

Comments before the Ministry of Coal on the proposed Coal Trade Exchange

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The Ministry of Coal (MoC) has proposed a Coal Trade Exchange (CTE) and initiated public consultations for it on 7th March 2025.

Given the increased production of coal, its changing role and the varying pattern of its demand, the establishment of a CTE is a welcome initiative towards the optimal utilisation of this crucial resource. The CTE is also an important measure for public interest since coal is responsible for over 70% of electricity generation, where coal prices are directly linked to consumer's electricity tariffs. In addition to helping customers meet their coal demand, by enabling efficient price discovery and ushering innovations in contracts and supply, the CTE will be a major reform in the coal sector, and thus, its design requires careful thought.

The following inputs from Prayas (Energy Group), a long-time proponent of a regulated coal exchange, are towards encouraging competition, innovation, accountability, and transparency in the setting up of the exchange:

1. Ensure a robust CTE

- a. Trading of all coal: As the notification inviting public consultation on the CTE highlights, it is the envisaged increase in the availability of domestic coal that has necessitated the proposal of the CTE. This opportunity can be used to make the exchange a platform to enable trading in all domestically produced coking and steam coal, lignite, washed coal, and imported coal.
- b. Single platform for trade: In the initial stages, the CTE will mostly platform the sale of coal from commercial and captive miners. To ensure significant liquidity and efficient price discovery, and to avoid fragmentation only one exchange should be permitted.
- c. Settlement by physical delivery: The CTE would be the first exchange of its kind in the country. Until this market matures, with well-defined rules and regulations and sufficient liquidity, contracts on the exchange should be settled only by physical delivery, and not through cash settlements. This will also minimise speculation in a nascent market. .

2. Establish an independent regulator

- a. Independent regulator: The notification inviting public consultation on the CTE states *"The proposed amendments in the MMDR Act shall pave the way for notification of Rules by the Ministry of Coal to provide for licensing/authorization of exchange operations and empowering the CCO as Coal Regulator for guiding the Exchange operations; regulation of CTE by the CCO and formulation of bye-laws by the Exchange Operator."* This proposed legislative intervention appears to retain the Coal Controller Organization (CCO) as an arm of the MoC. It does not envisage an autonomous regulator independent of the MoC. However, given that the biggest actors in the coal sector are public sector entities, such as CIL and SCCL, and it is expected that they will also participate in the exchange (see Section 3 below), it is necessary to ensure that the Regulator of an exchange with such public sector players is empowered to operate independently. Thus, we propose that a separate Act be passed to establish the CCO as an independent Coal Regulator. The finalisation of such an Act should be subject to widespread

public consultation. This would be consistent with Acts like The Petroleum and Natural Gas Regulatory Board Act, 2006 and The Electricity Regulatory Commissions Act, 1998, which were passed to similarly empower the independent functioning of regulatory bodies in the PNG and electricity sectors.

- b. Transparency and accountability of the regulator: The functioning of the CCO has been reviewed in the recent past, and the organisation has been restructured over the course of the last year. This has included increased staff strength and new operations. While these are moves in the right direction, the independent regulatory role envisaged for CCO requires it to function with much greater transparency and accountability. Therefore, the proposed legislative framework to redesign the CCO must ensure transparency and accountability in its operations so as to gain confidence of the market participants and the public at large.
- c. Transparency of market operations: Given the downstream impacts of coal pricing, transparency in the functioning of the proposed CTE is critical. The regulator must thus ensure that pertinent information is published periodically. This includes details about the kinds of instruments offered on the market (such as the duration and terms of the contracts), and for each contract type, the quantity and quality of coal being offered (for sale or purchase), the prices being offered and so on. The regulator should mandate that the market operator publish summary reports of all the bids, the clearing price / quantity etc. for each grade of coal and instrument / type of contract on a periodic basis. The Central Electricity Regulatory Commission sets a precedent for this – it hosts monthly and annual market monitoring reports which provides highlights and summaries of short-term power exchange¹. In addition, the regulator should publish details of the number of defaults of contracts, the names of the defaulting parties, the nature of the default, the penalties imposed and so on to ensure market discipline – particularly in a nascent market.
- d. Clarity in function and dispute resolution: The regulator must define detailed auction and price discovery mechanism for each type of contract offered on the exchange, including procedure, timelines/windows, matching and price discovery, delivery, settlement, dispute resolution etc. This should include a clearly defined mechanism to establish coal quality to the satisfaction of buyers and sellers, along with a well-defined dispute resolution mechanism – a necessary intervention since coal quality is a highly contentious issue in India. The regulator must also ensure that the design of margining requirements cover potential settlements arising from disputes. The margin amount should be sufficient to compensate affected parties without disrupting market stability.
- e. Uniform contracts and controlled volatility: The various products and contracts offered on the exchange should be uniform and subject to approval by the regulator. This will ensure transparency and certainty, since the terms and conditions of each contract would be known to sellers and buyers on the exchange. This is particularly important because, with the changing role of coal in the electricity sector, new contract types (e.g. seasonal and variable quantity contracts) should be encouraged and adopted. The regulator should approve new contracts on the exchange only after public consultations, so that views of all relevant stakeholders including those who may be indirectly affected, is sought. Additionally, the

