Coal auctions still far from transparent

The SHAKTI scheme, meant to improve coal linkages to power plants, has not revealed bidding details

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The SHAKTI (Scheme for Harnessing and Allocating Koyala Transparently in India) policy was approved in May 2017 with the intent of better allocation of coal to present and future power plants. It aimed to phase out the extant Letter of Assurance and Fuel Supply Agreement (FSA) based regime, and instead introduce a more transparent and competitive coal allocation policy. The policy also offered a potential solution to the lack of coal linkages to 17 power plants with a capacity of about 15,000 MW, which were part of the 34 power plants (about 40,000 MW) declared as stressed. The policy was amended in March 2019 specifically to aid stressed projects based on the recommendations of a High Level Empowered Committee. But two years since the policy's launch, how has it played out on the ground?

Status quo

Section B(i) of the policy allows granting of coal linkages to central and state PSUs, and JVs formed amongst them. Linkages have been granted to 18 projects (22,160 MW) until June 2019 under this section. Under Section B(ii) of the SHAKTI policy, coal linkages are auctioned to Independent Power Producers (IPP) without coal linkages but with Power Purchase Agreements (PPA), based on discounts quoted on the PPA tariff. Over the two years, there have been two rounds of bidding for coal linkages under this section. In the first round, held in September 2017, 31 applications from IPPs were received, of which 14 were deemed eligible and 10 participated in the auction. This resulted in allocation of about 27 million tonnes per annum (MTPA) of coal to a capacity of 11,549 MW, at tariff discounts ranging from 1p to 4p per unit. No information is publicly available regarding the second round of bidding, which took place in May 2019. Section B(iii) of the policy provides for the auction of coal linkages to IPPs that do not have PPAs. No rounds of auction have been held under this provision yet.

Objectives not met

Transparency is a major objective of SHAKTI and is also a part of its name. However, in reality, it is conspicuously absent. For example, the limited information available about the B(i) linkage allocations has to be gleaned from the Ministry of Coal (MoC)'s monthly summary for the Cabinet reports, and even they provide only aggregate figures and not linkage-wise source, recipient and quantity.

Even with regard to allocations under Section B(ii) of the policy, few details are available in the public domain. This includes the quantity on offer from each mine, the bidders participating in the auction, approved quantities for each participant, and the year on year discount submitted by the successful participants. Indeed, even information about successful bidders in the first round of auctions was only available through news reports rather than official channels, and the information is not available at all for the second round of auctions. Full transparency about these details is necessary, not only because it is a central objective of the policy, but also because it has a direct impact on electricity tariffs and citizens have a right to know such information.

Another objective of the policy is to effectively address the coal supply problem in the sector, and by extension, one aspect of the problem of stressed assets. According to the Parliamentary

Standing Committee on Energy's report on stressed/non-performing assets in the electricity sector, the first round of B(ii) auctions resolved 7 stressed projects (7,250 MW), out of the 17 stressed projects (15,200 MW) which were affected by the lack of coal supply. In the absence of information regarding results from the second round of auctions, it is not clear whether the linkage problem of the remaining stressed capacity of about 8,000 MW has been addressed. Even out of the projects addressed by the auction, one FSA still remains to be executed though 22 months have passed since the auctions.

Regarding coal linkage auctions under Section B(iii), Coal India Limited (CIL) had invited expressions of interest back in January 2018. One and a half years later, there still have been no auctions. While reasons for this are unclear, this could be due to remaining uncertainties in the process or because there is insufficient interest in procuring coal linkages by IPPs.

In short, SHAKTI has not been transparent; it has not yet helped to address the coal linkage problems of all stressed power plants; and it has not been able to conduct any auctions for IPPs without PPAs.

Issues that persist

In addition to these issues with implementation, the structural limitations of SHAKTI's design continue. Its architecture continues to provide differential treatment to PSUs, which can get linkages based on MoP recommendations at CIL notified prices. On the other hand, IPPs have to bid for coal by either offering discounts on existing PPAs or by quoting a premium on the notified price. This fragments public and private generation, and prevents competition between the two. Moreover, allocations to PSUs continue to be discretionary and opaque despite SHAKTI's claim to optimally allocate a vital natural resource.

The policy also continues to privilege medium and long term PPAs with distribution companies, though the 2019 amendment allows for linkages to power plants that sell power on the Day Ahead Market or through the Discovery of Efficient Energy Price (DEEP) portal for a period up to two years, but under special circumstances. Since DEEP restricts the buyers to be distribution utilities, SHAKTI essentially continues to restrict coal availability to generators who sell to distribution utilities, preferably on a long-term basis. This can hinder development of electricity markets and merchant capacity, discourage open-access contracts and saddle distribution companies with baseload capacity addition through PPAs. This is at odds with the objectives of the Electricity Act, 2003, which sought to encourage competition and open-access.

SHAKTI was conceptualised with the intention of moving to a transparent and effective system for coal linkage allocation that could partially address stressed assets in the sector and encourage a competitive coal-thermal sector. However, two years after the policy was announced, those objectives still do not seem to be realized.

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