

Understanding India's coal imports: The discourse around coal shortages in India needs course correction

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The spectre of electricity shortages rises again as hot weather descends across the country. In recent years, increasingly unpredictable weather patterns and a fast-growing economy and have led to big increases in electricity demand, meeting which reliably becomes a challenge. But some of the discourse in this context deserves greater scrutiny.

Firstly, a shortage of domestic thermal coal – the kind used in electricity generation – is primarily blamed for the electricity shortage. Consider August, the month with the greatest electricity shortage in 2023 – though the story is similar even in summer months. August's electricity shortage was about 840 million units due to a poor monsoon leading to increased demand and reduced supply from some sources. It is pertinent that this shortage was just 0.55% of demand in that month. Moreover, 0.6 million tonnes of domestic coal would have addressed this shortage even as more than 30 million tonnes of coal was available at coal mines in August and September. This illustrates that the challenge is not really availability of domestic thermal coal per se, but insufficient logistics to move it to power plants. A recent Ministry of Power (MoP) [advisory](#) corroborates this saying “supplies of domestic coal will remain constrained due to various logistical issues associated with railway network.”

Addressing the logistics challenge would take some time. How best to deal with shortages in the meantime? Since coal is currently India's best bet to meet the shortages, the obvious answer is alternative sources of coal. This leads to the second conflation – that the only alternative source is imports. Coal India Ltd. sells about 10% of its production – 70-80 million tonnes – each year through spot auctions. While the price of such coal is higher than the coal that many plants get, it is much lower than the price of imported coal. Though some plants may not have logistics constraints to get coal from the auction sites, even such plants do not consider auctions as an alternative.

Some thermal coal imports to blend with domestic coal may be required even if auctions are used. The question then becomes how much imports for which coal plants. MoP issued a recent advisory to power generators to continue monitoring their coal stocks until June 2024 and import coal as required (up to 6% by weight). This was widely reported as extending a “mandate” for importing 6% coal. It is convenient – as some might say – for such advisories to be interpreted as mandates by many coal-based generators since the increased costs arising out of coal imports can be ‘passed through’ to electricity consumers via distribution utilities. Therefore, it is up to electricity regulators – responsible for ensuring prudence of electricity costs – to not interpret such advisories as mandates. There is little justification to treat the MoP advisory as a mandate, given that the letter itself repeatedly uses the word “Advisory” and the operative sentence reads “... opt for blending as per the requirements ...”. Moreover, preliminary analysis shows that, a mere 0.3% additional blending in addition to the 3.4% imported coal that was blended between Apr-Dec 2023, would have eliminated all shortages in that period. Thus, the third misleading narrative is that 6% coal imports are necessary when it is just an indicative upper limit of imports that may be required.

Interpreting the advisory as a mandate can have significant cost impacts with coal still supplying over 70% of India's electricity. Mandatory blending of 6% imported coal by weight for all coal-based generation, instead of the current blending levels, can increase the variable cost of coal-based electricity by 4.5%-7.5%. Indeed, as per the [report on Annual Rating of Power Distribution Utilities](#), power purchase costs increased by 15% in FY23 due to increases in demand, coal imports and prices of imported coal. Regulatory mechanisms that enable such blending 'automatically' without even consulting the concerned distribution utilities run the risk of 'authorising' such higher costs for a much longer period than may be justifiable.

Not all power plants are the same. Typically, the plants that generate the most – the so-called pit-head plants – are situated close to mines, far away from ports and do not face coal shortage. Shortages in periods of high demand are more likely at plants far away from mines which typically do not generate as much. Thus, there is no justification to interpret the advisory as a mandate to import 6% coal by weight for all plants in the country.

Clearly, the discourse around coal shortages in the country needs a course correction. It cannot be assumed that coal imports are the default way to address shortages. The fundamental challenge is to overcome the logistics bottlenecks preventing coal reaching the locations where it is required. In the interim, regulatory commissions and distribution utilities must ensure that all coal-based plants are alert to the possibility of coal shortages and identify the cheapest alternative sources – which may not be imports – to bridge the gap. Otherwise, the hapless consumer would be left to pick up the tab for inefficient coal procurement.

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