Issues with Coal Allocation decisions

What is the issue?

\n\n

\n
- The Union Cabinet took two important decisions aimed at streamlining coal allocation to the power sector and making it more transparent and objective.
\n
- The decisions might address some near-term issues, but they are unlikely to cater to the future needs of the sector.
\n

\n\n

What was the first decision?

\n\n

\n
- The first decision was to approve the signing of **fuel supply agreements (FSAs)** by power plants holding letters of assurance (LoAs) and likely to be commissioned by March 31, 2022.
\n
- This will assure such plants - **firm supply of coal** and will address the cases of many power plants not having a firm fuel supply in spite of excess coal availability.
\n
- The reason for this paradoxical situation was that the existing policy only ensured FSAs for plants commissioned by March 31, 2015. Plants that did not meet this deadline had to rely on other mechanisms, to gain access to coal.
\n

\n\n

What is Shakti?

\n\n

\n
- The second decision was to approve a policy called Shakti (Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India) to **allocate**

coal to power plants without LoAs.
\n
- The government’s move is likely to benefit 20,000 MW private-sector thermal capacities with **power purchase agreements (PPAs).**
\n
- The new policy will lead to gradual phasing out of the old one and is expected to bring 30,000 MW of locked capacity into generation.
\n
- It also seeks to **alleviate the stress** that certain power units are under due to unavailability of linkages.
\n
- It thus bodes well not just for the infrastructure sector but also for the public sector banks which have billions of rupees lying unpaid in loans given to the power companies.
\n
- Coal linkages for power plants will be based on auction or through PPAs based on competitive bidding of tariffs.
\n
- Power generation companies belonging to the **Centre and the states will not be part of the policy** as they will continue to get coal linkages as per the recommendations of the ministry of power.
\n

\n\n

What are the issues with Shakti?

\n\n

\n
- Shakti appears to be in **conflict with some pro-competition initiatives** of the coal and power ministries.
\n
- As a result of Shakti, the burden of base load capacity addition might continue to fall on distribution companies (discoms) and this in turn would leave small consumers to effectively bear the cost.
\n
- On the coal side, the ministry wants to **introduce commercial mining for coal,** and has been making statements to this effect.
\n
- Since most of the upcoming capacity will be owned by the public sector, which will continue to get coal at notified prices from Coal India Ltd (CIL) under Shakti, CIL will be shielded from competition. This is at odds with the intention of introducing commercial mining.
\n
- Shakti’s architecture is also **skewed against private power generators,** as

they have to bid for coal at a premium above the CIL-notified price unless they are willing to take a chance on other routes like buying coal from a commercial miner (if that exists).
\n
- Given this distortion, discoms would find it easier to continue signing "cost-plus" PPAs with public sector generators.
\n
- Since **small consumers will continue to rely on discoms** for their power supply, the inefficiencies of the public sector value chain shielded from competition will be passed on to their electricity tariffs.
\n
- Effectively, under Shakti, the coal and power generation sectors will be fragmented along public and private sector lines, with **no competition between the two.**
\n
- Also, most coal linkages will continue to be allocated to public sector generators based on "recommendations from the MoP".
\n
- This would go **'against the grain' of making the allocations transparent,** unless the entire process is fully transparent.
\n
- Thus, it appears, rather than powering the future of the electricity sector, Shakti is likely to hinder competition and discourage private sector participation, thus failing to meet the future needs of the power sector.
\n

\n\n

\n\n

Source: Business Standard

\n

