

Cabinet approves Signing of Fuel Supply Agreement (FSA) with Letter of Assurance (LoA) holders of Thermal Power Plants (TPPs) - Fading Away of the existing LoA-FSA Regime and Introduction of a New More Transparent Coal Allocation Policy for Power Sector, 2017-SHAKTI (Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India)

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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 framework ensures that all projects with linkages are supplied coal as per their entitlement. This will ensure the rights of coal supplies for FSA holders and signing of FSA with LoA holders.

Allocation of linkages in future will be transparent and bidding based, barring some exceptions as per Tariff Policy. Future allocation/grant of linkages will be based on auction and/or tariff based bidding. It attempts to make optimal allocation of the vital natural resource across the power units.

The salient features of the SHAKTI are as follows:

- i. TPPs having LoA shall be eligible to sign FSA after ensuring that the plants are commissioned, respective milestones met, all specified conditions of the LoA fulfilled within specified timeframe and where nothing adverse is detected against the LoA holders and the TPPs are commissioned before 31.03.22.
- ii. TPPs, part of 78000 MW, that could not be commissioned by 31.03.15 shall now be eligible for coal drawal if the plants are commissioned before 31.03.22.
- iii. Actual coal supplies to all TPPs shall be to the extent of long term PPAs or medium term PPAs to be concluded in future.
- iv. Future coal linkages shall be granted as per the following provisions:
 - a) To Central and State Gencos, on recommendations of Ministry of Power (MoP).
 - b) Coal linkages shall be granted on auction basis for Independent Power producers (IPPs) with PPA based on domestic coal. The IPPs participating in auction will bid for discount on the existing tariff. The discount on tariff would be adjusted from the gross amount of bill at the time of billing.
 - c) The future coal linkages for supply of coal to IPPs without PPA shall be on the basis of auction where bidding for linkage shall be done over the Notified Price of Coal Company. The LoA shall be issued to the successful bidders and FSA signed after meeting the terms of LoA.
 - d) Linkages shall be earmarked to the States where any linkage quantity unutilized for two years shall lapse. States may indicate the earmarked linkages to the DISCOMs/SDAs, who may:
 - Undertake tariff based competitive bidding on long-term and medium-term PPAs and allot these linkages to the successful bidder; or
 - Assign these linkages to capacities that are covered under exceptions and proviso clauses of para 5.2 of the Tariff Policy dated 28.01.16.

- e) Power requirement of group of States can be aggregated and procurement of power on tariff based bidding shall be made by a designated agency. Coal linkages shall be earmarked for such agency.
- f) Linkages, for full normative quantity, shall be granted for setting up Ultra Mega Power Projects (UMPP).
- g) Coal linkages, for IPPs having PPA based on imported coal, shall be made available through a transparent bidding process.

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.

Background:

The coal supply to the TPPs has been made as per the provisions of the New Coal Distribution Policy (NCDP), 2007. Till 2010, CIL had issued LoA for approximately 1,08,000 MW capacity and no new LoAs were issued thereafter due to the prevailing scarcity scenario. The CCEA decision of 21.06.13 directed CIL to sign FSA 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 a fading 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.

Coal linkage to the power sector is governed by provisions of the NCDP, 2007. Under the NCDP, a system of issuance of LoA was introduced wherein requests for Linkage/LoA are forwarded to MoP for its recommendations. These recommendations are placed before the Standing Linkage Committee (SLCLT) which authorizes issue of LoA.

POLICY HIGHLIGHTS

I. Existing Regime

- FSA to be signed with the existing LoA holders
- Ø About 28,000 MW
- Ø Plants have to be commissioned within 31.03.2022
- Ø Respective milestones are met
- Ø All LoA conditions fulfilled in specified time frame
- Ø Nothing adverse is detected

- TPPs which are part of 78000 MW, to get coal if commissioned within 31.03.2022

- TPPs to get coal at existing rate (@75% of ACQ)

- Coal supply to increase on coal availability

II. New Regime (SHAKTI, 2017)

- State/Central Gencos & their JVs to get coal linkages as per MoP recommendations

- Coal Linkage on auction basis for IPPs:

Ø Having PPA based on Domestic Coal

- Bid for discount in existing tariff (paise/unit)
- A minimum discount in tariff to be determined
- Discount to be adjusted from gross amount at time of billing

Ø Without PPA

- Bid for linkages over CIL notified price
- PPA to be submitted within 2 years

Ø Having PPA based on Imported Coal

- Transparent bidding process of linkages
- Methodology to be formulated by MoC & MoP

- Future Medium Term PPAs also to be eligible for linkage coal

- Coal linkages for full normative quantity of UMPPs on tariff based competitive bidding

- Coal linkages to be earmarked to States for

Ø Tariff based competitive bidding for PPA; OR

Ø Grant to capacities covered under exceptions in Tariff Policy dated 28.01.16, namely,

- One time capacity addition of up to 100% of existing capacity
- Plant set up under a notified policy of State Government for investment promotion (maximum 35% can be procured by State Discom)

Ø State to decide from above two, in public interest and requirement

Ø Linkage quantity unutilised for 2 years to lapse

- Power requirement of group of States can be aggregated

Ø Linkage to agency designated by MoP/States

Ø Agency to undertake tariff based competitive bidding

III. Benefits of the Policy

- Coal available to all Power Plants in transparent and objective manner

- Auction to be made the basis of linkage allocations to IPPs; cheaper and affordable POWER FOR ALL

- The Stress on account of non-availability of linkages to Power Sector Projects shall be overcome. Good for the Infrastructure and banking Sector

- PPA holders to reduce tariff for linkage; Direct benefit of reduced tariff to Discom/consumers

