

## **Explanation for the Notification of Escalation Rates for Domestic Coal, Dated 1.6.2018**

In pursuance of Ministry of Power (MOP) Notification dated 19.01.2005 (as amended from time to time) on Guidelines for Determination of Tariff by Bidding Process for Procurement of Power by Distribution Licensees, CERC notifies various escalation rates including the escalation rate for domestic coal, every six months, for the purpose of payment. CERC has been notifying the escalation rate for domestic coal for payment since July, 2009. Presently the *"Revised Methodology for Determining the Escalation Factors and Other Parameters to be notified by CERC as per the Amendment to the Competitive Bidding Guidelines dated 27.3.2009"* developed by CERC in July 2009 is being used for computing the escalation rate for domestic coal for payment.

2. As per this methodology, CERC has been using the WPI for Non-coking Coal for computing the escalation rate for domestic coal. Justification for using the WPI for Non-coking coal has been provided in the methodology as under:

### ***"Escalation rate for Domestic coal component (for Payment)***

*The Wholesale Price Index (WPI) is the most widely used price index in India. It is the only general index capturing price movements in a comprehensive way. The WPI for Non-Coking coal is available at disaggregated level and is used for computing the escalation rate for domestic coal component for payment.*

***Name of the Index:*** *Single index based on WPI for Non-Coking coal*

***Source/Publisher:*** *GOI, Ministry of Commerce and Industry*

***Reasons:*** *Single index is recommended for the following reasons:*

- *The WPI for Non-coking coal is published by Government of India.*
- *The index is available on a weekly basis with the shortest possible time lag"*

3. As per the bidding guidelines, in case of Case-1 (where the location, technology, or fuel is not specified by the procurer) the bidders are free to use any fuel or any grade of coal for power generation. The power producers are generally using more than one

grade of coal and the grades of coal used by power producers may vary from time to time during the term of Power Purchase Agreement. Considering these reasons and the merits in using WPI, it was decided to use WPI for Non-coking coal (which represents the price of all grades of Non-coking coal) for computing the escalation rate for domestic coal for payment. The methodology was finalized after having consultations with stakeholders of the power sector.

4. However, it has been observed that the escalation rate based on WPI for non-coking coal was not capturing the movements in price of Non-coking coal mainly for the reason that WPI for Non-coking coal was based on the price of all grades of non-coking coal (G1-G17) whereas only few grades of Non-coking coal are being allocated/supplied to power producers. Keeping this in view, the Commission through its letter dated 19.3.2015 requested the Office of the Economic Advisor (OEA), DIPP, Ministry of Commerce and Industry to bring out a separate index considering the price of various grades of Non-coking coal used by the power producers (G7-G13) in addition to the general index for Non-coking coal (G1-G17).

5. Considering the views of CERC, the OEA in its new series of WPI (Base 2011-12), Notification dated 12.5.2017, has trifurcated the WPI for non-coking coal into G1-G6, G7-G14 & G15-G17. Keeping in view the grades of Non-coking coal used by the power producers, the Commission has started using WPI for non-coking coal for grades G7-G14 while notifying the escalation rate for domestic coal from April 2017 (provisional).

6. The new series of WPI is available from April 2012. Also, from January 2012, Coal India Ltd (CIL) changed its pricing method from UHV to GCV. It is observed that the escalation rate for domestic coal for payment based on the new series of WPI for Non-coking coal (G7-G14) is more reflective of the prices of grades of Non-coking coal used by the power sector as compared to the old series of WPI for Non-coking coal (which represents the price of all grades of Non-coking coal i.e. G1-G17).

7. Consequent to the availability of the new series of WPI for Non-coking coal (G7-G14), the Commission has now decided to adopt this new series from April 2012 for notification of the escalation rates for domestic coal and has decided as under:

- (i) The escalation rates (based on the new series) applicable from April 2013 to March 2017 should be used only for correcting the payment index (base energy charges) and not for the purpose of payment (Column-4 of the table at para 8 below).
- (ii) The escalation rates (based on the new series) applicable from April 2017 should be used for payment. Accordingly, the escalation rate for domestic coal notified (as provisional) in April 2017 and October 2017 are considered as final (Column-3 of the table at para 8 below).

8. The annual escalation rates for domestic coal notified by CERC for the purpose of payment and the annual escalation rates for domestic coal based on the new series of WPI for Non-coking coal (G7-G14) for correcting the payment index (base energy charges) are provided in the following table.

