SHAKTI

June 1, 2020

Why is it news?

- Recently, cabinet brought new directives with respect to this scheme

What is it?

- It aimed to phase out the present Letter of Assurance and Fuel Supply Agreement (FSA)-based regime, and instead introduce a more transparent and competitive coal allocation policy.

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 the Ministry of Power for its recommendations.
- These recommendations are placed before the Standing Linkage Committee (SLC) (Long Term) which authorizes the 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:

- It is an auction-based coal linkage policy.
- 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.
- The allocation of linkages for the power sector shall be based on auction of linkages or through Power Purchase Agreement (PPA) based on competitive bidding of tariffs. Exception :
- State and the Central Power Generating companies – done by Ministry of Power
- exceptions provided in Tariff Policy, 2016
- Coal drawl will be permitted against valid Long Term Power Purchase Agreements and to be concluded Medium Term Power Purchase Agreements.
- 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.
- 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; 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.
- 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

- 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

Updates

- The coal ministry has amended the eligibility norms for the Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India (Shakti scheme), effectively allowing more power generating companies to procure the fuel through this route.

- According to the new directive, power plants without power purchase agreements (PPAs) can apply for coal linkages, provided electricity generated from this coal is sold through spot power exchanges or through the government’s ‘DEEP’ portal, where bidding is conducted for bilateral short-term electricity supply.
- The original version of the scheme allowed coal supply only to power generation capacities with long-term and mid-term PPAs.
- The coal ministry has also allowed power plants which had won coal linkages in the first round of auctions under the scheme in September 2017 to participate in the upcoming Shakti bidding.
- Bidders quoting the highest discount to its existing tariffs were allowed to choose their preferred source of coal supply from eight available sources.