

Coal supply will improve but it's time India transitions to options like natural gas for power

As the monsoon recedes, the supply of coal is likely to improve. Better planning and improvement in supply will help improve logistics in future.

ILA PATNAIK and RADHIKA PANDEY 15 October, 2021 8:30 am IST



Illustration by Prajna Ghosh | ThePrint

There has been a resurgence in demand for power as India's economy has picked up after the second wave of the Covid-19 pandemic.

Supply side disruptions on account of extended monsoon rains and rise in the international price of coal has aggravated the shortage. While demand was expected to rise as the economy opened up, the scale of demand surge was largely unanticipated.

The government has announced measures to augment the supply of coal to power producers. As the monsoon recedes, the supply is likely to improve. There are signs of the situation getting better as coal dispatches to thermal power plants have picked up pace in the last few days. Better planning and improvement in coal supply will help improve logistics in future.

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What has happened this time

The month of October typically sees a peak in electricity demand, but this year the situation is different. The supply-demand mismatch has been an outcome of a number of factors.

At the start of the year, Coal India Ltd had a substantial inventory pile-up as thermal power plants curtailed their purchases of coal due to muted electricity demand. The power plants did not build adequate stocks.

The scenario changed over the last two months. Electricity consumption in August jumped 18-20 per cent over pre-Covid period in August 2019 as the economy almost completely opened up after many months of subdued activity due to lockdowns. Almost 65 to 70 per cent of the increased demand for power is being met through coal-fired power generation.

While power demand has seen a sharp surge, coal stocks suffered as mining activity was impacted due to the extended monsoon rains. Coal production sees a seasonal variation. After peaking in March, coal production dips in the monsoon months starting June-July and picks up pace as monsoon ends.

However, extended rains till September this year has caused a further delay in the normal resumption of coal supplies.

India mainly imports coal from Indonesia, Australia and South Africa but Indian thermal power plants sharply reduced imports as international prices are hitting record highs.

Prices of coal from Indonesia, which accounts for 60 per cent of India's imports, have soared because of heavy rains in the Indonesian principal producing area. This led to

import substitution, further increasing the demand for domestic coal.

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Not unique to India

Power crisis due to shortage of coal is not unique to India. International prices of coal have also been rising due to demand supply mismatch.

In China, while demand for power has risen, supply has been muted due to the country's [carbon emission targets](#). Political conflict with Australia led to curbing of imports of coal from Australia.

In the US and Europe, rise in the price of natural gas has prompted some electricity producers to [shift to coal](#). While the demand for coal as a substitute for natural gas has risen, supply has been unable to keep pace.

The coal industry has been cutting production and staff. There is little incentive to make investments in enhancing capacity as public policy is geared towards phasing down coal use to combat global warming.

What the govt plans to do

The government has proposed new norms for [coal supply and its storage](#) at thermal power plants to avoid a demand-supply mismatch. Coal India is planning to ramp up the daily supply of coal to 1.9 million tonnes by mid-October from about 1.7 million tonnes currently.

The government has allowed companies that have been allotted coal and lignite mines for their own use to sell 50 per cent of their annual output to power plants in a bid to ease shortages.

States need to pay their outstanding dues to Coal India. The non-payment of dues has contributed to the low levels of coal stocks at thermal power plants. Timely payment of dues would enable the state owned coal company to augment its production to meet the surge in demand.

The dependence on coal for power generation has been rising. The share of coal-based power in India's power mix has risen to [66.4 per cent](#) from 61.9 per cent in 2019. While supply side interventions can help, the government would do well to move ahead with transitioning to alternative sources such as natural gas for power production.

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