who was the Coal Secretary between 2014 to 2016 identified (in an interview of ET Now, 13.10.20214) the causes of coal shortage

Extracts of interview are

He points to five reasons that may have made the coal shortage worse:

- **DELAY IN TOP APPOINTMENTS**

Swarup claims a new chairman and managing director was not appointed for Coal India for a year post-2017 leading to a loss in momentum built up. He also says many subsidiaries of the company either have no CMD or no dedicated top manager. "If you don't have top personnel sitting there how do you expect an increase in coal production", he says.

- **CIL RESERVES PAID OUT AS DIVIDEND TO THE GOVERNMENT**

Swarup goes on to say that reserves of Rs 35,000 cr with Coal India were not used for the expansion of existing mines or opening new mines. Instead, a big chunk of this was taken out by dividend by the Government of India, he claims.

- **COAL INDIA MANAGERS DEPUTED TO SWACHH BHARAT MISSION**

Swarup rues that between 2016 and 2017 most managers who are supposed to plan for coal mining were diverted to the Clean India drive of the Central government which aimed to end open defecation. "Its a joke but its a fact", he says.

- **COAL INDIA PUSHED INTO INVESTING IN FERTILIZER PLANTS**

Swarup also goes on to say that a facilitating mechanism created in 2015 of the coal monitoring group became defunct and has contributed to the stagnation of production levels.

- **CENTRE VS STATE WAR OVER COAL PRODUCTION AND DISTRIBUTION**

"When you are in a crisis you don't indulge in '*tu tu main main*' (blame game)", says Swarup explaining that most of the coal is available in opposition-ruled States. He urges that Central government officers go to the States and try and find solutions instead of a blame game that will worsen the situation. "This whole attitude of blaming each other will not bring us solutions", he says. Sh. Anil Swarup identified 5 reason that have made the coal shortage worse

2.3 In another interview to the Wire , Karan Thapar, Sh. Anil Swarup elaborated.

“First, the term of Sutirtha Bhattacharya, an “outstanding CMD” of Coal India, lapsed in 2017. It was neither extended, as it should have been, and for over a year, no replacement was appointed. As a result, the momentum and tempo built-up during his time was lost. Swarup says even today, there are many Coal India subsidiaries that do not have chairpersons.

Second, in 2016, Coal India had 35,000 crore reserves which should have been used to open new mines or expand existing ones. This would have ensured growth in Coal India output. However, the vast majority of this money was sucked out by the government as dividends to help balance the budget. As a result, the Coal India expansion did not happen.

Third, Swarup said hundreds of local mine managers were deputed to supervise digging toilets (he called them “shitholes”) under Swachh Bharat. As a result, their time and attention was diverted and deflected from Coal India to other matters. Swarup called this “ridiculous”.

Fourth, Swarup said that instead of investing in more mines, Coal India started investing in fertilisers.

As a result, Coal India’s output has stagnated for the last three-four years and the company has lost the momentum it built-up whilst failing to make good use of its sizable reserves.

Swarup made clear that the Government was made aware from 2016 onwards about the problems that have emerged today. He said there were several warnings. He also pointed out that as Coal Secretary, he himself raised these concerns. However, the government was indifferent to them. Many would say “why is the coal secretary shouting?” The government felt that the situation in 2016 was comfortable and there were ample coal stocks and Swarup’s warnings that problems were looming four or five years down the road were exaggerated. His warnings, as a result, were not heeded.

Another medium and long term measure identified by Swarup is that Coal India money, which he estimates at about Rs 10,000 crore, must be used to open new mines and expand existing ones. It must not be paid to the Government as a dividend.

Finally, Swarup said the government must revive the Coal Project Monitoring Group”.

3. From the above quoted, statements of Sh. Anil Swarup it is clear that he had identified problems for or 5 years down the line which must be addressed. However, neither the warnings were heeded and instead the coal secretary was shifted out of MOC.

4. It is well know that the cash reserves of Rs 35000 crore which were available with CIL were due to the accumulated profits from sale of coal and

the surplus should have been ploughed back into coal sector by CIL so that the benefits of new coal mines would be available to the state Gencos and state thermal stations. By diverting the surplus Rs. 35000 crore the required development of new coal mines, and development of existing coal mines could not take place with the result that coal crisis has overtaken the nation in 2022.

For this policy blunder of failing to plough back surplus amounts into new mines, the Govt. of India is surely responsible, and the additional cost of imported coal must be borne by the central govt. It is clear beyond doubt that the present coal crisis is the result of gross policy failures of the Central Govt and hence the Central Govt must bear the additional burden of imported coal. It would be grossly unfair to load the burden of GOI policy blunders on the State Thermal stations.

5. When outstanding executives to head PSU are urgently required, in the case of Sutirtha Bhattacharya CMD, CIL on account of his outstanding performance he should have been given an extension of term. By not giving an extension after his term lapsed in 2017 the GOI itself gave a body-blow to the CIL , which affected coal production and mine development.

