



एनएलसी इंडिया लिमिटेड

(पूर्व में नेयवेली लिग्नाइट कार्पोरेशन लिमिटेड)

भारत सरकार का नवरत्न उद्यम

**NLC India Limited**

(formerly Neyveli Lignite Corporation Limited)

Navratna - Govt. of India Enterprise

अध्यक्ष सह प्रबंध निदेशक का कार्यालय

OFFICE OF THE CHAIRMAN CUM MANAGING DIRECTOR

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Ref: NLC/2019/CERC/001

Date: 08.07.2019

To  
Member Convener,  
Central Electricity Regulatory Commission,  
3<sup>rd</sup> Floor, Chandernagore Building,  
36, Janapath,  
New Delhi – 110 001

Sub: Working Group for "Regulatory framework for determination of input price or transfer price from Integrated Coal Mine"

Dear Sir,

With reference to your letter No.17/2019/E/CERC dated 02.07.2019 on the above cite subject, please find below our views / suggestions / inputs on the possible issues associated with price fixation along with factors to be considered for determination of input / transfer price and also suggestion on regulatory approach.

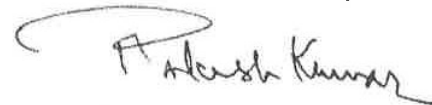
1. With respect to Lignite, it was already under regulatory mechanism wherein Ministry of Coal was issuing guidelines once in every five years for fixation of transfer price for Lignite in consultation with beneficiaries and NLCIL like CERC guidelines for power tariff for Thermal Stations. Earlier guidelines issues for last 3 tariff periods (i.e. 2004-2009, 2009-2014 & 2014-2019) are enclosed at Annexure 1 for reference
2. Ministry of Coal has recently issued communication that competent authority had delegated the powers of fixation of price for Lignite to the NLCIL's Board. (a copy of letter enclosed at Annexure 2)
3. Since the Merit Order mechanism is already in place which gives the option to the State Discoms to buy power competitively based on the energy charge of different power plants so the cost plus method is now not relevant. Therefore, NLCIL is to be given the power to decide the lignite price periodically in order to enable it to compete.
4. While determining the input / transfer price Lignite from Integrated mine, the following factors are to be given due weightage:
  - **Capital cost:** Mining involves capital cost which is incurred for land acquisition and related costs like R&R, equipments and infrastructure, statutory deposits and preliminary expenditure for bringing the mine to a stage of mining the lignite and periodically, the mining equipments and infrastructure needs to be replaced. Funding for the capital expenditure is generally considered in the ratio of 70:30 and rate of return on equity is considered @ 15.5% in line with CERC guidelines.
  - **Fixed & Variable costs:** Keeping in view the nature of expenses incurred for lignite mining, most of the expenses are fixed in nature and due weightage is required to be given to the fixed cost by segregating the fixed and variable costs. (Details are given in Annexure - 3)

Contd...2

- **Abnormal Expenditure:** Mining industry has many inherent risks and therefore it requires costs and efforts to address those uncertainties. These costs are to be recovered separately. Examples are: 1) Overburden removal which depends upon the profile of the lignite seam and stripping ratio may fluctuate significantly at times. 2) hard strata requiring use of explosives. 3) Policy changes with respect to Land compensation and R&R. 4) Ground water management charges which will largely depend upon the aquifers beneath and around the lignite seam and pressure level requiring appropriate pumping. 5) Security expenses are required to be incurred depending upon the size of the mine and number of security personnel to be deployed. CISF has an independent mechanism of deciding the salary and wages, infrastructure and administrative staff / cost which needs to be reimbursed.
- **Quality of Coal / Lignite:** Since Lignite is having lesser calorific value when compared to Coal and more volatility, need to have proper mechanism to arrive benchmark costs.
- **Taxes & Duties:** These costs are to be considered separately based on the applicability.

Thanking you, *and warm regards,*

Yours faithfully,



(Rakesh Kumar)  
CMD, NLCIL

*Encl.: a/a*



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**DVC TOWERS, VIP ROAD**  
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स्पीड पोस्ट द्वारा  
BY SPEED POST

No. Coml / Integrated Mine / CERC / 3045

Dated:

To  
The Secretary  
Central Electricity Regulatory Commission  
3<sup>rd</sup> and 4<sup>th</sup> Floor, Chanderlok Building,  
36, Janpath, New Delhi - 110001.

13 JUL 2019

Sub:- Comments of Damodar Valley Corporation regarding "Regulatory Framework for determination of input price or transfer price from integrated Coal mine.

Ref:- (1) Letter from CERC vide no. 17/2019/E/CERC dated 02.07.2019  
(2) E-mail from Member Convener, CERC dated 11.07.2019

Dear Sir,

In reference to the meeting held on 09.07.2019 at West Bengal Electricity Regulatory Commission (WBERC), Kolkata by working group constituted for "Regulatory Framework for determination of input price or transfer price from integrated Coal mine", the considered views/comments of Damodar Valley Corporation is enclosed herewith for your kind perusal.

Yours faithfully,

Executive Director (Commercial)