<b>Annual Escalation Rates for Domestic Coal</b>			
<b>Notification</b>	<b>Annual Escalation Rates for Domestic Coal notified by CERC for the purpose of payment</b>		<b>Annual Escalation Rates for Domestic Coal (based on the New Series of WPI for Non-coking Coal G7-G14) for Correcting the Payment Index (base energy charges)</b>
	<b>Escalation Rates based on WPI for Non-coking Coal G1-G17</b>	<b>Escalation Rates based on WPI for Non-coking Coal G7-G14</b>	
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>
Apr 2013	4.10%	-	8.31%
Oct 2013	0.71%	-	1.82%
Apr 2014	3.55%	-	9.77%
Oct 2014	1.24%	-	8.27%
Apr 2015	0.00%	-	0.00%
Oct 2015	0.00%	-	0.00%
Apr 2016	0.00%	-	0.00%
Oct 2016	0.51%	-	2.79%
Apr 2017	-	13.78%*	-
Oct 2017	-	0.00%*	-

*Note: Annual Escalation Rate for Domestic Coal notified (as provisional) in April 2017 vide Notification No. Eco-1/2017-CERC dated May 30, 2017 and in October 2017 vide Notification No. Eco-2/2017-CERC, dated October 10, 2017 (\*) are final.*

9. Computation of the escalation rate for domestic coal based on the new series of WPI for Non-coking (G7-G14) has been provided in the following table.

<b>Computation of the Escalation Rate for Domestic Coal based on the New Series of WPI for Non-coking coal (G7-G14)</b>					
<b>Month</b>	<b>WPI for Non-Coking Coal (G7-G14)</b>	<b>Half Yearly Average Index</b>	<b>Half Yearly Escalation Rate</b>	<b>Annual Escalation Rate</b>	<b>Notification</b>
Jan-12	98.4				
Feb-12	98.4				
Mar-12	98.4				
Apr-12	98.4				
May-12	98.4				
Jun-12	100.2	98.70			
Jul-12	102.8				
Aug-12	102.8				
Sep-12	102.8				
Oct-12	102.8				
Nov-12	102.8				
Dec-12	102.8	102.80	4.15%	8.31%	Apr-13
Jan-13	102.8				
Feb-13	102.8				
Mar-13	102.8				
Apr-13	102.8				
May-13	102.8				
Jun-13	108.4	103.73	0.91%	1.82%	Oct-13
Jul-13	108.4				
Aug-13	108.4				
Sep-13	108.4				
Oct-13	108.4				
Nov-13	108.4				
Dec-13	110.8	108.80	4.88%	9.77%	Apr-14
Jan-14	113.3				
Feb-14	113.3				
Mar-14	113.3				
Apr-14	113.3				
May-14	113.3				
Jun-14	113.3	113.30	4.14%	8.27%	Oct-14
Jul-14	113.3				
Aug-14	113.3				
Sep-14	113.3				
Oct-14	113.3				
Nov-14	113.3				
Dec-14	113.3	113.30	0.00%	0.00%	Apr-15

*Table continued on next page.....*

<b>Month</b>	<b>WPI for Non-Coking Coal (G7-G14)</b>	<b>Half Yearly Average Index</b>	<b>Half Yearly Escalation Rate</b>	<b>Annual Escalation Rate</b>	<b>Notification</b>
Jan-15	113.3				
Feb-15	113.3				
Mar-15	113.3				
Apr-15	113.3				
May-15	113.3				
Jun-15	113.3	113.30	0.00%	0.00%	Oct-15
Jul-15	113.3				
Aug-15	113.3				
Sep-15	113.3				
Oct-15	113.3				
Nov-15	113.3				
Dec-15	113.3	113.30	0.00%	0.00%	Apr-16
Jan-16	113.3				
Feb-16	113.3				
Mar-16	113.3				
Apr-16	113.3				
May-16	113.3				
Jun-16	122.8	114.88	1.40%	2.79%	Oct-16
Jul-16	122.8				
Aug-16	122.8				
Sep-16	122.8				
Oct-16	122.8				
Nov-16	122.8				
Dec-16	122.8	122.80	6.89%	13.78%*	Apr-17
Jan-17	122.8				
Feb-17	122.8				
Mar-17	122.8				
Apr-17	122.8				
May-17	122.8				
Jun-17	122.8	122.80	0.00%	0.00%*	Oct-17

\* For the purpose of payment

10. The escalation rate for domestic coal for April 2013 Notification has been computed based on the new series of WPI for Non-coking coal from January to December 2012. The new series of WPI is available from April 2012. As there is no change in coal prices notified by CIL during January to March 2012, the index for April 2012 has been assumed as the index for January to March 2012.

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