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F.No.FU-5/2003-IPC
Govt. of India
Ministry of Power

**GUIDELINES FOR ALLOCATION OF COAL BLOCKS/COAL LINKAGES FOR
POWER SECTOR**

1. Introducing competition in different segments of the electricity industry is one of the key features of the Electricity Act, 2003. Competition will lead to significant benefits to consumers through reduction in capital costs and also efficiency of operations. It will also facilitate the price to be determined competitively. Section 63 of the Act. envisages adoption of tariff by the Appropriate Commission if such tariff has been determined through transparent process of bidding in accordance with the guidelines issued by the Central Government. The National Electricity Policy provides for “*competition aimed at consumer benefits*” – competition to determine the price of power and facilitate supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates.
2. Tariff Policy notified on 06.01.2006, aims at ensuring availability of electricity to consumers at reasonable and competitive rates and promoting competition, efficiency in operations and improvement in quality of supply. The Tariff Policy further provides that “All future requirements of power should be procured competitively by distribution licensees except in cases of expansion of existing projects or where there is a State controlled/owned company as an identified developer.....”.
3. The Electricity Act also mandates non-discriminatory open access in transmission to generating companies, distribution licensees and consumers and also open access in distribution for consumers with loads above 1 MW. These provisions regarding non-discriminatory open access in transmission and distribution will facilitate the emergence of merchant power plants.
4. The Electricity Act., 2003 envisages bulk of the development of power plants through long term Power Purchase Agreements(PPAs) with tariff determination under Sec.63 & Sec.62. Section 62 of the Act also permits sale or purchase of electricity between a generating company and a licensee or between licensees for a period not exceeding one year. Consistent with the provision of the Act, “Guidelines for Determination of Tariff by Bidding

Process for procurement of power by Distribution Licensees” stipulates PPAs for periods exceeding one year. Short term requirements of power are to be met on the basis of mutual agreement between a generating company and a distribution licensee or between distribution licensees. National Electricity Policy also stipulates that about 15% of new generating capacities may be sold outside long term PPA.

5. With a view to developing the electricity market, it would be essential that while there are power projects which are developed on the basis of long-term Power Purchase Agreements (PPAs), lasting over project life cycle, under which the capacities developed are fully tied up with the procuring agencies, there are also capacities which are developed to cater to the needs of short-term nature. Competitive advantage of the electricity market would accrue to consumers only when a reasonable size of power generation is also available to be purchased on the basis of competitive tariff through trading or equivalent arrangements. Development of power projects by Central Public Sector Undertakings (CPSUs), State Public Sector Companies or State Electricity Boards (SEBs) and Independent Power Producers (IPPs) would require appropriate arrangements of fuels in the case of thermal power projects, and therefore, there is a need for a clear policy guideline on linkages of fuel (i.e. coal) or coal blocks to be developed as captive mines for the power plants. With a view to facilitate the process of allotment of coal blocks / coal linkages for thermal power projects, Ministry of Power has been issuing necessary communications from time to time. The communication dated 24th March, 2006 (F.No.FU-5/2003-IPC) provided for the following priority in the matter of coal blocks/coal linkage allocation.

- i. Projects being executed by the Central Sector/State Sector PSUs
- ii. Expansion of existing projects of the Central Sector/State Sector PSUs
- iii. IPP Projects which have been allowed tariff approval by the appropriate Regulatory Commission under Section 62 of Electricity Act, 2003 (grant of time extension for signing PPA)
- iv. Projects being developed through tariff based competitive bidding by the distribution utilities.
- v. Expansion of existing IPPs already supplying power to the grid.
- vi. Captive power projects supplying at least 25% capacity to the grid.
- vii. Other Captive Power Projects.
- viii. Any other category not covered by Sl.No.(i) to (vii)

6. Subsequently, another communication was issued on 17th July, 2006 which provided for allotment of coal blocks to facilitate development of power projects on tariff based competitive bidding. A clarification was sought for by some of the states whether this would also be applicable to distribution utilities in the joint/private sector. It is clarified that procurement of power on the basis of competitive bidding to be undertaken by distribution utilities would include both public sector and private sector distribution utilities.

7. Subsequently, the issue has been discussed in detail in Ministry of Coal, Planning Commission and PMO with particular reference to the need for setting up of Merchant Power Plants to facilitate development of electricity market. Unlike traditional utilities, Merchant Power Plants compete for customers and absorb the full market risk. There are no guarantees that they will have a minimum off-take of their output. They must respond to market needs. Typically the risk of a Merchant Power Plant is carried on the balance sheet of the promoter. Merchant power plants can provide the additional generating reserves that India needs now and will need in the future. They are a modern, market-based answer – at least in part – to energy challenges faced by the country.

