

DHARIWAL INFRASTRUCTURE LIMITED

Submission for CERC Indices Methodology Staff Paper titled “Methodology for Computing the Escalation Factors and other Parameters for the Purpose of Bid Evaluation and Payment for Procurement of Power from Renewable Energy Projects Complemented with Firm Power from any other source through Competitive Bidding”, vide 23.02.2021

Sr#	Documents	Reference	Existing Point	Proposed Modification	Concern / Clarification
1A	CERC Indices Methodology Staff Paper	Point 8.1	The escalation rate for domestic coal shall be computed based on the time series data on WPI for non-coking coal for the latest 12 years.	The escalation rate for domestic coal shall be computed based on the time series data on WPI for non-coking coal for the latest 5 years (2015-19)	Basis current methodology on WPI non-coking coal data series for 12 years (2008-19) as per the staff paper, escalation rate is computed at 7.51% for domestic coal fuel component. While statistical modeling on historical data has been utilized here, recent trends and market projections indicate that this value is on the higher side
1B	CERC Indices Methodology Staff Paper CERC Indices Methodology Staff Paper	Point 8.5	The escalation rate for imported coal shall be computed based on the time series data on composite index based on Global Coal Index, API4, ICI3 of Argus and Platts index for the latest 12 years	The escalation rate for imported coal shall be dropped that there should be only a single escalation index for coal which is that of domestic coal for the last 5 years	<ul style="list-style-type: none"> - Escalation rate for recent 5- year period (2015-19) is 2.01% and 7- year period (2013-19) is 1.97% on WPI non-coking coal data series. - Coal mining privatization is expected to increase domestic coal production; in addition, increasing share of renewables in energy mix is expected to keep domestic coal demand stagnant/stable; both these factors taken together is expected to lead to lower escalation in prices than currently prescribed. <p>The staff paper also suggested a formula for computation of escalation index for Imported coal. Based on Global NewC index (1 out of 4 indices prescribed), escalation rate comes to -5.53% based on 12-year (2008-19) data series v/s 14.23% against 5-year period (2015-19) data series (refer Appendix 1), which leads to two key conclusions</p> <ul style="list-style-type: none"> - Imported coal indices are highly volatile and

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					<p>taking outlier years (e.g. 2008, 2020, etc.) in computation will skew overall escalation computations.</p> <ul style="list-style-type: none">- Basis current CERC methodology, if domestic coal-based thermal generator quotes a first year variable tariff of INR 2.50/kWh (7.51% escalation), an imported coal-based player (-5.53% escalation) will arrive at the same levelized 25-year tariff (and be competitive) with a first year variable tariff bid quote of INR 5.01/kWh (basis Global NewC index).<ul style="list-style-type: none">o This increased first year winning tariff may invite extreme criticism of the bid since tariffs will end up burdening the end consumerso This will also discourage discoms to sign PSA with SECI, and if signed, the future uncertainty of imported coal price reductions will finally be passed on to the end consumers.o Use of imported coal is not in line with the “Aatma Nirbhar Bharat” Mission. Considering the significant coal reserve in India & latent potential of CIL and private miners to exploit the same, the present day philosophy is import substitution under “Aatma Nirbhar Bharat” & promote domestic coal only. Gol Ministry of Power has been actively encouraging all generators since 2020, to substitute imported coal

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					<p>with high grade domestic coal with significant success- not only for blending purposes but also for plants designed on imported coal. Further, there is an ongoing discussion in the parliament to stop import of coal from FY 2024 onwards to help the domestic coal industry and stop unnecessary forex outgo.</p> <p><u>Amendment Requested:</u> CERC should reconsider shorter duration to calculate escalation rates, as market has transformed significantly in the past decade.</p> <p>Overall, it is recommended a time-period of 5 years to be taken from 2015-19 to give a more representative picture of the present fuel escalation rate for domestic coal.</p> <p>There should be no separate index for imported coal & there should be a single index for coal which is that of domestic coal albeit computed for a shorter time period of 5 years. The domestic coal indices should be made applicable even for plants exclusively designed with imported coal - by fuel substitution with high grade domestic coal.</p> <p>Overall methodology should encourage domestic coal-based generators & avoid long term agreement based on coal imports, in line with our national objective of "Aatma Nirbhar Bharat".</p>

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3	CERC Indices Methodology Staff Paper		New Point	The escalation rate for domestic coal will also take into consideration the premium to be paid in mine specific sources.	<p>With an effort to provide linkage coal to consumers, several mines have been identified as 'mine specific source' by WCL with additional premium to be paid per tonne over the notified price and several power plants are opting for this option for lifting their coal based on overall optimization of landed costs considering freight charges(For e.g. WCL had identified 11 out of its total 66 mines in November 2019 as 'mine specific source' specially for use of power plants at an additional add-on price of Rs 450 per tonne over the notified price). This condition should also be captured in the current escalation rate calculations.</p> <p><u>Amendment Requested:</u> We recommend CERC to consider the premium paid in 'mine specific sources' while calculating the escalation rates for bid evaluation as well as for payment purposes during actual off-take</p>
4	CERC Indices Methodology Staff Paper	Point 8.3	The transportation of coal to power plants takes place mainly by rail.	The escalation rate for inland transportation charges of coal should also include impacts for road mode transportation	<p>Currently, transportation component escalation has not been prescribed for road (<i>underlying assumption that coal transportation to power plants is primarily through rail</i>). This creates uncertainty for power plants sourcing coal mostly via road mode.</p> <p><u>Amendment Requested:</u> We recommend CERC to prescribe escalation rate with due consideration of transportation via road mode for domestic coal for bid evaluation as well as for payment purposes during actual take-off. For this, diesel prices can be taken as the index for calculation of escalation rate of inland transportation of coal via road mode.</p>

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5	CERC Indices Methodology Staff Paper		New Point	The escalation rate calculation to be prescribed separately for FGD reagents e.g., limestone, ammonia	Current CERC methodology does not include escalation rates for FGD reagents <u>Amendment Requested:</u> We recommend CERC to prescribe escalation rates for FGD reagents separately.

Appendix 1

Serial Number	Factor		Escalation Rates (%)		
			12-year time series (2008-19)	7-year time series (2013-19)	5-year time series (2015-19)
1	Imported Coal (Fuel Component)	Global NewC Index	-5.53	-1.09	14.23
		Indonesian Index (HBA)	1.73 <i>(based on 2009-19 data as 2008 data not available)</i>	-1.1	11.53
2	Domestic Coal (Fuel Component)	WPI data series	7.51	1.97	2.01