

BEFORE THE CENTRAL ELECTRICITY REGULATORY COMMISSION
3RD AND 4TH FLOOR, CHANDRALOK BUILDING,
36, JANPATH, NEW DELHI - 110 001

IN THE MATTER OF:

Comments/suggestions on “Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff)(Second Amendment) Regulations, 2020”.

SUBMISSIONS OF PRAYAS (ENERGY GROUP), Pune

1. The CERC vide public notice dated 1.6.2020 has invited comments and suggestions from all stakeholders on the “Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff)(Second Amendment) Regulations, 2020”.
2. The present submission is in response to the said notice and the draft regulations published thereunder. We request the Commission to accept this submission on record.

Comments and Suggestions

3. **Ceiling for Input Price:** Regulation 36L proposes the computation of Input Price as the sum of ROM Cost and additional charges. The input price so computed is used in Regulation 36M to determine input charges to be recovered. The proposed regulations do not impose any ceiling on the input price and merely require (regulation 36M) a consent from the beneficiaries if the input charges are such that the “energy charge rate based on input price of coal from integrated mine exceeds by 20% of energy charge rate based on notified price of Coal India Limited”. It should be noted that the price would be eventually passed on to consumers and, therefore, the beneficiary will not be a loser even if energy charges increase. This formulation of computing the input price is not consistent with the objectives of offering coal mines for captive use to power plants through allotments and auctions under the Coal Mines (Special Provisions) Act, 2015 and related Rules. Indeed, if coal from a captive mine were to be more expensive than CIL notified price for the same grade, then it would be better for consumers that the coal is procured from CIL. The reason for allotting captive coal mines ‘free’ to power companies is so that they could obtain coal at a lower price. The following official communications reinforce this point that the objective of allocating captive mines to power generators was to reduce power tariffs:

- a. As per 3.2(e) of the directive, dated 16.4.2015, from the Ministry of Power to CERC (see Annexure I) on supply of electricity by generating companies where the coal is being sourced from coal mines allocated under CMSP, Second Ordinance, 2014:
“The revision of tariff undertaken by the Central Electricity Regulatory Commission as above shall not lead to higher energy charges and total tariff throughout the tenure of Power Purchase Agreement than that which would have been obtained as per terms and conditions of the existing Power Purchase Agreement.”

- b. The methodology for fixing floor/reserve price for auction and allotment of coal mines/blocks, prescribed by the Ministry of Coal (see Annexure II), states, in Clause (3) with regard to coal mines/blocks allotted for specific end-uses, that:

“This would ensure that there is no adverse impact on power tariff.”

Additionally, Clause (4) of the methodology, that deals with auctions of coal mines/blocks, also highlights the objective of reducing power tariffs, as it states: “A ceiling price of CIL notified price for each coal block will be fixed and the bidders will be mandated to quote lower than this ceiling price” and “...*This method will ensure that the benefit of lower bid price is passed through to the consumers.*”

In view of the above, the input price of coal considered in Regulation 36L should be capped to at least (say) 10% below the Coal India Limited (CIL) notified price for the corresponding grade of coal, to be consistent with the objectives of allotting coal mines for captive consumption. Regulation 36M should also be suitably worded to place a corresponding ceiling on the energy charges.

4. **Return on equity:** As per Clause (3) of Regulation 36G of the draft regulations, the return on equity is to be computed at the base rate of 14%. However, these integrated projects have assured coal offtake and power purchase, and are thus, practically risk-free investments. Hence, a return on equity of 14% is not justified and **the return on equity should be computed at a base rate not exceeding 10%.**
5. The proposed method for calculation of Run of Mine cost of coal/lignite in case of allotted integrated mines, as per Clause (2) and (3) of proposed Regulation 36B, is computed as the sum of components, which includes, the annual extraction cost and mining charge. The mining charge is to be paid by the generating company to the Mine Developer and Operator (MDO) engaged for mining, wherever applicable. If the arrangement with the MDO includes extraction of coal, the annual extraction cost should be zero for such mines. In general, it should be stated explicitly in the regulations that the annual extraction cost and the mining charge are for mutually exclusive work items. In order to avoid double counting of costs, **the final regulations should clarify that annual extraction cost and mining charges payable to the MDO are applicable for mutually exclusive sets of activities.**
6. **The final regulations should clearly mention that the accounts of the integrated mine, is fully separated from that of the related thermal power plant.** Thus, for example, the equity considered for the power plant should not include the equity considered for the coal mine, to avoid double counting.
7. We once again request the Commission to accept this submission on record and to allow us to make further submissions in this matter, if any.

PLACE: Pune

DATE: 8th July 2020

Annexures

- I. MoP directive to CERC under Section 107 of the EAct, 2003, dated 16.04.2015 to review and determine energy charges for supply of electricity by a generating company to a distribution licensee under already concluded PPA and where the coal is being sourced from coal mines auction or allotted under Coal Mines (Special Provisions), Second Ordinance, 2014 and rules framed thereunder.
- II. MoC order, dated 26.12.2014, regarding methodology for fixing floor/reserve price for auction and allotment of coal mines/blocks