

Note on procedural and operational issues with auctions under SHAKTI Policy

A. Issues with SHAKTI B(viii)(a) auctions (for grant of short term linkages for sale of power in short term market)

1. Timelines for coal supply & utilization

Ministry of Power issued revised methodology & procedure for allocation of coal under Para B(viii)(a) on 6th April 2022 and 25th May 2022 (superseding earlier notifications). Vide these notifications, MoP had revised the timelines for coal supply, utilization and certification as follows:

Auction window	Lifting period from the date of FSA	Utilization period from date of FSA	Issuing Coal Utilization Certificate from date of FSA
3 months	3 months	9 months (this was 6.5 months as per the earlier methodology)	10 months
6 months	6 months	12 months	13 months
12 months	12 months	18 months	19 months

However, while signing FSA with the successful bidders, CIL & its subsidiaries had followed the earlier guidelines of 2nd Dec 2019 only which restricted the coal utilization period to 6.5 months only from the date of FSA. This has resulted in under-utilization of coal as well as delay in submission of utilization certificate culminating to risk of bank guarantee forfeiture on IPP without no fault of theirs.

Suggestion: It is suggested that CIL & its coal subsidiaries must adhere to MoP's Revised Guidelines dated 6th April 2022 while signing the FSA with the successful bidders and

this must be effective retrospectively for all tranches executed post the date of notification.

2. Difficulties with complying with utilization period under Road/RCR mode

CIL has conducted 14 Tranches of 3-month window auctions under SHAKTI B(viii)(a) till date. In these auctions, the coal procurers (bidders) often face difficulties/hurdles in lifting the full quantum of coal both through Rail & Road mode within the specified 3-month timelines due to railway rakes unavailability.

For rail mode, CIL has now extended the utilization period by considering the commencement of utilization period from the supply of last rake to the coal procurer's site.

However, in case of coal booked in large quantity under road mode, the bidders (coal procurers) face several hurdles in transporting the coal to their site – operational hurdles in loading, transit and unloading, environmental hazards, jurisdictional constraints while movement through various districts & states, deteriorated road conditions due to rains etc. To avoid such hurdles & delay in receipts, the bidders (coal procurers) with prior intimation to Coal Subsidiaries, often lift the coal booked under road mode to nearest sidings (Rail-cum-Road mode) to further transport to their plant sites. Consequently, Generators (coal procurers) fall under mercy of Railway on availability and allotment of rakes which causes delay in receipt of coal at plant sites leading to risk of BG forfeiture with no fault of theirs.

Suggestion:

- a. Coal offer should be made by CIL to the extent of 80% through rakes**
- b. It is requested that provisions may be put in place for extension of supply period for coal supply through RCR mode till the supply of last allocated rake (in line with provisions for Rail mode) and this may be made effective from the date of issuance of last Revised Methodology for Allocation of Coal as per provisions of Para B(viii) of SHAKTI Policy as notified by Ministry of Power on 6th April 2022. This may be accordingly advised to Ministry of Coal.**

3. Inadequate offer of Coal in Shakti B(viii) (a) Auction

The quantity of coal offered by CIL under SHAKTI B(viii)(a) auctions is usually around 50% of the demand estimated by CEA. Details of the last few Tranches are as follows:

Tranche	Eligible Qty (MeT)	Qty offered (MeT)	% Offered Qty
T-9	11.70	6.2	53%
T-10	12.30	4.1	33%
T-11	11.70	6.0	51%
T-12	10.70	5.4	50%
T-13	7.60	5.0	66%
T-14	8.12	5.5	68%
T-15	13.40	6.6	49%
Total	75.52	38.7	51%

Further maximum coal offered is through road mode and the quantum of coal offered through rail mode is much lower.

The linkage auctions under SHAKTI B(viii)(a) were designed to help the stressed power plants without PPA by giving them access to coal for sale through the short term markets. However due to such low offer of coal quantity, there is a huge gap in demand & supply which results in high premiums in the auction, thereby significantly affecting the viability of the SHAKTI scheme.

Suggestion: The quantity of coal offered under each auction should be increased to at least 80% of the demand and offer through rail mode should be significantly increased.

4. **Skewed allocation of coal for SHAKTI B(viii)(a) auctions – need to increase offer from SECL and MCL mines**

Many of the IPPs with untied capacities (around 75% out of the 9000 MW plants eligible under B(viii)(a)) are located in the SECL and MCL belt. Considering this fact, highest allocation of coal should have gone to SECL & MCL. Instead, majority of the coal sources are from BCCL, ECL & CCL where hardly any IPPs exist. SECL hardly offers any coal from its Korba area mines (Gevra, Kusmunda, Dipka) under B(viii)(a) auctions but on the other hand, offers >10 lakh mt of coal from these mines in the single window mode agnostic (SWMA).

