| PUBLICATION: | Business Today Pg. 47, 48 | DATE: | July 22nd,2012 |
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# COAL SWEAT

## The coal crisis could upend India's power story.

By G. SEETHARAMAN

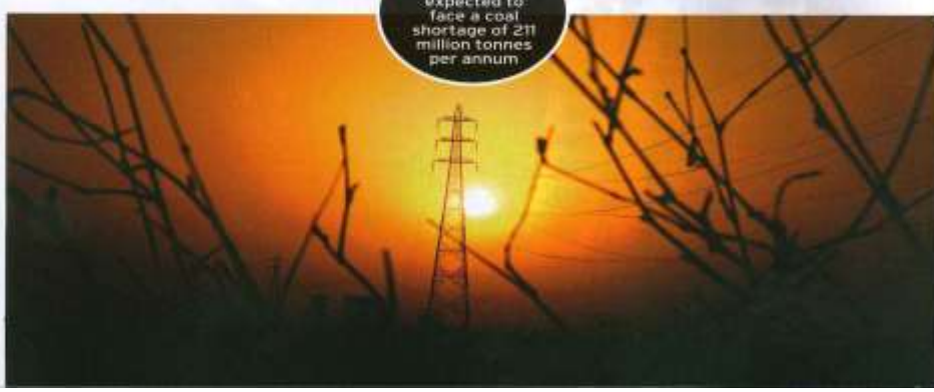
China Light & Power India's (CLP) plant in Jhajjar, Haryana, is a rarity as far as large projects go in India. Reason: it was commissioned ahead of schedule earlier this year. Since then, however, the project has not had much to boast about. With no assured supply of feedstock, it has been operating well below its capacity of 1,320 MW. Things began to look up only on June 7, when Coal India (CIL) agreed to supply it coal for 20 years. The plant's two units – of 660 MW each – require 20,000 tonnes of coal every day. Before the agreement was inked, CLP was receiving only sporadic supplies from CIL. At one point, says Rajiv Mishra, Managing Director of CLP, there was no coal for Unit II and only a few days' worth for Unit I. CLP, the largest foreign player in India, is not the only developer facing supply problems. Similar situations prevail at power plants across India, with most operating well below capacity.

A coal-fired project can get supplies in three ways: through a captive mine; by importing coal; or through a fuel supply agreement (FSA) with CIL, Singareni Collieries or other government-owned entities.

India added nearly 58,000 MW of power capacity in the last five years and plans to add another 90,000 MW in the next five. Nearly two-thirds of that will be coal-based. But the precarious coal scenario could put paid to such ambitions. Annual coal demand, four-fifths of which is met by CIL, is expected to rise 40 per cent to 980 million tonnes by 2017, when production will trail demand by a fourth. CIL's production suffered last financial year due to excessive rainfall, delays in forest and environmental clearances, as well as land acquisition and rehabilitation issues.

State-owned NTPC, India's biggest power producer with 37,514 MW of capacity, doubts it will be able to meet its target for the 2012-2017 period. "Our original plan was to be a 66,000 MW company by 2017. But due to (fuel) constraints we may

By 2014/15 the power sector is expected to face a coal shortage of 211 million tonnes per annum



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have to reduce this by about 11,000 MW," says a senior NTPC official. NTPC needs FSAs for eight units of 4,300 MW.

In January, and again the following month, power developers approached the Prime Minister's Office to get CIL to sign FSAs for 49 units. These were all commissioned between April 2009 and December 2011. The PMO instructed CIL to sign FSAs for all the plants. But, as of June 7, CIL has signed only 16 of those FSAs in addition to 11 for units to be commissioned by March 2015. The directive from the PMO noted that if the coal supplier's deliveries to power plants fell below 80 per cent of the contracted amount, it would have to pay 10 per cent of the cost of the shortfall to the developer as penalty. CIL has, however, cut the penalty to 0.01per cent, irking the developers, some of whom have refused to sign FSAs.

"A penalty of 0.01 per cent does not make any sense. They might as well not have it," says Isaac George, CFO and Director of GVK Power and Infrastructure, which has lakh crore) by not auctioning the 155 coal blocks it allotted to companies.

GVK Power has decided that it is better to buy coal mines overseas to fire coastal plants here. In September, GVK bought Australia's Hancock Coal for nearly ₹6,000 crore. Overall, India is expected to import 80 million tonnes of coal in 2012/13. But imported coal is not an alternative for projects conceptualised with domestic coal in mind, since it could cost as much as 33 per cent more. Projects that rely on imported coal, such as Tata Power's 4,000 MW ultra mega power project in Mundra, Gujarat, are in a quandary as coal prices have risen more than expected. The company has already signed long-term power purchase agreements with distribution companies (discoms). Tata Power, which won the Mundra bid by quoting a tariff of ₹2.27 per unit, has been demanding it be raised to over ₹3 per unit in the wake of changes in Indonesian regulations, which have that country's coal expensive.


| | 2010/11 | 2011/12 | 2012/13*** | 2013/14*** | 2014/15*** |
|---|---|---|---|---|---|
| INSTALLED THERMAL CAPACITY* | 93,918 | 1,12,022 | 1,30,022 | 1,45,022 | 1,55,022 |
| TOTAL COAL PRODUCTION** | 532 | 539 | 557 | 584 | 629 |
| AVAILABLE FOR POWER SECTOR** | 399 | 404 | 418 | 438 | 472 |
| REQUIRED BY POWER SECTOR** | 441 | 477 | 558 | 630 | 683 |

*In MW, as of March ** million tonnes per annum *** Estimates

Source: MF Global India Research

chosen to stay away from coal-fired projects that depend on fuel supply from the coal mining company. CIL is targeting an output of 464 million tonnes this financial year. A CIL official, requesting anonymity, says it will be able to supply the mandated 80 per cent as it is confident of achieving its production target this year.

Ashok Khurana, Director General, Association of Power Producers, says CIL's failure to sign FSAs could hurt 25,000 MW of capacity. "Another 30,000 MW are in advanced stages of commissioning," he adds. Developers have asked the government to allow private companies to take up mining. But the coal ministry is in no position to do that given the flak it has been getting in the aftermath of a preliminary report by the Comptroller and Auditor General (CAG) on coal block allocations. The report states that between 2004 and 2009, the government lost ₹10.7 trillion (one trillion equals one

Pramod Deo, Chairman of the Central Electricity Regulatory Commission (CERC), says that distribution utilities need not agree to a tariff hike for a project bagged in an auction. "But if both the developer and distribution utilities agree on a hike, CERC will hear them," he adds.

Bid documents for new projects need to be revised, says Arvind Mahajan, Partner and Head, Global Infrastructure, KPMG. "Discoms need to be reformed and tariffs need to go up. There can't be a free lunch for too long," he says. Rating agency Crisil puts the accumulated losses of state-owned discoms at the end of 2011/12 at ₹2 trillion.

While discom reforms are long overdue, the coal crisis has caught the government and power developers unawares. No power developer is questioning the potential of the Indian market, but a great deal of scepticism has crept in. The only way it can be dispelled is by assuring developers of a steady supply of coal over the long-term.