8. Merchant power plants are a product of the restructuring of the electricity industry. In the past, utilities owned their own generating facilities or contracted with an independent power producer (IPP) to buy electrical output on a long-term basis. Merchant power plants fill different niches in the market; some provide steady supplies to a power grid, while others fire up only when demand is highest and meet peak loads. Merchant power plants operating competitively help assure that power is produced with efficiency and supplied to locations where it is needed most.

9. Considering the redundancies that are being provided in the grid to promote open access in transmission and open access in distribution in coming years, it would be reasonable to expect that merchant power plants each of capacities of 1,000 MW and below could be accommodated for being able to access transmission availability for wheeling of power to customers which are generally not pre-determined. By the year 2012, it is expected that inter-regional transmission capacity in the National Grid would rise to about 37,000 MW. Besides, intra-transmission capacities are also being augmented with required redundancies to take care of such short-term needs of transmission of power across the country from one

region to another and within the region. Merchant Power Plants would be expected to have dedicated lines upto the nearest regional/national grid system.

10. Keeping the above background in view, the following approach may be followed in respect of coal linkage and coal block allotment to power plants. This would supersede all the previous communications issued by the Ministry of Power in regard to coal linkage / allotment of coal blocks:

- (i) Projects proposed to be executed by Central Public Sector Undertakings / organizations and state public sector organizations (namely, generating companies, Electricity Boards etc) may be accorded the first priority. Within this group expansion projects will have higher priority in view of their shorter gestation.
- (ii) Joint Venture projects, namely, joint venture between Central Sector and State Sector or between the two states, or Central/State with private sector with substantial say in the matter of management of the Joint Venture by the public sector, may be accorded next priority.
- (iii) IPP projects, which have been allowed tariff approval by the appropriate tariff commission under Section 62 of the Electricity Act, 2003.
- (iv) Projects being developed on the basis of competitive bidding for tariff under Section 63 of the Electricity Act. This would include Ultra Mega Projects and projects being developed on similar lines by the distribution companies/State Electricity Boards or agencies authorized by them to be the Nodal Agency for development of such projects.
- (v) Expansion of existing IPP plants which are already supplying power to the grid as per tariff policy and captive power plants supplying at least 25% of their capacity to the grid.
- (vi) Other captive power plants.
- (vii) Merchant Power Plants.
 - (a) Linkage to the plant upto a capacity of 1,000 MW; and
 - (b) Captive coal block allotment for plants in the range of 500 – 1000 MW capacity.
- (viii) Any other category not covered above.

11. While the inter-se priorities have been indicated above, to operationalize it and to see that project development process is smooth and speedy, it may be desirable that coal blocks are identified for captive mining for power plants, from among the coal blocks available, and are earmarked for allocation for different categories of projects mentioned in para 10 above

12. Keeping in view the past experience where many of the allocated captive coal blocks to different industries did not get developed, it would be essential that certain normative criteria are laid down for eligibility for coal blocks allotment, particularly to IPPs and merchant plants. These criteria could relate to net worth of the company, their internal resource generation and annual turn over. Similarly, the agencies being allotted the coal blocks, may also be required to put in place bank guarantee of a reasonable amount which should be liable to be en-cashed if important milestones for development of coal mines are not achieved. The amount should be adequate enough to discourage agencies which apply for allocation and are not serious enough for development of coal mines and power projects. The inter-mediate milestones may include not only in relation to development of coal mines, but also with reference to the power projects, such as award of EPC contracts, commencement of construction etc. Within six months, if satisfactory progress is not achieved in respect of financial closure and also in respect of EPC contracts/contract packages, the allotment may be liable for cancellation. Encashment of bank guarantee would obviously be in addition to the cancellation of allotment of coal block itself.

13. The above approach for providing linkage and allotment of coal blocks should be adequate for initial processing of the proposals and requests of developers, by the Ministry of Coal. And, therefore, there should be no need for specific recommendation on a case to case basis by the Ministry of Power. The Secretariat of the Screening Committee in the Ministry of Coal may examine the proposals/requests on the basis of above approach. Ministry of Power will obviously be represented on the Screening Committee, or any such other arrangement which Ministry of Coal may put in place, for giving specific suggestions or views during the course of deliberations.

14. The above approach takes care of the requirement of the power industry in so far as coal linkage / coal block allotment is concerned and is based on the experience of last few years. Keeping in view any further developments and experience, this approach may be reviewed from time to time.