In FY 23-24 till August, SECL has offered 5.1 MT coal from the Korba area under SWMA whereas the quantity offered under Tranche 14 & 15 under SHAKTI B(viii)(a) has been negligible (1 lac tonnes).

Suggestion: Ensuring adequate coal availability in SHAKTI B(viii)(a) tranches from SECL & MCL area mines will reduce the generation cost of Gencos and consequently consumers will get uninterrupted supply of power at a reasonable price.

5. **Improving coal supply visibility under the B(viii)(a) auctions**

Based on representations made by the industry regarding limited coal supply visibility and lifting delays within the original 3 month window period under the Para B(viii)(a) auctions, the Hon'ble Power Minister had taken a decision to introduce two new windows (6 months and 12 months) under the B(viii)(a) auctions. This was communicated by MoP to MoC via OM issued on 31.08.2021. This was again discussed during a meeting chaired by Secretary (Power) on 22.09.2021 wherein representatives from MoC, CEA and CIL were present. During this meeting, Secretary (Power) concluded that the B(viii)(a) auctions should be conducted for 3 separate windows (3 months, 6 months and one year) and MoC stated that policy-wise they had no objection. However, the auctions under SHAKTI B(viii)(a) are still continuing under the original 3-month window only and the 6 month and one year window are still yet to be introduced despite decision taken by the Hon'ble Minister.

Suggestions:

- a. To implement MoP's decision of conducting three, six and twelve month window auctions on monthly basis to make available sufficient coal for TPPs with untied capacities.**
- b. Further, CIL should provide an annual calendar for Shakti B(viii) (a) auctions (starting with for remaining period of FY 23-24) which would provide better visibility to IPPs for coal planning / sourcing.**

6. Reconciliation of coal utilization

Irrespective of the timelines for coal utilization under various tranches, the forfeiture of Bank Guarantee for unlifted coal (if any due to reasons beyond the procurer's control) should be subject to annual reconciliation (i.e. by completion of one year from FSA date) of coal utilization for the specified market sale. This will help to streamline the process.

7. Allowing Power Supply avenues under SHAKTI B(viii)(a) to TAM, RTM etc.

Presently power sale for the coal procured under Shakti B (viii) is only allowed through Deep & DAM portals. Since coal linkage auctions under SHAKTI B(viii)(a) are the only viable option for power plants without PPA to secure coal, expanding the scope of SHAKTI B(viii)(a) to allow usage of coal for all products on the power exchanges will enable power plants with untied capacities to generate more power and meet the high summer demand.

Suggestion – We understand that MoP has initiated the process of seeking amendment to SHAKTI policy to facilitate utilization of coal procured under Para B(viii)(a) for sale of power in any product in the power exchanges or through DEEP portal, in place of the current provision for sale of power only in DAM segment on the power exchanges & DEEP portal. It is requested that this may be expedited.

8. Timelines for returning Performance Security (BG)

As per Scheme document, Performance Security will be returned after submission of Utilization Certificate. However, there is no timelines for the same and there are significant delays in getting back the BG submitted against coal availed in the B(viii)(a) auctions.

Suggestion: Coal India may be advised to put in place definite timelines for return of Performance Security (BG).

9. Compressing of timelines under SHAKTI B(viii)(a) FSA

While Single Window Mode Agnostic (SWMA) and erstwhile SFEA auctions used to be held on a single day, the Shakti B(viii)(a) auctions take much longer to conclude (spread over a few weeks) due to clubbing of auction across all coal companies.

Suggestions:

- a. It is requested to advise all subsidiaries for online signing of Shakti B (viii) FSA. Presently only few subsidiaries are following this practice.**
- b. The process of returning bank guarantees is time-consuming going up to 6 months in many cases, while the auctions are conducted every quarter. It is requested to allow submission of single Bank Guarantee for the entire year with a suitable amount, which can be rolled forward from one auction to the other.**

B. Issues with SHAKTI B(iii) auctions (for grant of long term linkage to projects without valid PPA as on date of notification of SHAKTI Policy)

1. Delays in signing of FSA

In case of B(iii) auction, successful bidders having valid PPA often face delay in signing FSA and commencement in coal supply from coal subsidiaries. As an illustrative example, MB Power had participated in 4th Round of SHAKTI B(iii) auction held on 14-15th Feb 2023 and already had valid PPA on the date of auction. The table below outlines the delay faced by MB Power in commencement of coal supply under the 4th Round auctions:

