APP Comments on 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 dated 21.08.2019

S.No.	Existing Clause	Modified Clause/ Comments/ Suggestions
1	**Clause No. B(iv)** **Periodicity of Auctions:** Auctions for coal linkage under this methodology shall be carried out at frequent intervals at least twice a year, to cater to the dynamic requirements and demand variations in short term and day-ahead markets.	The periodicity of auctions may be done quarterly instead of twice in a year, so that generators can book coal based on short term contracts bagged or the actual seasonal demand, rather than on speculation. Further, it is suggested that CIL (subsidiary-wise) & SCCL publish in advance, an auction calendar for the whole year, for sale of coal to generators along-with the tentative quantity to be offered under rail/road mode. This will help the generators to plan to meet their requirements from the most advantageous/economic source of coal. Therefore, the clause may be modified as below: *Auctions for coal linkage under this methodology shall be carried out at frequent intervals at least* ~~***twice a year***~~ ***every quarter****, to cater to the dynamic requirements and demand variations in short term and day-ahead markets.* ***Also, a fixed Annual Calendar to be provided to carried out Auction under this methodology well in advance.***
2	**Clause B(v)** **Identification of coal for auction:** Coal Companies (CIL/SCCL) shall earmark coal from Area or Mine within a subsidiary, in advance which may be allocated for use as per this methodology. Coal companies shall initiate auction of coal linkages specifying quantum of coal available, quality of coal (GCV/ Grade), source of coal, period	A bottom up approach is needed to firm up the coal demand and supply for various locations. CIL/subsidiaries can seek interest from generators for supply of coal – quantum and duration of supply. There may be participants in one particular region with different requirement of duration. Eg, buyer A may want for coal for 6 months and buyer B for 1 year and therefore they will have a different risk assessment and willingness to pay premium.

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	for which such coal shall be made available and with schedule to start supply of coal.	Such differences need to be addressed at the time of demand aggregation by the coal companies and the contract for highest demand duration of up to 1 year should be initiated. Therefore, the clause may be modified as below: *Coal Companies (CIL/SCCL), **based on the demand assessment of generators,** shall earmark coal from Area or Mine within a subsidiary, in advance which may be allocated for use as per this methodology.* *Coal companies shall initiate auction of coal linkages specifying quantum of coal available, quality of coal (GCV/ Grade), source of coal, period for which such coal shall be made available and with schedule ~~**to start**~~ **for** supply of coal.*
3	**Clause B(vi)** **Minimum quantity of coal linkage for auction** The quantity of coal linkage for auction should be corresponding to the duration for which coal is offered at the rate of atleast 2 MTPA which corresponds to running of a 500 MW unit.	The intent behind this clause is not very clear. Does this mean that the overall auction size will be at least sufficient for 500 MW or does this mean that 500 MW is the minimum bid size for a generator to participate. Restriction of bid size to 500 MW will put a number of generators at severe disadvantage as there are large number of IPPs with partial linkage. Such IPPs with partial linkage may have capacity of less than 500 MW without linkage and should be eligible to participate in the bids. In case the intent of this clause is to specify the minimum bid size for a participating generator, then the clause may be modified as below: *The quantity of coal linkage for auction should be corresponding to the duration for which coal is offered at the rate of atleast **0.5 MTPA** which corresponds to running of a **100 MW** unit.*

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4	**Clause B(vii)** **Duration of coal Linkage:** CIL/SCCL may grant future coal linkages to power producers/IPPs without PPAs that are either commissioned or to be commissioned. Coal linkage shall correspond to the consumption of coal by the power plant for its running for a period of minimum 3 months up to a maximum of 1 year. **Clause No. B(viii)** **Allocation of Coal Linkage:** The coal linkage shall be given under Para B(iii) of SHAKTI Policy issued by the Ministry of Coal dated 22.05.2017 for the quantum of power for which capacity has already been commissioned, under commissioning and such capacity does not have any Power Purchase Agreements.	As the CCEA approval for B(viii)(a) caters to short term requirement of coal and is intended as a relief measure for stressed power plants, the methodology should be applicable for commissioned power plants only. Further, as per experience, the commissioning of thermal plants may get inordinately delayed and any coal booked by non-commissioned plants may actually never be utilized if the commissioning is delayed. Therefore, this clause may be modified as below: Clause B(vii) *CIL/SCCL may grant future coal linkages to power producers/IPPs without PPAs that are* ~~***either***~~ *commissioned* ~~***or to be commissioned.***~~ *Coal linkage shall correspond to the consumption of coal by the power plant for its running for a period of minimum 3 months up to a maximum of 1 year.* *Clause No. B(viii)* *The coal linkage shall be given under Para B(iii) of SHAKTI Policy issued by the Ministry of Coal dated 22.05.2017 for the quantum of power for which capacity has already been commissioned,* ~~***under commissioning***~~ *and such capacity does not have any Power Purchase Agreements.*
5	**Clause No. B (ix)** **Eligibility of Power Plants for participation in Auctions:** All such power plants which do not have Power Purchase Agreements (PPAs), shall be allowed to participate for auction of Coal linkage for short term period (maximum upto one year) with conditions specified in this methodology.	As explained above, only plants without PPAs which have achieved COD may be eligible to participate in the auction for the corresponding untied capacity of the plant. Further, the methodology may specify an exit route in case a generator allotted coal in the short term auction secures a long term/medium term PPA during the FSA execution period. In such an event, the coal allocated for short term may be allowed to be utilized for fulfilling the obligations of the long term/medium term PPA or the coal allocated maybe surrendered by the generators without any penalty.

