

**EXPLANATION TO
THE NOTIFICATION DATED 15.6.2022
ON
MONTHLY ESCALATION RATES FOR IMPORTED COAL**

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. The MOP, vide its letter dated 13th April 2022, has highlighted the need for notification of escalation rate for imported coal for 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.”

3. In view of the above, the Commission, through its staff paper dated 6.5.2022, had proposed a methodology for computing the escalation rates 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. Comments and suggestions of stakeholders and other interested persons on the proposed methodology were invited through a public notice dated 6.5.2022. After considering the comments and suggestions submitted by the stakeholders, the Commission has specified the final methodology through its Order in petition no. 7/SM/2022 dated 6.6.2022.

4. As per the specified methodology, the escalation rates for imported coal for payment on monthly basis have been computed for the present notification as under:

(a) The following escalation rates have been notified

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

(b) The data on price/price indices and its composition used for computing the escalation rates notified on six monthly basis has been used for computing the escalation rates notified on monthly basis. The escalation rates on monthly basis have been computed based on the latest available two months' data.

(c) The escalation rates notified on monthly basis have been computed using the following formula:

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

5. Monthly Escalation Rates for Payment

5.1 Escalation Rate for Imported Coal

The escalation rate for imported coal for payment has been computed based on price of South African Coal (API4 published by Argus Media Ltd), Australian Coal (published by GlobalCoal) and Indonesian Coal (ICI3 published by Argus Media Ltd and and Platts CI published by Platts) for the period from March, 2022 to April, 2022 as under:

Table-1: ESCALATION RATE FOR IMPORTED COAL		
Component Index	Data Series	Monthly Escalation Rate
Composite series using weight of 25% to API4 (Price of South African Coal), 25% to GlobalCOAL (Price of Australian Coal), 25% to Argus ICI 3 (Price of Indonesian Coal) and 25% to Platts CI (Price of Indonesian Coal).	Weekly/Daily data from March 2022 to April 2022	(-)7.10%

The monthly escalation rate computed in the above table (-7.10%) is notified as escalation rate for imported coal for payment.

5.2 Escalation Rate for Transportation of Imported Coal

The escalation rate for transportation of imported coal for payment has been computed based on the price of LSFO published by Clarksons Research for the period from March, 2022 to April, 2022 as under:

Table-2: ESCALATION RATE FOR TRANSPORTATION OF IMPORTED COAL		
Component Index	Data Series	Monthly Escalation Rate
Singapore Bunker Price (VLSFO price, basis maximum sulphur content of 0.5%) (\$/t)	Weekly data from March 2022 to April 2022	(-)4.32%

The monthly escalation rate computed in the above table (-4.32%) is notified as escalation rate for transportation of imported coal for payment.

5.3 Escalation Rate for Inland Handling of Imported Coal

The escalation rate for inland handling of imported coal has been computed based on the data on WPI-All commodities and CPI-IW for the period from January, 2022 to February, 2022. A composite index, based on WPI with 60% weight and CPI-IW with 40% weight, has first been developed, which then has been used for computing the escalation rate. The data on WPI and CPI-IW has been taken from the website of Ministry of Commerce & Industry and Labour Bureau, respectively. The escalation rate for inland handling of imported coal has been computed as under:

Table 3: ESCALATION RATE FOR INLAND HANDLING OF IMPORTED COAL			
Period	WPI (Base 2011-12=100)	CPI-IW (Base 2016=100)	Composite Index*
Jan-22	143.8	125.1	136.3
Feb-22	145.3	125.0	137.2
Monthly Inflation			0.63%

*Composite index with weight of 60% to WPI and 40% to CPI-IW.

The monthly inflation computed in the above table (0.63%) is notified as escalation rate for inland handling of imported coal for payment.

6. The data series for API4, Global Coal Index, Argus ICI3, Platts CI, and Singapore VLSFO Bunker Fuel Price Index have been analysed by CERC. The data is not made available for public dissemination since it is paid for and is sourced on a single user subscription.