6. There are two instances pointed out by the Ex-Coal secretary which show how the Govt. of India adopted policies which directly impacted the development of coal mines and utilization of funds for expanding the capacity of CIL. These two instances are

(i) How central Govt. deputed CIL managers who were working for planning and development of coal mines to the totally unrelated task of “Swacch Bharat Mission” to implement the construction of Latrines so as to end practice of open defecation.

(ii) How Central Govt. forced CIL to enter the new field of fertilizer plants when there were so many PSUs already in this field.

7. In the past, the process of coal import has been the subject of corruption and malpractices. There are recorded instances of over-invoicing of imported coal and in fudging of coal testing /GCV determination at the port of

loading . These cases were taken up by the Department of Revenue intelligence (DRI) which is under the Finance Ministry. The DRI pursued these cases before the High Court of Bombay and then before the Supreme Court. These cases taken up by DRI deserve to be taken to the logical conclusion. When GOI is stressing on coal imports the deterrent measures to prevent fudging and over charging are nowhere in evidence.

8. Correct determination of GCV is critical to avoid over charging and over billing. The Govt. of India while instructing state discoms to import coal has apparently ignored the factor that most of the state Gencos thermal stations have no past experience in coal import and particularly regarding the procedures for coal quality determination at the loading point. These state Gencos / thermal units have been thus exposed to the risk of overcharging, fudging of GCV values and having no past experience, would not be able to deal with these matters effectively..

9. Shortage of Railway Wagons: While the Ministry of Power has issued the directions to import 10% of coal, the related issue of wagon shortage has not been considered. Even supposing a 10% requirement of coal is arranged / received at the ports, the railway wagons are not available for meeting this additional operational requirement.

As per a press report of Reuters, the position is as under

A shortage of trains to deliver coal to power plants is also exacerbating the supply crisis. The number of trains committed by the Indian Railways per day is 415, 8.4% lower than the 453 required by the utilities.

The actual number of trains available from April 1-6 was 379 per day, 16% lower than required, the minutes of a meeting held between the power and coal ministries last week reviewed by Reuters showed.

9.1 Since priority would have been given to the movement of imported coal, under a situation of shortage of wagons, the net result would be that the wagons required for movement of domestic coal would be diverted to the movement of imported coal and thereby the availability of domestic coal would directly suffer.

9.2 Recently, the railways has announced the floating of a mega tender of One lakh railway wagons costing about Rs. 35000 crore. In the past years the railways has not been ordering the required number of wagons to be supplied by domestic engineering units engaged in the manufacture of railway wagons. As per RTI information the position regarding year wise order placed for railway wagons and the pendency of previous orders as on 31st March is given as under.

Information sought by Applicant		Reply information	
		Year	Number of wagons for which orders were placed during year
1.		17-18 18-19 19-20 20-21 21-22	13441 16401 3217 10690 8354
2.		Year	Pending orders for wagons which are yet to be supplied against earlier order placed by Rail Ministry
		31.3.2017 31.3.2018 31.3.2019 31.3.2020 31.3.2021 31.3.2022	13421 18715 23592 13488 14132 14000

The reply given is pending orders for supply up to respective dates mentioned.

10. It is seen from the data of Ministry of Railways that while the requirement of wagons for movement of coal is 441 rakes per day the availability / placement is only 405 rakes per day. During the period 2017-18 to 2021-22 the orders placed by railways for wagons was averaging 10,400 wagons per year. As against this for the same period there was a pendency of

upto 23592 wagons per year for which the orders have been placed but the wagons not supplied.

10.1 With the following background the Ministry of Railways has taken the decision to place an order for one lakh wagons to be supplied over three years, which averages to 33,000 wagons per year.

10.2 It is established beyond doubt that the Railway Ministry did not place the required order for wagons on the manufacturers / suppliers and now under the background of extreme coal shortage and shortage of wagons the ministry has decided to place the order for one lakh wagons over three years. Surely, the shortage of wagons was prevailing every year for the past 5-6 years or more and nobody prevented the ministry of railways from placing enhanced order for wagons, every year from 2017-18 onwards.

10.3 Surely, the shortage of wagons is a contributory factor for the present shortage of coal and for this the additional charges for coal export should be recovered from the Ministry of Railways to the extent that the shortage was created due to inadequate number of wagons.

11. With the present fleet of railway wagons in the country being 2.5 Lakh wagons and with an attrition rate of 10-12% wagons having to be taken out for repair and maintenance, with this estimate itself about 30,000 wagons would be required every year to replace / repair the worn out wagons.

12. In a situation of shortage of wagons, if and when coal imports start, the priority of wagons would be given to movement of imported coal with the direct result that movement of domestic coal would suffer. While MOP has given the phasing of coal imports in 2022, MOP should also have worked out the additional requirement of wagons and obtained the concurrence of the rail ministry to move the total quantity of domestic plus imported coal. The State owned thermal stations are planned and constructed only after obtaining the clearance of railways ministry to move the coal from the linked mines upto the thermal station. At this stage it would be unfair to burden the states for the high cost of import of coal when wagon shortage was one factor responsible for prevailing coal shortage.