	Activity	Date	Delay
1	PPA signed with HPPC	18th May 2022	
2	4th Round Auction of B(iii) Auction	14th -15th Feb 2023	
3	PPA submission to Coal Subsidiaries	28th Feb – 7th Mar 2023	Almost 10 days in grant of LoA by coal subsidiaries
4	FSA signed with SECL, NCL, CCL, MCL	20th-25th Mar 2023	Almost 15-20 days delay post submission of PPA
5	Commencement of Coal Supply	29th April – 2nd July 2023	1-5 months – 4 months delay post signing of FSA

The above is an illustrative example with actual facts. Similarly, many other IPPs have faced delays of almost 4-5 months of delay in coal supply from the date of submission of PPA for signing FSA with coal subsidiaries. This result in financial losses to IPPs procuring high-priced market coal to fulfil the PPA commitments in the intervening period.

Suggestions:

- a. The time between the submission of valid PPA and commencement of supply should be reduced to the minimum possible (7 days) for ease of doing business & B(viii)(a)**

coal should be allowed to be utilized for the intervening period for B(iii) successful bidders for the intervening period to fulfil their PPA commitments.

- b. Advise all coal subsidiaries for Online Signing of Shakti B (viii) FSA. Presently only few subsidiaries are following this practice.**

2. Norms for calculating ACQ quantum

Presently CIL is using CEA norms 2019 for fixing ACQ under long / medium term FSA's pertaining to Shakti B (III) linkage auctions which results in coal shortfall. It is requested to advise CIL to follow new CEA norms of 2021 for fixing ACQ under long / medium term FSA's pertaining to Shakti B (III) linkage auctions.

3. Supply of coal beyond ACQ to power plants which have secured coal under SHAKTI B(iii) Auction

Coal India's notice dated 14.02.2023 regarding supply of coal beyond the ACQ to Private Power utilities (IPPs) having FSA (Post 2009 FSAs and Shakti B(iii)/B(iv)/B(v) category) clearly states that IPPs under SHAKTI B(iii) category would be eligible for supply of coal beyond the ACQ amount. However, the Inter-Ministerial Committee (IMC) has taken a decision that coal shall not be supplied beyond ACQ in case of already concluded auctions under SHAKTI B(iii).

The SHAKTI B(iii) auctions are forward auctions for coal linkages for the plants without PPA (as on the date of notification of SHAKTI Policy). Plants which have been able to secure coal under already concluded SHAKTI B(iii) auctions and tie up their capacity under medium/long term PPAs on the basis of SHAKTI B(iii) coal will face a competitive disadvantage in case they are not provided additional coal for schedules beyond 85% PLF from the Procurers, as compared to plants under LoA/FSA (post-2009) regime.

As the SHAKTI B(iii) auctions are forward auctions where the bidders bid for price of coal and these auctions do not involve any discount to be given under existing PPAs (such as under

SHAKTI B(ii)), allowing the successful bidders under already concluded SHAKTI B(iii) bids to access additional coal beyond ACQ would not be to the detriment of any other bidders.

Suggestion: It is requested that Coal India may be allowed to supply coal beyond the ACQ to the successful bidders of both already concluded and future SHAKTI B(iii) auctions. This would help to maintain a level playing field in the competitive power landscape.

C. Issues with SHAKTI B(ii) auctions (for grant of long term linkage to projects with valid PPA as on date of notification of SHAKTI Policy)

1. Very high and unviable floor discount levels

Para B(ii) of the SHAKTI scheme states that - *“Bid Evaluation Criteria shall be the non-zero Levellised Value of the discount (applying a pre-notified discount rate) quoted by the bidders on the existing tariff for each year of the balance period of the PPA.”*

In accordance with the above criteria of non-zero discount, the floor level discount was kept at 1 paisa/kwh for the 1st round of auction under B(ii). It may be noted here that the SHAKTI policy never envisaged or stated that there would be differential floor discount levels for subsequent rounds of auctions under B(ii). However, the IMC put in place their own interpretation and decided to benchmark the floor discount levels for subsequent rounds to the highest discount offered in the previous round.

In the 5th round of auctions under SHAKTI B(ii), the floor discount was set at 12 p/kwh based on highest discount offered in the 4th round. Such a high floor discount level makes the sourcing of coal under Para B(ii) unviable and completely negates the intent of the SHAKTI Policy, which was to provide relief to stressed thermal power projects.

Suggestion: It is requested that the IMC may be advised to consider floor discount level for any subsequent round of auctions under Para B(ii) of SHAKTI Policy, as the weighted average discount level of all the earlier rounds instead of the highest discount discovered under the immediately preceding round.