

Report Summary

High Level Empowered Committee to Address the issues of Stressed Thermal Power Projects

- The High Level Empowered Committee (Chair: Mr. P.K.Sinha, Cabinet Secretary) submitted its report to 'Address the issues of Stressed Thermal Power Projects' on November 12, 2018. Coal based power plants have been unable to service their debts due to various reasons such as coal supply issues, inability of discoms to pay generators, regulatory issues, inability of promoters to infuse equity, and poor implementation. The Department of Financial Services had provided a list of 34 coal based thermal power projects that had been declared stressed by the Ministry of Power in March 2017. Subsequently, the central government constituted a High Level Empowered Committee (HLEC) to address the issues of stressed thermal power projects on July 29, 2018. Key observations and recommendations of the Committee include:
- **Coal allocation/supply:** The HLEC observed that while several coal based power plants have Fuel Supply Agreements (agreement between coal company and power plant, also known as coal linkage), they do not have medium term/long term power purchase agreements (or PPAs, agreement between power plant and discom). In the absence of long/medium term PPAs, these plants are not able to operate because such linkage coal cannot be used against short term PPAs. The Committee recommended that such linkage coal may be allowed to be used against short term PPAs. Further, power may be sold through the day ahead market (electricity trading market), following a transparent bidding process. This would also help increase the supply of power, and reduce prices.
- **Delayed payments by discoms:** The HLEC also noted that one of the major reasons for stress is the delay in payments by the discoms to the power plants. This adversely affects the latter's liquidity and ability to service their debt and operate the plant. Currently the power plants are unable to cancel PPAs with such discoms, or sell power on the exchange or through short term PPAs. The HLEC recommended that a power plant should be able to terminate a PPA in case of default in payment from the discoms. Further, they should have the facility to use linkage coal for short-term PPAs for a period of maximum two years, or until they find another buyer, whichever is earlier.
- **Availability of PPAs:** One of the other key reasons why substantial capacity is stressed is because there are limited number of long/medium term PPAs available. Further, there have been very few bids by the discoms for procurement of power in long/medium term, because of the fixed costs associated with them. The new policy for allocation of coal linkage (SHAKTI), provides for aggregation of demand by a nodal agency (Power Finance Corporation) for more than one State. The Committee recommended that the SHAKTI policy may be modified to enable the nodal agency to invite bids for procurement of bulk power for medium term (three to five years). The agency may then offer the procured power to the discoms for signing PPAs.
- **Linkage at notified prices:** Currently, coal linkages are granted through the process of bidding as per the SHAKTI policy. The generator has to first bid for the linkage and then bid for the procurement of PPA. This exposes the generator to a lot of uncertainty and risk. Further, the economic and market conditions at the time of bidding for linkage and at the time of bidding for PPA may be quite different. The HLEC recommended that for incremental coal production, the generator should be required to bid only once for the procurement of PPA. The linkage may be granted at the notified price without any further bidding.
- **Retiring old and inefficient plants:** In the last six years, 110 GW of generation capacity has been added, of which 100 GW is from coal based plants. However, the demand has not increased at the same pace. Consequently, available capacity is more than the demand and peak power shortage has reduced from 8.7% in 2012-13 to 0.7% in 2017-18. Therefore, large capacity is lying underutilised. Further, there are several old plants which do not comply with environmental norms. The coal consumption at these plants is also higher as compared to the new and more efficient plants. The HLEC recommended that the old and polluting plants may be considered for retirement, keeping the power demand in mind.
- **Regulatory issues:** The HLEC noted that delays in payments by discoms hurts the viability of generators. The regulator must ensure the sustainable operation of the power sector. The HLEC recommended that the Ministry of Power may advise the regulators to monitor payments by discoms and frame appropriate regulations. The HLEC also noted that regulators often insist that the generators forego the late payment surcharge on the delayed payments. This further affects the viability of generators. It recommended that the Ministry may engage with the regulators to ensure that the late payment surcharge is mandatorily paid.

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