13. While the GOI is going ahead with the Dedicated Freight Corridors , where one of the main justifications was to expedite coal movement , and while the Corridors are lagging behind by several years, the Rail ministry should have ensured that shortage of wagons does not become an additional , crippling, constraint.

14. The following report appearing in Business Standard deserves to be considered

Quote

Railways missed CIL train provision targets for over a year: Govt data

[Indian Railways](#) supply of trains to [Coal India](#) for transporting coal has fallen short of its monthly targets for more than a year, government data showed, highlighting the problems behind India's worst power crisis in over six years.

Indian utilities are scrambling to get hold of coal supplies to cope with record high power demand, but Indian Railways' inability to supply enough trains makes it difficult to boost coal stocks, which are at their lowest levels in years.

Inventories at Indian power plants fell 13% in April despite a 27.6% growth in Coal India's production, as a heatwave sent power demand soaring to a record high.

In April, state-run [Indian Railways](#) supplied 261 trains per day to [Coal India](#) for the power industry, the lowest in three months

would cancel passenger trains to free up tracks and help to transport more coal to power plants.

Coal, which accounts for more than half of Indian Railways' freight revenue, makes up nearly 75% of India's power generation. State-run [Coal India](#) produces 80% of India's coal.

Indian Railways supply targets are set after deliberations between Indian Railways, the federal power ministry and Coal India.

Coal India has prioritised supply to utilities to avert a power crisis and its supplies to the non-power sector dropped to six month lows of 304,933 tonnes per day in April, 21.3% lower than the same period last year, based on government data.

Supplies to the non-power sector, which includes aluminium smelters and steel mills, were also hit by Indian Railways providing fewer trains. Coal India's supplies to the non-power sector via Indian Railways fell to its lowest level in six months, the data showed.

Officials from state-run aluminium producer NALCO filed a court case last month over a coal supply shortfall as a result of the diversion of coal supplies and a shortage of trains.

India's non-power sector have been taking more expensive power from the national grid due to a shortage in supplies of coal to their power plants, industry officials say."

Un quote

15. With the above, it can be asserted that with imported coal arrivals railways would have to divert wagons from movement of domestic coal to movement of imported coal, and the relief from import of coal would be slashed 50 % due to wagons constraint. The MOP directions for coal import are silent on the commitment of railways to move the additional load of imported coal without reducing the movement of domestic coal.

16. Issues relating to blending of imported coal.

Since most/all of the thermal stations envisaged, designed and constructed over the past decades were on the basis of domestic coal from linked mines , there was no arrangement for blending of domestic with imported coal. The risk of temperature variations in boilers due to uneven mixing would increase incidents of boiler tube leakage .

16.1 The business of coal is a sellers market where the terms and conditions are made to suit the seller/exported, particularly in GCV determination. There is no solution if the GCV tested at the thermal plant is lower as compared to the shipping port value.

16.2 The additional risk is of adulteration at the unloading port , before the unloaded coal from ship is loaded on wagons.

16.3 The further risk is of theft/pilferage during railway transport from port to thermal station, because of the high cost of imported coal. The railways does not accept any responsibility for pilferage from loaded wagons.

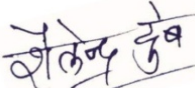
17. While the principle of cost plus remains valid in power generation and pricing of electricity from thermal power stations , there is no such safeguard in pricing of imported coal. The coal exporters and their lobby in India are known to have charged exorbitant prices for coal, which has no link to cost of

production, and the current market is going by the trend that the Russia – Ukraine conflict provides adequate opportunity to inflate coal rates .

18. Conclusion : In view of above stated factors it is established that the present coal shortage is the combined result of a number of Policy errors of the Central govt , with shortage made worse due to shortage of railway wagons. The decision of GOI to take away the accumulated revenues of CIL , Rs 35000 Crore, in 2016 crippled the development of new mines and increasing capacity of existing mines. Had this surplus been ploughed back into the coal mine sector, the present shortage would not have occurred. Keeping post of CMD CIL Vacant for a year after the term of incumbent ended showed that GOI was itself responsible for coal shortage and the additional charges on account of imported coal are payable by the Central Govt and must not be loaded on States as the policy errors were of GOI. The additional imports must be made available to States at the prevailing CIL rates while the difference is payable by GOI. The MOP letter of 28-04-2022 seeks to put the financial load of coal import on the States must be withdrawn as States can not be penalized for policy lapses of GOI.

Thank you with regards.

Yours Sincerely



Shailendra Dubey

Chairman

Copy to

Chief Minister - All States / Union Territories with the request to take up the issue at their end so that State Gencos/State Discoms and common consumers are not unnecessarily burdened due to high cost of imported coal.

CC:

1. Secretary, Power, Govt of India.
2. Chief Secretary - All States / Union Territories.