



10th March 2021
CFI-LRA-LRA-REN-LETR-0003

Shri Sanoj Kumar Jha
Secretary
Central Electricity Regulatory Commission
3rd & 4th Floor, Chanderlok Building
36, Janpath, New Delhi- 110001

Subject: Tata Power Comments on Staff Paper “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”

Dear Sir,

This is in reference to above Staff Paper issued on 23.02.2021. In this regard, please find enclosed our comments on the said Staff Paper, for your consideration.

Thanking you,

Yours sincerely,

For Tata Power Company Limited


(Paramita Sahoo)

Head - Advocacy



Comments from Tata Power Company Limited on
CERC Staff paper on “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”

1. Clause 8.1 – Escalation rate for domestic coal

For computing the escalation rate for evaluation, the staff paper has considered time series data for latest 12 years. The data on WPI for non-coking coal for the period 2013-2019 has been taken from the website of Ministry of Commerce & Industry (2011-12 series) and the data for the period prior to that has been arrived at by using conversion factor on the previous WPI series (2004-05 series).

Tata Power Comment - Since, the base for WPI has changed in 2011-2012, the data on WPI of non-coking coal should be taken from 2012 onwards instead of from 2008. This shall eliminate the need of using conversion factor and remove any skew created due to the conversion factor. Hence the time series data for the last 8 years may be taken.

Further, with greater addition of renewable energy in the past 5 years, the indices of WPI non coking coal are representative of actual escalation. Considering time series data for last 12 years may not reflect the actual market and the current trend. It is expected that with retiring old coal plants, higher contribution of power from renewable sources and inclusion of additional coal blocks the demand for coal is expected to sluggish and hence we recommend the period of period for consideration of data to be reduced to 5 years or 7-8 years.

Table 1: Impact of period of time series data on escalation rate

S No.	Period of Time series data	Escalation Rate
1	12 years	7.51%
2	8 years	1.1%
3	5 years	2.01%

2. Clause 8.5 – Escalation rate for imported coal

Tata Power Comment – The present methodology given for calculation of escalation rate for imported coal does not have a provision of Forex rates variation. We would like to highlight that while bidding, energy charge is to be quoted in Rs/kWh and not in US\$/kWh basis. Hence, the current methodology for imported coal is not on landed cost basis. The calculation of escalation rate for imported coal is based on global indices which are pegged to US Dollar as base whereas the levelized tariff is calculated in rupees. Hence, the impact of exchange rates is not factored in the escalation indices. This would lead to gross underestimation of the actual escalation in the price of imported coal. Further, there should be a component in the methodology, to address the forward Forex rates to arrive at a landed cost of imported coal.

As mentioned in our comments for domestic coal, the 12-year time span would not adequately reflect the recent changes and the volatility of the imported coal prices. We would once again recommend a shorter time frame for the data to be considered (5- 8 years), simply to makes assessment of levelized tariff more contemporary. The indicative differential for the



reduced period would as tabulate below. These are indicative as data for certain period is not available.

Table 2: Impact of period of time series data & exchange rate variation on escalation rate

S No.	Period of Time series data	Escalation Rate (w/o exchange risk)	Escalation Rate (with exchange risk)
1	12 years	(-5.53)%	(- 0.86%)
2	7 years	(-1.09)%	2.3
3	5 years	14.23%	16.29%

Based on the above data it is clear that if a 12 year period and proposed mechanism is considered then there would be huge differential between the first year variable tariff of an imported plant and a domestic coal based plant.

This would also de-risk the DISCOMs from being exposed to higher risk in terms of variation in multiple factors like international coal rates, forex, overseas freight, port handling and finally inland transportation. In view of the above we propose only 5-7 years' time horizon for imported coal.

Since the intent of this tender and encouragement to renewable industry in general is primarily to reduce dependence on external sources for fuel security and conserve forex we need to ensure that this risk is correctly captured by taking more recent data for calculation of escalation factors. The escalation methodology for domestic and imported coal are derived from two different mechanisms where domestic coal escalation is derived based on WPI index whereas for imported coal, the escalation rates are based on global coal indices. The global coal indices are market driven and hence needs to have parity, with domestic coal.

3. Clause 8.6 - Escalation rate for transportation of imported coal

Tata Power Comment – Subsequent to implementation of MARPOL Regulation with effect from 01.01.2020, Low Sulphur Fuel Oil (LSFO) is being used for transportation of imported coal and gas. CERC has also recognized the same and given one-time escalation of 83.94% for changeover from Singapore 380 CST Bunker Fuel to LSFO vide its notification dated 22.01.2020.

In view of the above and the fact that time series data on LSFO is not available for 12 years, we would like to suggest that index of Singapore 380 CST should be suitably adjusted by escalation given by CERC on 22.01.2021. The change is requested to ensure that while evaluating the bids, correct costs are reflected.