

Before the Central Electricity Regulatory Commission

3rd and 4th Floor, Chandralok Building,
36, Janpath, New Delhi-110 001

In the matter of:

Comments and suggestions on CERC Staff Paper on 'Blending of imported coal with domestic coal to mitigate the domestic coal shortage'

Submissions of Prayas (Energy Group), Pune

On 2nd June 2022, the Central Electricity Regulatory Commission (CERC or the Commission) issued a staff paper discussing the 'Blending of imported coal with domestic coal to mitigate the domestic coal shortage'. This staff paper was in response to MoP's directive to the CERC, under section 107 of the Electricity Act, 2003 to amend sub regulation 3 of regulation 43 of CERC (Terms and Conditions of Tariff) Regulations, 2019) to facilitate higher blending of imported coal without prior consultation with beneficiaries up to 31st March 2023.

CERC has invited comments from stakeholders regarding the following:

"If further flexibility is to be provided to the generators to blend imported coal without the permission or consultation of the beneficiaries, then

- to what extent of blending of imported coal be allowed without the permission or consultation of the beneficiaries?*
- to what extent the increase in energy charge rate over and above base energy charge rate, approved by the Commission for that year, be allowed upon blending of imported coal without the consent or consultation of the beneficiaries?"*

Toward ensuring prudent expenses, transparent and accountable fuel procurement process, and protecting consumer interests, Prayas (Energy Group) recommends that sub regulation 3 of regulation 43 of CERC (Terms and Conditions of Tariff) Regulations, 2019) need not be amended to enable higher blending of imported coal without beneficiary consent or allow increase in energy charge rate without beneficiary consent beyond the limits in the current regulations.

The reasons for this are listed below:

1. Basis of requiring such a provision is inadequate

1.1. Extent of shortage:

Para (1) of the staff paper states that *"The recent sharp increase in electricity demand has necessitated that the thermal generating stations produce electricity to their maximum feasible level"*.

Tables 1 and 2 compile the national level shortage in energy met and peak demand as reported by POSOCO for the months of March, April and May from 2019 to 2022. While there was indeed a spike in unmet energy demand in April 2022, due to the heatwave, unexpected demand rise, prevailing international prices and constraints in coal supply, the situation in March and May 2022 are similar to the situation in earlier years for these months. Similarly, while peak demand shortage increased significantly in March 2022 (compared to March of earlier years), it came down a little in April 2022 and has further come down in May 2022 to levels comparable to the shortage in May of past years. Therefore, it is not clear that

there is a case to be made at all to encourage more imports without consent of the beneficiary, when it would have a significant impact on consumer tariffs.

Table 1. % Shortage between energy requirement and energy met

Month/Year	2019	2020	2021	2022
March	-0.4%	-0.4%	-0.4%	-0.5%
April	-0.4%	-0.5%	-0.3%	-1.6%
May	-0.4%	-0.4%	-0.1%	-0.4%

Source: Prayas (Energy Group) compilation from POSOCO monthly reports

Table 2. % Shortage in peak demand

Month/Year	2019	2020	2021	2022
March	-0.4%	-0.5%	-0.3%	-1.3%
April	-0.4%	-0.4%	-0.2%	-1.0%
May	-0.6%	-0.3%	-0.2%	-0.5%

Source: Prayas (Energy Group) compilation from POSOCO monthly reports

Without prejudice to the above, even if such a provision for increased blending without beneficiary consent is required, it is not clear why it should last until March 2023. Not only are the shortages of March and April 2022 likely to be an exception than the rule, electricity demand in the coming months is likely to reduce and alternative generation sources will become available.

1.2. Regional differences:

It is important to note that the extent of shortages also varies extensively across regions. For instance, in FY22, the national shortage was highest in October (at -1%). This national average shortage is reflected very differently across regions, with a -2.2% shortage in the northern region, a -1.3% shortage in the eastern region, and the western, north-eastern, and southern regions having shortages of -0.6%, -0.2% and -0.1%, respectively. Even within these regions, certain states often account for a majority of the shortage, and this share also varies across seasons, depending on the state's seasonal demand profiles, geographic locations, and the supply options available to them.

A blanket provision allowing greater blending of imported coal at prevalent high prices may not be the most efficient way for a beneficiary to meet its demand at various times – instead, it may be more economical to procure electricity from other sources or the market. This will particularly be the case during the monsoon season, when demand is generally low and generation from sources such as wind and hydro pick up. Hence, beneficiaries should be given the choice of which source(s) to use to meet their demand. Allowing increased blending of imported coal at all times without beneficiary consent takes away this flexibility from the beneficiary.

1.3. Energy shortage is not just a coal availability issue:

The staff paper states that "...shortage of domestic coal is constraining the generating stations to restrict their generation thereby resulting in shortfall in supply of energy". However, it's not clear if the availability of domestic coal is the primary constraining factor for generating stations.

