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Coal Linkage Policy for power plants approved by Union Cabinet

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The Union Cabinet on Wednesday (17th May, 2017), approved a coal linkage policy aimed at ensuring timely and adequate supply of coal to thermal power plants. The scheme known as "SHAKTI" would ensure a proper mechanism for sourcing of coal by the power plants as per their schedules. Companies which do not have coal linkages at present would be able to source their fuel requirement from domestic market at competitive rates. India's total installed thermal capacity stands at 195GW as on 31st March 2017.

SHAKTI (Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India)

The Cabinet Committee on Economic Affairs, chaired by the Prime Minister Shri Narendra Modi, has approved the signing of Fuel Supply Agreement (FSA) with the Letter of Assurance (LoA) holders. Allocation of linkages for power sector shall be based on auction of linkages or through Power Purchase Agreement (PPA) based on competitive bidding of tariffs except for the State and the Central Power Generating companies and the exceptions provided in Tariff Policy, 2016. Coal drawal will be permitted against valid Long Term PPAs and to be concluded Medium Term PPAs.

The approved policy would address two issues at the same time:

a. Easing availability of coal to stressed power units

b. Positive for financial institutions especially public sector banks which funded such projects. The policy covers coal based thermal power plants which are under-construction as well as those that are going to be constructed, provided these units are commissioned by March 31st 2022.

Policy directions will be issued by the Ministry of Coal and Ministry of Power and will be implemented by CIL (Coal India Ltd.) / SCCL (Singareni Collieries Company Ltd.) and different power entities of the State and Central Government.

Presently coal supply to the thermal power plant's (TPP's) has been made as per the provisions of the New Coal Distribution Policy (NCDP), 2007. Till 2010, Coal India Limited issued LoA for approximately 1,08,000 MW capacity and thereafter no new LoAs were issued due to the prevailing shortage scenario. The CCEA decision of 21.06.13 directed CIL to sign Fuel Supply Agreement with TPPs of about 78,000 MW capacity. The coal availability scenario has now emerged from scarcity to adequacy. In this adequate coal availability scenario, the present policy proposes doing away of the old linkage allocation policy and emergence of a new linkage allocation policy based on transparent and objective criteria for the optimal utilisation of the natural resources.

CARE View on New Coal Linkage Policy:

The new Coal linkage policy is directed towards easing requirement of coal for firing thermal power plants. Scarcity of coal has been hurting the industry for long. With sustained capacity addition and the state run Coal India Limited being able to produce adequate coal, the Government has finally approved a key policy. State discoms are being salvaged by Ujwal DISCOM Assurance Yojana (UDAY) and hence it is expected that they would be signing long term contracts and Power Purchase Agreements post their financial revival and turnaround. Capacity utilisation is also expected to improve due to higher penetration of transmission network and Governments target of achieving 100% rural electrification, which would lead to higher demand for electricity.

Following are the major foreseeable improvements out of this policy initiative:

- Dependence of certain TPPs on imported coal would be curtailed, thus helping the TPPs cut costs, improve margins and enable easy and efficient procurement of fuel. This in turn would help up shore up their finances especially those units who have signed power purchase agreements on the basis of imported coal
- With banking system facing a major hurdle of mounting NPA's and over 20% of the total bank credit exposure towards power sector, the policy is aimed at aiding and improving financials of stressed power producers, which in turn would help in improving the banks' stressed balance sheets.

- State-owned power producers have cut their coal imports from 25 million tonnes by over 50% in FY17 and are targeting near-zero import in FY18. With private electricity producers gradually moving to usage of domestic coal with the introduction of this scheme, the Government would be able to curb foreign exchange outflow.

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