

PFI ARTICLE: India's New Coal Rush Meets a More Watchful Regulatory Scrutiny

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India's New Coal Rush Meets a More Watchful Regulatory Scrutiny

India is witnessing the most aggressive push for new coal-based generation since the 2010s stressed/non-performing assets crisis¹. Over just a few months, utilities in Assam, Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan have proposed more than **10 GW** of greenfield and brownfield coal-based thermal power plants (TPPs), arguing that rapid economic and industrial expansion requires firm, round-the-clock electricity that renewable energy alone cannot supply. Yet something unusual has happened in this round of coal fleet expansion. Unlike the earlier era when state commissions routinely endorsed new projects on the basis of procurement decisions made elsewhere, regulators today are following stricter due diligence and prudence checks to meet a single overarching principle: safeguarding consumer interest through cost optimisation.

A quiet but momentous shift is unfolding in India's power sector governance. State Electricity Regulatory Commissions (SERCs), long seen as administrative bodies adopting tariffs under Section 63 of the Electricity Act, are beginning to challenge the assumptions behind new coal procurement, question demand projections, and interrogate whether utilities have conducted due diligence at all.

The turning point was the Hon'ble Supreme Court's judgment of 8th January 2024², which held unequivocally that SERCs are **not mere "post office"** for competitively discovered tariffs under Section 63. Their role goes beyond mechanically approving tariffs discovered through competitive bidding. The Court held that Commissions must apply their mind to ensure tariffs are reasonable and in public interest. They have the authority to scrutinize, reject, or seek revision of tariffs if found excessive, and can direct parties to renegotiate prices. This interpretation reinforces that regulatory bodies have a duty to protect consumers and maintain market fairness, and their powers under Section 86(1)(b) to regulate procurement and pricing remain intact even in competitive bidding scenarios. Overall, the judgment highlighted that adoption of competitively discovered tariff does not mean abdication of regulatory scrutiny. Hence, SERCs are now assuming a more assertive, evidence-based role, which is evident across state hearings.

Rajasthan (3,200 MW³)

Nowhere is this more visible than in Rajasthan, where the state's power procurement arm Rajasthan Urja Vikas and IT Services Ltd sought approval for 3,200 MW ultra-supercritical coal-based plant. It was pitched as a baseload necessity for the state's industrial future. But the regulator examined the numbers and observed a large mismatch between what

¹<https://arcindia.co.in/assets/img/Standing%20Committee%20Report%20on%20Stressed%20asset%20in%20power%20sector.pdf>

² https://api.sci.gov.in/supremecourt/2021/25492/25492_2021_3_1501_49217_Judgement_08-Jan-2024.pdf

³ <https://rerc.rajasthan.gov.in/rerc-user-files/record-of-processing> Petition No. RERC/2298/2025

the utility wanted and what the Central Electricity Authority's latest Resource Adequacy Plan actually projected for Rajasthan state. While the petitioner argued Rajasthan would need 3,200 MW by 2031–32, CEA estimated the state's requirement to be only 1,905 MW even by 2035–36. With other big projects such as the upcoming nuclear station at Banskara already in the pipeline, the commission concluded there was no proper demand-based justification for such massive procurement. The project's expected levelised tariff was likely to exceed ₹7/kWh, a cost that the Commission deemed inconsistent with consumer interest and economic prudence. Rejecting the petition, it noted that consumers could collectively save nearly ₹5,700 crore every year, about ₹4,500 per connection, if the state avoided this plant. It was a rare moment of fiscal conservation in a sector long trapped between political compulsions and structural inefficiencies.

Bihar (2,400 MW Pirpainti TPP⁴)

While Rajasthan saw a decisive “no,” the story in Bihar is more layered. The state has green-lit a 2,400 MW ultra-supercritical project at Pirpainti. The tariff discovered in competitive bidding ₹6.075/kWh, is significantly higher than recent renewable plus storage bids but, as the utility argued, is still competitive given the premium on coal from the Rajmahal mines, rising BTG (boiler-turbine-generator) equipment costs and delays in other generation projects. The state's demand is growing faster than supply, with metro rail electrification and EV charging alone projected to raise demand by nearly 4,000 MW. CEA's Resource Adequacy Plan, meanwhile, suggested that Bihar may need an additional 3,000 MW of thermal capacity when accounting for delayed renewables. On the surface, the numbers backed the state's case.

But here too, the commission undertook a detailed technical and financial review. It examined the deviations from standard bidding documents, the unusual land lease arrangement at ₹1 a year, and the variable cost impact of a ₹700-per-tonne coal premium imposed by Coal India on coal from the Rajmahal area. The approval finally granted was not just a stamp but a structured acknowledgement that the state's current load trajectory and delays in other capacity justified the decision. Section 63 was followed, but with the deeper scrutiny the Supreme Court now mandates.

Uttar Pradesh (1,500 MW Mirzapur TPP⁵)

In Uttar Pradesh, regulatory caution is even more evident. For the proposed 1,500 MW Mirzapur project, the discovered tariff of ₹5.383/kWh, despite being the outcome of competitive bidding under Section 63, the Commission has not yet adopted it and has sought clarifications that go to the heart of prudence. The UP Electricity Regulatory Commission (UPERC) questioned the computation of fixed and variable charges, especially after the Centre removed the requirement for FGD installation for new plants.