As of 31st May 2022, there is around 54 million tonnes (MT) of coal stocks at pit head (CIL and SCCL), as calculated from the Ministry of Coal's (MoC) monthly statistical report for March 2022 and monthly coal statistics for May 2022. In addition, about 22 MT of coal stocks is available at power plants. Even if only 80% of CIL and SCCL pithead stocks are available for the power sector, this amounts to 65 MT of coal available for power generation. This stock at the end of May can generate over 100 BU, which is about 28% more than what was generated from all coal-based plants in June last year. Therefore, availability of domestic coal is prima-facie not the major reason for shortage.

It may be argued that coal production generally dips in monsoon months, and hence imports may be necessary during this period. However, during this period, coal-based generation is also quite low on account of low demand and availability of other sources of generation. CIL has also significantly increased its coal production and hence production in monsoon months is also likely to be higher than previous monsoon months. In addition, production from captive coal mines has increased hugely this year and recent changes in regulations allow this coal to be sold to power plants. Therefore, it is highly unlikely that domestic coal availability will be a constraint even in monsoon months.

Instead, restricted generation by thermal power plants, thus, can also be attributed to other reasons. Insufficient rake supply could, for instance, result in restricted coal supply, and by extension, shortfalls in generation. Similarly, if the generating company has unpaid dues with the coal company, it may result in generation shortfalls. Supplementing the lack of domestic coal stocks with more expensive imported coal will only exacerbate the situation especially in instances where low coal stocks are a result of payment issues.

Thus, given that the shortages seen in April 2022 may not be persistent, and that different states and regions may find it optimal to deal with the shortage differently, and that shortages are not singularly on account of insufficient coal availability – the need for an overarching provision allowing the blending of more expensive imported coal without beneficiary consent is questionable, especially given the impact such a provision is likely to have.

2. Severe impacts on DISCOMs and consumers

2.1. *Impact on consumer tariffs*

As illustrated in para (4) of the staff paper, 30% blending with imported coal will lead to very significant spikes in ECR, with increases ranging from 116% to 227% over ECR with no blending. This means increase in variable costs from Rs. 1.269 per unit to more than double (in the range of Rs. 2.743 per unit to Rs. 4.148 per unit). Such high spikes to consumer tariffs cannot be passed through without any beneficiary consultation.

2.2. *Constrains beneficiaries' flexibility and choice in power procurement*

Currently, the use of alternative sources of fuel supply (such as blending imported coal for plants designed for domestic coal) by power stations without prior permission from beneficiaries is restricted by the price ceiling defined as per Regulation 43 of CERC's 2019 Tariff Regulations. Enabling blending of imported coal beyond these conditions without beneficiary consent will result in beneficiaries being burdened with the generating companies' decision, which may not be the most prudent choice available to the beneficiary.

The high coal procurement costs through higher blending of imported coal will be fait accompli through fuel adjustment charges, and will be reflected in higher variable costs and tariffs, as discussed in 2.1. Thus, beneficiaries are left with locked in choices that will have significant impacts on their working capital requirements when they are already in a dire financial situation.

2.3. *Discounts the availability of other generation sources*

Introducing the blending provision discussed in the staff paper forces beneficiaries to procure generation from high cost blended coal, even if such generation may not be required or if more prudent options may be available.

With the monsoon season coming in, it is likely that generation from alternate sources such as wind and hydro will pick up. Beneficiaries could plan procurement from such sources over the next quarter, instead of being burdened with high cost generation from imported/blended coal.

It is also important to note that procurement from market sources is also an option for beneficiaries. While market prices had spiked significantly in the midst of the shortage, it has already begun to correct. For example, the average price in the day-ahead market corrected from Rs. 10.06 per unit in April 2022 to Rs. 6.76 per unit in May 2022, as per the IEX power market update for May 2022, dated 7th June 2022. Therefore, markets could be an option of procurement, dependent on state realities. Given the thrust on promoting markets, this would be a good avenue to encourage market purchases in state power procurement planning.

Given the impact on consumer tariffs and beneficiary costs and choice, it is crucial that power procurement and any changes to the agreed upon conditions therein remain contingent on beneficiary consultation.

3. Other suggestions

- Any regulations stemming from this staff paper must also invite public comments and must carry a statement of reasons, justifying the methodology adapted in the draft regulation
- The comments received from various stakeholders on this staff paper must be made publicly available and hosted on the CERC website

4. We request the Commission to accept this submission on record and to allow us to make additional submission in this matter, if any. We further request the Commission to allow us to make an oral submission during a public hearing, if one is scheduled.

Prayas (Energy Group), Pune

Ashok Sreenivas and Maria Chirayil

Place: Pune

Date: 13th June 2022