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# SHAKTI-NEW COAL ALLOCATION POLICY FOR THERMAL POWER PLANTS

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# SHAKTI - NEW COAL ALLOCATION POLICY FOR THERMAL POWER PLANTS

## **Introduction:**

*SHAKTI*<sup>1</sup> (Scheme for Harnessing and Allocating Koyala Transparently in India) is a policy designated by the Union Government for the allocation of coal among thermal power plants in a transparent and objective manner. The main objectives of this policy are to make coal available to all the Thermal Power Plants of the country in a transparent and objective manner and at the same time ensure that the benefits of linkage coal are transferred to the end consumers. It thus bodes well not just for the infrastructure sector but also for the public sector banks which have crores of rupees lying unpaid in loans given to the power companies. Allocation of linkages (buying coal from a mine closer to the power plant) 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. The Companies which do not have coal linkages at present, would benefit immensely from the new policy as they would get domestic fuel supplies at competitive rates through auction.

With this policy, the Government also aims to reduce dependence on imported coal. As regards the initiatives for rationalization of coal linkages, it is estimated that during 2014-15 to 2016-17, the source rationalisation of coal linkages has resulted in estimated saving of Rs. 3000 crore per annum on transportation cost to the power utilities. This has resulted in annual potential saving of Rs 1526 crore to NTPC Ltd. by inter-plant rationalization of Coal quantity of 22.6 MT.

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<sup>1</sup> The Cabinet Committee on Economic Affairs, chaired by the Prime Minister has approved the signing of Fuel Supply Agreement (FSA) with the Letter of Assurance (LoA) holding thermal power plants on 17.05.2017. The Government has issued a new policy christened as SHAKTI on 22.05.2017.

**Background:**

**Coal linkage to the power sector** is governed by provisions of the **New Coal Distribution Policy (NCDP), 2007**. Under the NCDP, a system of issuance of **Letter of Assurance (LoA)** was introduced wherein requests for Linkage/**LoA** are forwarded to Ministry of Power for its recommendations. These recommendations are placed before the Standing Linkage Committee (SLC) (Long Term) which authorizes issue of LoAs.

Till 2010, Coal India Limited (CIL) had issued LoAs for approximately 1,08,000 MW capacity and no new LoAs were issued thereafter due to the prevailing scarcity scenario. In a decision taken on 21 June 2013, the Cabinet Committee on Economic Affairs directed CIL to sign Fuel Supply Agreements (FSAs) with Thermal Power Projects 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 a new linkage allocation policy based on **transparent and objective criteria for the optimal utilization of the natural resources**.

**Salient Features of SHAKTI:**

The salient features of the SHAKTI are as follows:

- 1) New and more transparent auction-based coal linkage policy.
- 2) Thermal Power Plants (TPP) having Letter of Assurances shall be eligible to sign Fuel Supply Agreement after ensuring that the plants are commissioned, respective milestones (like achieving financial closure, obtaining clearances etc.) met, all specified conditions of the Letter of Assurances fulfilled within specified timeframe and where nothing adverse is detected against the Letter of Assurances holders.

- 3) Thermal Power Plants (part of 78000 MW) that could not be commissioned by Financial Year 2015 shall now be eligible for coal drawl if the plants are commissioned before Financial Year 2022.
- 4) The 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. **Exception** : (i) State and the Central Power Generating companies – done by Ministry of Power and (ii) exceptions provided in Tariff Policy, 2016
- 5) Coal drawl will be permitted against valid Long Term Power Purchase Agreements and to be concluded Medium Term Power Purchase Agreements.
- 6) The approved framework ensures that all projects with linkages are supplied coal as per their entitlement. This will ensure the rights of coal supplies for Fuel Supply Agreement holders and signing of Fuel Supply Agreement with Letter of Assurance holders.
- 7) SHAKTI has been envisaged to make optimal allocation of the natural resource across power units.
- 8) Future coal linkage will be granted as per the following:
  - The Independent Power Producers (IPPs) with Power Purchase Agreements (PPAs) (based on domestic coal) participating in the auction will bid for discounts on the existing tariff and this would be adjusted from the gross amount at the time of billing;
  - The Independent Power Producers (IPPs) with Power Purchase Agreements (PPAs) (based on imported coal) shall be made available through a transparent bidding process;
  - The Independent Power Producers (IPPs) without Power Purchase Agreements shall be on the basis of auction where bidding for linkage shall be done over the notified price of the coal company;
  - Linkages will be earmarked to States where any linkage quantity unutilized for two years lapses. State may indicate the earmarked linkages to the power distribution companies;

- Linkages, for full normative quantity, will be granted for setting up Ultra Mega Power Plants.
- 9) The new policy prescribes direct linkage allocation to public-sector plants and reverse auction for supply of coal linkages to private players; it also integrates fuel linkage to the tariff-based competitive bidding for long-term power purchase by distribution companies with a view to ensuring that firms with fuel supplies are not deprived of Power Purchase Agreements and vice versa.
- 10) Policy directions will be issued by the Ministry of Coal and Ministry of Power and will be implemented by Coal India Limited/Singareni Collieries Company Limited and different power entities of the State and Central Government.

### **Benefits of the Policy**

The benefits of this policy are as under:

- Coal available to Power Plants in transparent and objective manner
- Auction to be made the basis of linkage allocations to IPPs
- The stress on account of non-availability of linkages to Power Sector Projects would be eased which is good for the Infrastructure and Banking Sector
- Direct benefit of reduction in tariff by PPA holders would go to Discoms/consumers
- Power Plants would get long term security of supply of coal from a source of their choice

### **Parliamentary Standing Committee Report**

Parliamentary Standing Committee on Coal and Steel submitted a report on 'Production, Marketing and Distribution of Coal' on 3 January 2018 in which the SHAKTI Policy was also examined and deliberated upon. While

appreciating the policy initiatives undertaken by the Ministry of Coal for regulating allocation of Coal linkages in a more transparent and objective manner, the Committee 'expect that as a result of the linkage auctions being conducted under SHAKTI by virtue of their design give an option to consumers to bid for a source of their choice from the offered sources, the cost of transportation of coal to the consumer will significantly get reduced. The Committee, therefore, recommend that the Government should also consider new linkage policy (SHAKTI) be linked with saving on account of transportation cost of coal.'

### **Conclusion:**

Hopefully, the SHAKTI policy would be able to revive the prospects of many unviable or stranded thermal power projects and companies as a cheap domestic coal price would enable these thermal power plant to maintain a pricing parity with recent aggressively bided renewable projects. Many companies who have their projects tied up under Power Purchase Agreement but don't have firm coal linkages could benefit from this policy. However, offering steep discount on quoted price discovered in competitive bidding process for obtaining linkage could expose these players to the risk of under-recovery.

### **Bibliography:**

1. *PIB Release: Cabinet Committee on Economic Affairs dated 17 May, 2017.*
2. *The Pioneer dated 18 May, 2017.*
3. *Thirty Sixth Report of Standing Committee on Coal and Steel dated January,2018.*
4. *Emkay-India Equity Research on Power dated May 18, 2017.*
5. *The Financial Express dated 6 May,2016.*
6. *Business standard dated May 18, 2017.*
7. *Monthly Policy Review-PRS Legislative Research dated May 2017.*