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Can imported coal save us this summer from power outages?

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From talking of Atma Nirbhar Bharat and reducing dependence on imported coal, India has taken a steep U-turn and asked all imported coal-based power units to run at full capacity and is pushing states to import coal to increase blending to supplement domestic coal.

Seriousness of the matter can be gauged from the fact that the government **invoked Section 11 of the Electricity Act**, which is reserved for “extraordinary circumstances” such as threat to security of the state, public order or natural calamity or such other circumstances.

These are extraordinary circumstances. Power demand in the country has gone up to all time highs driven by economic activities ramping up and unusually hot summers. But coal to run the power plants has remained constrained.

As many as 90 of the 150 domestic coal-fuelled units had critically low average stock as of May 7, which means they had less than 25 percent of their normal requirements, according to the Central Electricity Authority (CEA). The reasons— output constraints of Coal India Ltd, insufficient rail capacity to transport and in some cases payment related issues.

Ads by

Moneycontrol is doing a special series on the power crisis that has forced states to undertake power cuts, with fears that the situation may worsen if it goes unabated with some strong measures. The series has so far looked at **the payment crisis in the power sector**, the **recurring and deep rooted issues of the power distribution companies**, and how the **Indian Railways has struggled to keep up with coal production** in the country.

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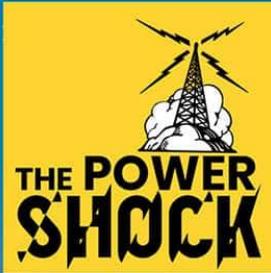


Coal-based electricity generation backbone of India's power sector; to stay this way for 2-3 decades...

This piece will look at the issues around imported coal and try to answer in simple words a tough question – can imported coal save us from power outages this summer?

Let's get up to speed.

On May 5, in a letter asking imported coal-based plants to scout for coal in the global market to run at full capacity, the ministry of power said, "The demand for power has gone up by almost 20 percent in energy terms. The supply of domestic coal has increased but the increase in supply is not sufficient to meet the increased demand for power. This is leading to load shedding in different areas. Because of the mismatch between the daily consumption of coal for power generation and the daily receipt of coal at the power plant, the stocks of coal at the power plant have been declining at a worrisome rate."



India is passing through a serious power crisis, as demand has soared but coal supply to power plants is not able to keep pace. It is not the first time, but this just may turn out to be one of our biggest power crises in recent years. At Moneycontrol, we will help you decode this as part of a special series - Power Shock. We will analyze the complexities of India's power scenario, look into the challenges that different stakeholders are facing, and what could be the possible solutions.

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Of the total 15 imported-coal based power plants in the country of a total capacity of around Rs 17,600 megawatt (MW), 10 have critically low coal. Almost 7,600 MW of this capacity is not running.

Story So Far

The power purchase agreements between the discoms and imported coal-based power generators do not allow for passing on the entire increase in international coal price. This has forced them to either shut the plants or run them at low capacity to avoid losses.

Power generators had signed power purchase agreements (PPAs) with states at a time when coal was trading around \$90 per tonne, but coal prices soared and generators asked the respective state-discoms to revisit the agreements to accommodate for the high raw material cost but they declined.

Sample this, three private players – Tata Power Company, Adani Power and Essar Power -- had entered into PPA with Gujarat Urja Vikas Nigam Ltd (GUVNL) for supplying power to the state of Gujarat. But as COVID disrupted the international supply chain and coal prices soared to \$180

per tonne, these companies found it commercially unviable to continue to produce power and supply at the agreed PPA rates. GUVNL, on the other hand, instead of allowing higher tariff to pass on the burden of coal prices, went on to purchase power from open exchanges for Rs 16 to Rs 18 per unit. But in October-November 2021, when the country faced acute power shortage, GUVNL revised tariff with some of the power producers.

“Last year after the country faced power outages, the ministry has given instructions to all the discoms and state governments to give complete coal pass-through to all the players operating on imported coal and get it approved by regulators later. States were dragging their feet and once the power situation improved, they did not even consider it until it got worse again this year. Had they acted then, things would have been easier now,” said a senior power sector official.

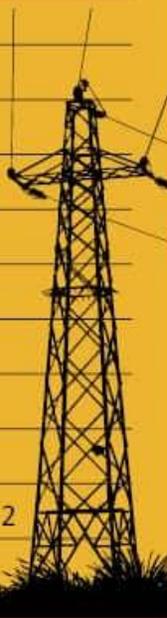
Centre Proposes, State Disposes

Electricity is a concurrent subject and the responsibility of distribution rests with states. So while the Centre may announce measures, they don't come into effect till the states approve it. The states work with their hands tied, due to the power financial health of the discoms. Discoms already owe power generators over Rs 1.1 lakh crore, and are themselves burdened by accumulated losses of over Rs 5 lakh crore and regulatory assets, which represent costs that are deferred for recovery through future tariff revisions, worth Rs 1.25 lakh crore. Understandably, they don't want to pay more for power.

