

## Comments and Suggestions on the

## 'Draft methodology for allocation of coal as per provisions of Para B (viii)(a) of SHAKTI Policy of Ministry of Coal amended as per Para 2.1 (a) of HLEC Recommendations-Reg'

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3 September 2019

The Ministry of Power (MoP) had published the draft methodology for allocation of coal under para B (viii)(a) of SHAKTI Policy on 21.08.2019 and sought comments on it. We are pleased to share our comments on the methodology and request you to consider them before finalising it.

The proposed methodology is to auction coal linkages to power producers without Power Purchase Agreements (PPAs), for three months to a year, under the condition that power generated through the linkage must be sold in Day Ahead Markets (DAM) through power exchanges or in the short term through a transparent bidding process via the Discovery of Efficient Electricity Price (DEEP) portal. The introduction of this clause is aimed at encouraging competition in the sector, while also attempting to address the issue of stressed thermal power projects.

The Prayas (Energy Group)'s comments and suggestions highlight areas that require clarity within the methodology and propose some ideas to aid the efficient and transparent implementation of the process. These are enlisted below:

### 1. Publish a list of eligible participants

According to the draft methodology, all power plants that do not have PPAs are allowed to participate in these auctions. The Central Electricity Authority (CEA) needs to confirm and verify the eligibility of each interested participant and assess the eligible quantity for that participant. To make this process transparent and streamlined, the CEA should publish a list of plant wise capacity that is eligible to participate in the auctions. This will minimise the need for vetting individual participants and enable smooth conduct of auctions.

### 2. Clearly define important terminology

Para B (viii)(a) of the amended SHAKTI policy states that "the power generated through that linkage is sold in Day Ahead Market (DAM) through power exchanges or in short term through a transparent bidding process through Discovery of Efficient Energy Price (DEEP) portal". However, para (xiii)(a) of the draft methodology allows sale of power through the Intraday Markets. Other paragraphs also mention the possibility of sale on Intraday Markets, which is not enabled by the SHAKTI policy. Similarly, para (xii), para (x) and other paragraphs of the draft methodology mention sale of power through short term without explicitly limiting it to short term sales on the DEEP portal.

All short term sales are not conducted only through transparent trading via DEEP or power exchanges. About 30% of total inter-state short term trades in 2017-18 was through trading licensees and the quantum traded in the intra-state short term market could also be significant. There is hardly any reporting or transparency in trades for intra-state bilateral trades. Even after the launch of DEEP, filings by distribution companies in tariff processes across states show that all trades do not take place through DEEP. Further, short term sale to open access and captive consumers takes place through bilateral traders rather than just power exchanges. In order to promote complete transparency and minimise chances of any gaming, the methodology should explicitly state that only sales through double-sided auctions on platforms such as

DEEP and power exchanges will be allowed. Currently, usage of terminology such as short term sales, sales on power exchanges, short term contracts and DEEP are not consistent and could potentially lead to loopholes.

### 3. Ensure transparency of process

In order to initiate the auction under this methodology, coal companies are required to specify the quantum of coal available, quality of coal, source of coal, period over which such coal is available, and the schedule to start the supply of coal. After the linkages are allotted, the generating stations are required to furnish monthly generation statements showing the actual sale of power against short term contracts or in power exchanges using the coal supplied.

Information about coal linkage allocation, the price at which it was allocated and its usage for power generation is important because it is relevant to consumer electricity tariffs. Moreover, coal obtained through this means should not be used to make up for any seasonal shortfalls generating stations may face due to shortfall in regular linkage supply from coal companies. Therefore, the data so collected must be made available in the public domain. Information regarding the coal on offer, the results of the auction, and the usage and generation from the coal supplied should be collected and published by the MoP on its website.

### 4. Finalise the scheme document after public consultation

The procedure outlined in the draft methodology will be incorporated in the scheme document, which details all the operational and technical parameters of the auction process. The methodology should state that the scheme document should be finalised by Coal India Ltd. only after seeking comments and suggestions from all stakeholders, including sector experts, to ensure that it is comprehensive and unambiguous. The finalised scheme document should also be available on the auction portal.

The scheme document is essential to an effective auction, and hence, must address all aspects of the process. A few such important points, which have not been taken up in the draft methodology, are detailed below:

- a. Successful bidders under SHAKTI B(ii) were required to furnish their amended PPAs before coal supply through the linkage was assured. However, under this methodology, it is unclear when and under what conditions the coal linkage is provided to the generating station. This is especially relevant since the MoP is also in the process of amending the short term bidding guidelines such that generators can also call for bids for power. In such a case, generators can obtain linkages under SHAKTI for selling power in the DEEP portal and retain the coal supply in case of an unsuccessful bid event unless the guidelines explicitly specify at what stage the coal linkage is finalised. Therefore, the scheme document should state the specific conditions to be met by the successful bidders before coal supply through the linkage is assured. It should also ensure that other potential ambiguities and uncertainties are addressed, and that it is consistent with other relevant sectoral policies.
- b. The draft methodology states that coal supply should be carried out regularly on the basis of a mutually agreed schedule between the coal company and the generating station. However, sale of power through either DAM or the DEEP portal is difficult to predict in advance, and hence there would be uncertainties about usage of this linkage coal. For example, consider a generating station that has a linkage for, say, 100,000 tonnes of coal over four months for sale of power on DAM. If it procures 25,000 tonnes in the first month but is unable to sell sufficient power on DAM and has leftover coal at the end of the month, can it procure more coal at the beginning of the second month? What checks and balances would be in place to ensure that coal is only disbursed

proportional to the sale of power? The scheme document should clearly outline when and under what conditions the generating station can procure coal, given these uncertainties, and protect the interests of both the generator and the coal company.

- c. In the event that there is unused coal with the generating station at the end of the linkage period, there should be a clear process for disposing/using this coal. The scheme document should clearly define this process.
- d. The scheme document should ensure that any increase in costs due to shortfall in coal supply under this linkage is not passed through and reflected as an increase in consumer tariffs, especially with regard to sale of power via the DEEP portal. The contract between the coal company and generating station should be structured so that the responsibilities and risks are divided between them, and electricity consumers are not burdened due to any lacunae in coal supply.

## 5. Ensure methodology is consistent with amendments to short term bidding guidelines

Short term sale of power through transparent bidding via the DEEP portal is an important aspect of the coal linkage auctions under Para B (viii)(a). However, the short term bidding guidelines are being revised, with major changes being considered. These include allowing open access consumers to participate in DEEP and changing the bid design from a reverse auction to a simple forward auction. Given these changes and the important role of short term bidding, the methodology envisaged for the B (viii)(a) auctions must consider and be consistent with the amendments to the short term bidding guidelines.

This is essential to prevent gaming by generators in order to retain coal allocation.

## 6. Conclusion

Auctioning coal linkages to power producers without PPAs under the conditions of Para B (viii)(a) is an important step toward addressing the issue of stressed thermal power projects. Proper implementation of this clause could also aid in encouraging competition and transparency in the sector. However, this is contingent on a comprehensive and effective methodology and scheme document. Toward this end, we put forward the following suggestions:

- Publish a list of all eligible participants
- Clearly define important terminology
- Ensure transparency of process and publish data in the public domain
- Finalise the scheme document only after public consultation
- Ensure methodology is consistent with amendments to short term bidding guidelines

Taking these aspects into consideration at this stage of the auction process can aid in the smooth implementation of the procedure and can serve toward addressing the overarching problem of stressed assets in the thermal power sector.

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