⁴ <http://bit.ly/3KQbHJY> <https://bit.ly/4py0ahR>

⁵ https://www.uperc.org/App_File/PetitionNo-2228of2025-PDF1118202554040PM.pdf
https://www.uperc.org/App_File/Pt-no-2228of2025UPPCL-08-10-2025-PDF108202550703PM.pdf

It flagged the need to quantify savings due to FGD exemption, clarify the impact of revised GST rates on coal, and re-examine capital cost assumptions. Since the responses to several regulatory queries were pending, the Commission put the PSA approval on hold, listing the matter for a later hearing.

Madhya Pradesh (3,200 MW Mahan TPP⁶)

Perhaps the most instructive case is Madhya Pradesh's 3,200 MW ultra-supercritical proposal, which comes at a tariff of ₹5.838/kWh. Here, the regulator has not yet approved the project; instead, it has sought detailed explanations on how changes in environmental norms and GST reforms would affect costs. The petitioner is yet to respond. In other words, the commission is proceeding in a phased, analytical manner, aligning its approach with the Supreme Court's directive that consumer interest must override administrative convenience.

Assam (3,200 MW⁷)

In Assam, the upcoming 3,200 MW coal project proposed in partnership with a private developer appears at first glance to be an outlier. It has been cleared by the regulator, with a discovered tariff of ₹6.30/kWh and projected investments of about ₹48,000 crore. But even this approval came with intensive scrutiny. The developer highlighted that the project has the advantage of evacuating in the STU line, thereby eliminating CTU charges and transmission losses, and is being developed in challenging site conditions hence has longer construction timeline. It uses modern technology that will minimise emissions. The project promises jobs, industrial growth and reliable supply in a state historically plagued by shortages. Yet the Commission emphasised continuous monitoring and transparency, echoing the Supreme Court's view that regulatory oversight cannot end once the bidding process does.

Due Diligence, Finally Delivered

Taken together, these cases represent something far bigger than individual state decisions. India is at a pivotal moment where new baseload capacity is undeniably needed, the Government of India estimates an additional 80 GW of coal-based capacity by 2031-32⁸. Yet the sector is haunted by the memory of stressed/non-performing plants, costly PPAs and the financial burden it places on the distribution segment.

⁶ https://mperc.in/uploads/hearing_document/MPERC_PNo_121_2025_DO_14_10_2025.pdf
https://mperc.in/uploads/hearing_document/MPERC_PNo_121_2025_DO_29_10_2025.pdf
https://mperc.in/uploads/hearing_document/MPERC_PNo_121_2025_12_11_2025.pdf

⁷ <https://aerc.gov.in/notice-files/1762183002.pdf>
<https://aerc.gov.in/notice-files/1757588769.pdf>
<https://aerc.gov.in/notice-files/1761727861.pdf>

⁸ <https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2041641®=3&lang=2>

The move by regulators in these cases looks probably aimed at avoiding such costly mistakes which eventually burdens the consumers with high tariff on account of fixed cost to be paid even at no despatch of power from such plants. Regulators are now stepping more into their rightful role of consumer protection, as mandated in Section 61(d) of Electricity Act, 2003.

This shift is also occurring against a rapidly changing cost landscape. The gap between the levelized cost of new coal-based generation and firm renewable energy is narrowing rapidly. Recent Firm and Dispatchable Renewable Energy (FDRE) tenders have yielded prices of ₹4.35/kWh-₹8.5/kWh⁹, while nearly all new coal bids this year have landed between ₹5.30/kWh and ₹7.27/kWh, and that too without factoring in future coal price volatility, railway freight revisions, and construction delays. With the gradual withdrawal of transmission charge waivers, FDRE tariffs may rise further. The transition, therefore, is no longer about choosing coal versus renewables, but about optimising the generation mix to minimise long-term economic and systemic risk while meeting climate and development goals.

This raises the fundamental policy question: are states over-correcting for renewable energy intermittency by locking themselves into long-term thermal contracts without fully analysing alternatives such as storage, flexible generation, demand-response and regional balancing?

The Rajasthan order implicitly poses this question. By demonstrating that a misalignment between perceived need and actual demand forecast could cost each consumer thousands of rupees annually, it reframes coal procurement not as an engineering debate but as a matter of economic justice. Bihar's approval, on the other hand, illustrates that thermal power still has a role when supported by empirical demand projections and when the alternative is delayed. Uttar Pradesh and Madhya Pradesh remind utilities of the importance of complete documentation and clear cost modelling.

Clearly, a one-size-fits-all answer does not exist. But what is emerging is a new era of coal approval where CEA's Resource Adequacy Plan becomes the baseline, regulatory scrutiny becomes the norm, and procurement decisions must withstand transparent economic and consumer-interest tests. The Supreme Court has already done the heavy lifting by declaring that regulators cannot behave like post offices. What remains is for SERCs to convert this principle into institutional practice, and the latest orders indicate they are beginning to do just that.

If this trend continues, India could avoid another wave of stressed assets, protect consumers from avoidable tariffs, and channel scarce public and private capital into the most efficient mix of thermal, renewable and storage resources to meet the growing energy needs while advancing the goals of ViksitBharat@2047 and Net zero by 2070.

⁹ <https://www.linkedin.com/feed/update/urn:li:activity:7400145128604073984/>