INDIA TURNS TO IMPORTED COAL AMID LOOMING POWER CRISIS

Imported Coal-based Plants That Are Either Idle/Running Below Full Capacity Totalling 7,600 MW

- 1 Coastal Gujarat Power Ltd (a subsidiary of Tata Power Company)
- 2 Adani Power Mundra (Ph I/II)
- 3 Adani Power Mundra (Ph III)
- 4 Essar Power Gujarat
- 5 JSW Ratnagiri
- 6 Tata Power Trombay
- 7 GSECL Sikka
- 8 IL&FS Tamilnadu
- 9 Coastal Energen
- 10 Udupi Power
- 11 Simhapuri Energy
- 12 Meenakshi Energy
- 13 JSW Toranagallu - 1&2



Centre On Imported Coal For Power Projects

- Asked all imported coal-based power units to run at full capacity by invoking Section 11 of the Electricity Act
- Discoms may pay gencos as per the benchmark rate worked out by a committee or a mutually decided rate to allow coal price pass through
- Generation companies can sell power on exchanges if discom doesn't agree to a mutual rate, declines to buy power or make weekly payment

Coal Price Rises

Indonesian
4,200 kcal/kg GAR
coal: Price rose to \$103.95/mt on March 30, 2022, from \$45.80/mt FOB April 1, 2021

South African
5,500 kcal/kg NAR
coal: Price rose to \$225.05/mt on March 30, 2022, from \$71.35/mt FOB April 1, 2021

Australian
5,500 kcal/kg NAR
coal: Price rose to \$200/mt FOB on March 30, 2022 from \$59.30/mt FOB



Now as there is another power crisis looming in the country, the Centre is yet again nudging states and power generation companies to expedite coal imports. On May 5, the Union Minister of Power and New and Renewable Energy reviewed the status of import of coal for blending in the thermal power plants with the states. The ministry advised to place orders for import of coal for blending purposes so that the additional coal reaches power plants from the month of May 2022 itself.

The ministry said that according to data from CEA, states of Tamil Nadu and Maharashtra have placed orders for the import of coal, while Punjab and Gujarat are in advanced stage of finalisation of the tenders. The ministry had said that other states need to put extra efforts to import the coal for blending at their power plants in time. Rajasthan and Madhya Pradesh are in the process of issuing the tenders. Haryana, Uttar Pradesh, West Bengal, Odisha and Jharkhand have not yet issued tenders or taken any significant actions for the import of coal and were advised to take necessary actions to ensure coal supply to their power plants.

Uphill Task

Ahead of the onset of summer, in the 11 months between April 2021 to February 2022, imported coal volumes for thermal power plants were at 24.2 million tonnes (MT), down 43 per cent on year.

“The power utilities dispatch has grown by 18.15% to 61.81 MT during April 2022 as compared to 52.32 MT in April 2020. Fall in import prices have been observed since the end of October 2021, but import prices are still at high levels to discourage coal import,” the coal ministry said in its ‘Monthly Coal Statistics for April 2022’ report.

According to a Reuters report on May 4, the central government has asked state government-owned utilities to import over 22 million tonnes of coal and private power plants to import 15.94 million tonnes. Of the total, the power ministry has said that delivery of at least 50%

should be before June-end. State government-run utilities have not imported for blending more than 7.1 million tonnes and private companies not more than 13.1 million tonnes since at least the year ending March 2017, the news agency said.



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The coal stock has to be built ahead of the rain as mines get flooded and domestic output is hurt and transport of coal becomes difficult too.

So India after months of low imports faces the uphill task of increasing coal imports at a time when the prices are high and other countries are also in the race to secure coal supplies as industrial activities pick up after the COVID impact amid disruption in coal supply due to Russia's attack on Ukraine and its aftermath.

There's many a slip twixt cup and lip

Power sector officials point out that while the government is pushing for more imports and that too fast, the process itself will take time.

Naveen Munjal, director- business development and commercial (conventional), Apraava Energy, said, "Import of coal takes a minimum of six weeks after they have issued the order after closing bids, unless there are traders who are sitting on stock. They have initially said 4% blending and they have increased it to 10%, which may be increased more. But how quickly the states move ahead is what remains to be seen."

On April 19, Moneycontrol had exclusively reported that **Maharashtra will start importing coal** to use it for blending with domestic coal, but the state can do so now only because it had invited bids months ago last year.



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Tamil Nadu, on the other hand, needs to import coal to offset the shortage, especially in the summer months. Typically, the last date for issuing tenders for the import of coal from Indonesia is in February every year, sometimes it is done as early as in the November of previous year. But this year, the cash-strapped and debt-laden **Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) issued the tender only on March 26.**

Even once the coal import is tied up, it faces logistical challenges of cargo ship availability and price for international transport and then railway transport in India. While most power plants run on imported coal, Indian Railways does transport imported coal to power plants.

And then there is the payment issue

The new directive from the ministry of power states that all imported coal-based power plants shall operate and generate power to their full capacity, and in case of stressed assets admitted to the National Company Law Tribunal (NCLT), the resolution professional shall take steps to make it functional.

To facilitate this, a committee constituted by the ministry which will include representatives of the ministry, CEA and Central Electricity Regulatory Commission, will work out the rate at which power will be supplied to the PPA holder to allow pass-through of the higher cost of imported coal. This committee will ensure that benchmark rates of such imported coal-based power will

be based on prudent costs, including the present coal price, shipping costs, operation and maintenance cost, and a fair margin.

“Will the states accept the Centre and central regulatory body’s tariff revision? This has the potential of opening a Pandora’s box as states could challenge it,” a senior official from a company which has imported-coal based units said.

The Centre has also said that if the imported-coal based generating companies have surplus after supplying, they can sell the electricity on the power exchanges. But here’s another catch, the ministry has also put a cap on the short term power sold on exchanges at Rs 12 a unit.

“If there is profiteering by the power producer, the government should put the cap. But that is not the case right now because the fuel cost is already more than Rs 10 a unit for both domestic and well as imported coal. If the coal prices would have been less than \$100, there was a good case to put a cap on the power price,” Prashant Jain, Joint Managing Director and Chief Executive Officer of JSW Energy Ltd told Moneycontrol in an interview on May 4.

“The way to solve this power crisis is to have enough generation. Enough generation will happen if you remove the cap on power sale. Then people will import coal, produce power and supply,” he said.