GUJARAT URJA VIKAS NIGAM LIMITED

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To
Secretary
Central Electricity Regulatory Commission
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Sub.: Staff Paper on "Methodology for computing the Escalation Rates for Imported Coal for Payment on Monthly basis"– Reg.

Sir,

This has reference to public notice dated 06.05.2022 seeking comments of the Stakeholders on the Staff Paper on the "Methodology for Computing the Escalation Rates for Imported Coal for Payment on Monthly Basis".

In this regard, views & suggestions of GUVNL are as under:

1. At present, CERC notifies various escalation rates every six months which are applied on the escalable components of the tariff under PPA for the purpose of payment. For computation of escalation, the data set for preceding one year are being used for calculation of index notified in the first week of April and October every year.

   In the Staff Paper, it is proposed that imported coal price and transportation rate data for previous month shall be considered for notifying the escalation for the current month of invoice (i.e. May-2022 notification will be based on price data of Apr-2022 with Mar-2022 as base value) while the escalation rate of Inland Handling of imported coal the data for T-2 months shall be considered (i.e. May-2022 notification will be based on price data for Feb-2022 month with Jan-2022 as base value).

   In the above context, it is to mention that the process of determination of escalation rates should be analogous to the way such escalation is made applicable. In the existing framework, the escalation in the coal prices for previous 6 months is made applicable to the next 6 months in an equated manner, which not only ensures determination of escalation index on an average basis for 6 months but also allows indexation on energy charge for payment in uniform manner avoiding impact due to abrupt coal price movement.

The coal import process is in bulk as having high turnaround time and therefore indexation of coal price escalation for very short duration for payment purpose (i.e. monthly basis) is not necessitated when coal quantum upto 45-60 days can feasibly be procured under single vessel.

Moreover, in the already concluded bids / PPAs, bidder would have quoted the bid rate taking into consideration the applicable CERC escalation indexation methodology through reverse calculation for effectively capturing the coal price movements in the tariff payment. In view of the same, the change in methodology from 6 months basis to monthly will not only deviate from the bid dynamics but also distort the existing indexation framework considered for computation of Energy Charge including sub-components for payment of tariff.

In view of above, any modification in escalation methodology shall not be made applicable to existing / concluded PPA in any manner since the existing methodology of 6 monthly escalation Index is appropriately taking care of cost recovery by Generators who are supplying power under PPA in an uninterrupted power.

2. Import of coal from various countries encompasses different modes like spot market and term contract including through owned mines in such countries. Allowing monthly indexation may discourage long/ medium term coal procurement planning for optimization of coal cost through assumption of prudent business risks by Generators since as per the proposed mechanism coal cost as per market index would be allowed directly as a pass through irrespective of actual cost of purchase.

3. For the purpose of payment to the Generator based on applicable escalation CERC index, actual cost at which coal has been procured by the Generator / Project Developer is not taken into consideration.

In the instance, the payment of tariff is computed taking into consideration the index notified in previous month, in case of erratic price variation, it may lead to arbitrage opportunity for commercial gain which would ultimately affect the end buyer. For this reason, the escalation methodology for consideration of average of previous 6 months to be made applicable for next 6 months based on average pricing is more appropriate and consistent in the interest of stakeholders.

4. At present, Distribution Utilities are recovering the variation in power purchase cost from retail consumers through Fuel Surcharge. As per present regulatory framework, the Fuel Surcharge is determined on Quarterly basis which is approved by respective State Regulatory Commission. In case of allowing escalation in tariff as per monthly coal prices for payment, it may lead to abrupt variation in power purchase cost on monthly basis. However, it would not be possible for Distribution Utilities to revise the retail tariff on monthly basis, which may lead to under-recovery by Distribution Utilities in increasing coal price regime.

Thanking you.

Yours faithfully,

(K. P. Jangid)
General Manager (Commerce)