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S.No.	Existing Clause	Modified Clause/ Comments/ Suggestions
	Clause No. B (x) (x) Methodology for Bidding: **….**…..The methodology for bidding of linkages shall be similar to the bidding methodology in the policy on auction of linkages of Non-Regulated Sector dated 15.02.2016….	The 15.02.2016 methodology has provision of 105 Rs/ton as EMD to be paid in RTGS. The same may be relaxed to be provided by way of valid Bank Guarantee. The Cash will be locked up unnecessarily and BG will help in optimizing the cashflows for generating companies.
6	**Clause No. B(xi)** **FSA/LOA:** In case of the commissioned capacities, FSA for supply of coal for sale of power in short term or power exchange shall be signed with the successful bidders after completion of the auction process.	Execution of FSA is a time consuming process. Since, this is a short term arrangement, it may be more prudent and practical to adopt the methodology similar to Special Forward E auction.
7	**Clause No. B(xi)** **FSA/LOA:** In case of the commissioned capacities, FSA for supply of coal for sale of power in short term or power exchange shall be signed with the successful bidders after completion of the auction process. In case of others, a Letter of Assurance (LoA) may be issued by CIL/SCCL to the successful bidder and FSA shall be signed after commissioning of the unit.	As the CCEA approval for B(viii)(a) caters to short term requirement of coal and is intended as a relief measure for stressed power plants, the methodology should be applicable for commissioned power plants only. Therefore the modified clause applicable for commissioned power plants only is as below: **Clause No. B(xi)** *In case of the commissioned capacities, ~~**FSA**~~ agreement for supply of coal for sale of power in short term or power exchange shall be signed with the successful bidders after completion of the auction process~~**. In case of others, a Letter of Assurance (LoA) may be issued by CIL/SCCL to the successful bidder and FSA shall be signed after commissioning of the unit.**~~*
8	**Clause No. B(xii)** **Drawal of Coal:** Coal supply should be on regular basis as per the schedule mutually agreed between the coal	The short-term sale of power is uncertain. So, the generators may be allowed the flexibility to lift 25% to 200% of the average monthly quota during execution. The

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	company and the power plant. In case of any shortfall in supply of coal from the coal company to power plant, the coal company shall supply the balance quantity of coal in the next two months from the last date of initial delivery period. Generating company shall ensure that the coal supplied is fully used for sale of electricity in short term and the power exchange within one month from the last date of extended delivery period by the coal company. The generating station shall furnish the monthly generation statements showing the actual sale of power against short term contracts or in Power Exchanges using coal supplied as per this methodology.	exact quantity to be lifted may be allowed to be specified by the generators by the 21st of the preceding month. To illustrate with an example: if a generator has secured 1,20,000 MT of coal over a period of 12 months in the auction, then the average monthly allocation is 10,000 MT. The generator may be allowed to lift minimum 2500 MT and maximum 20000 MT in any month subject to a cumulative total of 1,20,000 MT. Further, more clarity is required on the following aspects: • Who is the entity responsible for verifying the sale of power through coal provided under this policy? Methodology for accounting of such power sale under short term PPA or Power Exchange to be defined. • In case of grade slippage, who will be the responsible party to bear such cost and how coal accounting will be done? • In case of any shortfall in supply of Coal even after the extended delivery period, what will be the penalty for Coal Company?
9	**Other Comments**	Since this supply period will be up to 1 year, it prudent to keep it through rail mode. Further, there are various issues in road mode like coal quality, loss of coal and loss of GCV. Third party sampling and grade adjustments are more complicated and time consuming in case of road mode. The preference for rakes from CIL and Railways should be the same or at par with long term linkage. There should not be any discrimination. However, as an option of last resort, road mode may also be considered if rail mode is not available.

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10	**Other Comments**	The draft methodology only addresses the methodology for allocation of coal linkage under B(iii) of Shakti policy. The methodology may also include providing linkage under B(iv) of Shakti policy as recommended by the amended SHAKTI policy, so that fresh available linkages with coal at notified price for power sector, may be offered to generators by States/Discoms for short term sale of power.
11	**Other Comments**	With reference to the Report of the High Level Empowered Committee (HLEC) constituted on 29th July 2018 to address the issues of Stressed Thermal Power Projects, the report mentions that: *"At present, many coal based plants have FSAs/LOAs but do not have medium term/long term PPAs. In the absence of long/medium term PPAs, these plants are not able to operate because linkage coal cannot be used against short term PPAs."* From the opening paragraph of this section, it is clear that the intent of the HLEC's recommendation was focused on existing linkage holders with FSAs/LOAs who were unable to access their coal linkage due to absence of long/medium term PPAs. It may be recalled that a similar relaxation was recently accorded for projects with FSAs/LOAs but without long term PPAs – they were allowed to utilize their coal linkages against medium term PPAs. The HLEC recommendation of allowing usage of linkage coal against short term PPAs or power sale on the Day Ahead Market is a further step towards liberalizing the restrictive coal allocation framework. However, it appears that by oversight, on this matter of usage of linkage coal for short term sale of power, there is some difference between the Cabinet approval given on 7th March 2019 and the original intent of the HLEC. In light of the above, we request MoP to initiate suitable action to also allow existing linkage holders to utilize their linkage coal for power to be sold in short term markets through DEEP portal/power exchanges.