¹ https://www.cercind.gov.in/report_MM.html

regulator should also be equipped to set the floor and forbearance price for each contract, if required, so as to mitigate market volatility.

- f. Arms-length pricing: The Act should mandate the regulator to promote competition and efficient price discovery by disallowing non-transparent affiliate transactions. In other words, regulations must ensure arms-length price discovery – ideally through multiple seller-multiple buyer auctions on the CTE.

3. Increasing liquidity and enabling efficient price discovery

- a. Spot and short-term contracts on the CTE: Spot auctions and short-term contracts would perhaps be the easiest kinds of contracts to migrate to the CTE. To begin with, all spot coal sales, including CIL's e-auctions, must necessarily be migrated on to the exchange, within (say) three months of setting up the regulator. Within (say) six months of setting up the regulator, all new short-term contracts, including short-term contracts under SHAKTI B viii (a), should only happen through the CTE.
- b. Long-term contracts on the CTE: After (say) one year of setting up the regulator, all new long-term contracts for coal purchase or sale should only be executed through the CTE. This includes all term contracts for power and non-power sectors– including those with public sector companies as sellers and/or buyers. Thus, gradually, all coal sold by CIL and SCCL should also move to this platform. This would ensure that any new coal contract is competitively bid, encouraging competition, efficient price discovery, and optimal fuel procurement. It would also help increase liquidity in the CTE. In particular, leaving CIL which produces nearly 80% of Indian coal, out of the exchange would greatly suppress liquidity and render the market ineffective in terms of price discovery and efficient allocation. Adopting such a phased approach will enable all new coal procurement to be carried out on the exchange. With that, allocation of coal would be determined through an open, transparent market. Therefore, the existing regime of coal linkage allocation and auctions through the Standing Linkage Committee (Long Term) and the SHAKTI policy can gradually fade away as existing contracts come to an end. This regime shift must be carried out in a planned manner.

4. Affiliations of the CTE operator

- a. Affiliations of the exchange operator: To avoid conflicts of interest and ensure efficient operations, the exchange operator cannot be affiliated with coal producers, consumers or traders. If the exchange operator gets into any affiliation with any such entity in the future, the operator must declare it and the regulator must be empowered to act in order to ensure fairness in market operations.

5. Other issues:

- a. Interlinkages with other sectors: The coal sector has deep interlinkages with several other key sectors like cement, steel, and the power sector. These legal and operational interlinkages are long-standing, complex, and have wide-ranging impacts, and must therefore be carefully addressed. For instance, in the power sector Section 62 cost-plus plants have regulated tariffs.

Procurement of coal on the exchange by such generators should be subject to some checks and balances, such as approval from the respective beneficiaries/regulators.

- b. Revision of Coal Index calculation: The National Coal Index (NCI) is computed by considering the price of coal across multiple channels of sale. With the introduction of the CTE, and thus a new avenue for sale of coal, the computation of the NCI should be appropriately revised.
- c. Registrar to the platform: Given the scale of this change, it is essential to have a registrar for book-keeping and settlement on the CTE. In addition to appointing an exchange regulator and operator, the proposed Act must also appoint an exchange registrar before the CTE is operational.

The proposed coal exchange has the potential to introduce a necessary regime change, at a time when coal supply and demand patterns are changing. The CTE could be an instrument of innovation, which addresses legacy coal sector issues such as rigid and inefficiently implemented contracts and the lack of transparency. However, its design needs careful consideration, given the wide reaching impacts of coal supply and pricing on multiple downstream sectors and the economy.

We request the Ministry to take our submission on record and to allow us to make additional interventions on the subject, as needed.

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