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Argus Consulting: Fuel procurement – best practice guide



Challenge faced

A South Asian electricity regulator was tasked with ensuring that thermal coal imports to the country were priced in line with market norms.

The regulator needed to guarantee that the electricity tariff, which it set based on the fuel price component, would not be inflated on account of inefficient thermal coal sourcing and weak negotiation practices by the fuel procurement arms of the power plants.

Solution provided by Argus Consulting

Argus Consulting developed a bespoke best practice guide that could be used by the regulator to set the optimal electricity tariff on a monthly basis for each power plant under its jurisdiction.

Our analysis covered:

- Review of a sample set of procurement contracts, analysing prices, contract structure, country of origin, freight rates, related costs and charges
- Industry interviews with fuel procurement departments at power plants
- Assessing existing practices for fuel procurement, based on industry preferences and practices followed in other countries, balancing interest between investors and consumers.

Outcome

The regulator now has an independent best practice guide that was created specifically for its country and its unique requirements.

Our analysis uncovered some key issues, including the lack of an agreed freight rate benchmark. Argus Consulting was able to develop a bespoke freight rate model. We also provided the client with other benchmarks for vessel loading and unloading times, insurance premiums, losses at the port, inland freight and demurrage costs to be compensated for.

As a result, the regulator is able to effectively regulate thermal coal imports to the country and reduce procurement costs.

For more detailed information on this case study and similar projects completed by Argus Consulting, please [contact us](#).

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