

Staff Paper on the Methodology for computing the Escalation Rates for Imported Coal for Payment on Monthly Basis¹, Dated 6.5.2022

I: Background

In pursuance of Clause 5.6 (vi) of Ministry of Power (MOP) Notification dated 19.01.2005, as amended from time to time, on “Guidelines for Determination of Tariff by Bidding Process for Procurement of Power by Distribution Licensees”, the Central Electricity Regulatory Commission (CERC) notifies various escalation rates including the escalation rate for imported coal, every six months, for the purpose of payment.

2. Now the MOP, vide its letter dated 13th April 2022, has highlighted the need for notification of escalation rate for imported coal for the purpose of payment on monthly basis, to avoid the lag in the notification of escalation rate with reference to actual variation in the price of imported coal. Relevant extract from the communication from the Ministry of Power is as under:

“After careful consideration, Government have decided that the escalation index for imported coal may be notified on a monthly basis by CERC, in addition to the present six-monthly escalation index. In existing PPAs where the generating company and the procurer agree, they can use the monthly index. For future PPAs, Government proposes to make provisions in the bidding guidelines and bidding document for use of the monthly Escalation index for imported coal. The present practice of notifying escalation rates every six months, in addition to notification on monthly basis, should also be continued, to be used by sellers and procurers, in the context of concluded PPAs.”

¹Disclaimer: The views presented in this staff paper do not represent view of the Central Electricity Regulatory Commission, or its Chairperson, or its Members and are not binding on the Commission. The views are essentially that of the staff of the Commission and are being presented with an aim to initiate discussion and solicit inputs from stakeholders.

3. In view of the above, the CERC proposes to notify the escalation rate for imported coal for payment on monthly basis. This is in addition to the notification of the escalation rates for payment on six-monthly basis. The issues relating to notification of escalation rate for imported coal for payment on monthly basis have been examined as under:

3.1. While notifying the escalation rate for imported coal for payment, it is also required to notify all other relevant escalation rates, i.e. (i) escalation rate for transportation of imported coal, and (ii) escalation rate for inland handling of imported coal. This is mainly for the reason that computation of the energy charge for the plants based on imported coal includes all the three components. Therefore, escalation rates of all the three components are required while claiming the tariff.

3.2. It is observed that lag in the availability of data can't be reduced for the reason that frequency of publishing data is fixed by the index developers. However, lag in the issue of notification and application of the escalation rate can be reduced through monthly notification.

3.3. The data on price/price indices presently used for computing the escalation rates for imported coal notified on six-monthly basis, can be used for computing the escalation rates to be notified on monthly basis as under:

- i. The data used for computing the escalation rate for imported coal [Price/Price Index of Australian Coal (Global Coal), South African Coal (API4 of Argus) and Indonesian Coal (ICI3 of Argus and Platts Index)] is available on weekly basis with one week lag, except Platts Index (which is available on daily basis with one day lag). Composite index, applying 25% weightage to each index, shall be used for computing the escalation rate. The composition of composite index and weights shall be considered as per the CERC Order dated 23.12.2013 in Petition No.308/SM/2013.
- ii. The data used for computing the escalation rate for transportation of imported coal (Price of VLSFO at Singapore of Clarksons) is available on weekly basis with one/two week(s) lag. Price of VLSFO shall be used for

computing the escalation rate. The index shall be considered as per the CERC Order dated 15.01.2020 in Petition No.11/SM/2019.

- iii. The final data (excluding provisional data) used for computing the escalation rate for inland handling of imported coal [Wholesale Price Index (WPI)/Consumer Price Index for Industrial Workers (CPI-IW)] is available with two/three months lag. Composite index, applying 60% weightage to WPI and 40% weightage to CPI, shall be used while computing the escalation rate. The composition of composite index and weights shall be considered as per the CERC methodology/explanation to the notification dated 22.11.2006.

II: Proposed methodology for notification, computation and application of the escalation Rates

4. It is proposed that the escalation rates for different escalable sub-components for computing energy charge for plants based on imported coal shall be notified on monthly basis as under:

- (i) escalation rate for imported coal;
- (ii) escalation rate for transportation of imported coal; and
- (iii) escalation rate for inland handling of imported coal.

5. The data on price/price indices as specified at Para 3.3 above shall be used for computing the escalation rates. Simple average of weekly/daily data on price/price indices shall be used for arriving at the monthly data on price/price indices.

6. It is proposed that the monthly escalation rate shall be computed using the monthly data on price/price index as under:

Formula for calculating monthly escalation is as under:

$$\{(Current\ month\ price\ index - Previous\ month\ price\ index) / Previous\ month\ price\ index\} \times 100$$

Illustration:

If the current month (April 2022) price index is 110 and the previous month (March 2022) price index is 100, the method of calculation of escalation for the month April 2022 is as under:

$$\{(110-100)/100\} \times 100 = 10\%$$

7. It is appropriate to follow the above illustration for computation and application of the escalation rate for imported coal and other related escalation rates to be notified on monthly basis. However, in general the billing takes place in the first week of the following month (say May 2022) for supply of electricity for the current month (say April 2022). If we follow the above illustration, the escalation rates for the month of April 2022 may not be available at the time of billing (May 2022) due to lag in the availability of the data.

8. Therefore, it is proposed that:

- (i) the escalation rate shall be computed based on the above formula; and
- (ii) the computed escalation rate shall be made applicable as explained in the following table:

Notification and Application of the Escalation Rate		
Issue of Notification	Data for the period used for computing the Escalation Rate	Escalation Rate Applicable for the Month
May 2022	March 2022 (Base month) and April 2022 (Current month)- In case of Escalation Rate for Imported coal and Transportation of Imported Coal	May 2022
	January 2022 (Base month) and February 2022 (Current month)- In case of Escalation Rate for Inland handling of Imported Coal	
June 2022	April 2022 (Base month) and May 2022 (Current month)- In case of Escalation Rate for Imported coal and Transportation of Imported Coal	June 2022
	February 2022 (Base month) and March 2022 (Current month)- In case of Escalation Rate for Inland handling of Imported Coal	

9. Using the monthly escalation rates, index value for payment can be computed. In this regard, a sample calculation has been provided in the following table.

Sample Calculation of Index Value for Payment			
Month	Monthly Escalation Rate (%)	Index Value (assumed starting at 100)	Remarks
Apr-22		100	Starting Index Value
May-22	5%	105.00	
Jun-22	-2%	102.90	
Jul-22	10%	113.19	

10. Comments of stakeholders are invited on the above proposed methodology.
