



10 July 2023

FAO: Staff of Central Electricity Regulatory Commission

3rd and 4th Floor, Chanderlok Building

36 Janpath, New Delhi, 110001

Ref: Review of Composite Index used for Computing the Escalation Rate for Imported Coal for Bid Evaluation and Payment

Dear Sir/Ma'am,

I write in response to the Central Electricity Regulatory Commission's (CERC's) proposal to review the Composite Index used for computing the escalation rate for imported coal for bid evaluation and payment, and the proposed plans to change the methodology.

Argus is broadly in agreement with CERC's analysis and consequent proposals to change the mechanism. It is clear the import mix of coals coming into India has changed substantially in both quality and quantum over the last 10 years, and a change to the Composite Index is therefore necessary.

The proposal to include API 3 is a logical step. This index accurately captures the value of South African coals that would typically be imported and consumed in India. Furthermore, the index is widely accepted as a representative price for these types of coals (NAR 5,500 kcal/kg, fob Richards Bay, South Africa).

An alternative method for deriving the value of this coal would be to use the widely-used API 4 index and apply a pro-rated differential to obtain a calculated price for NAR 5,500 kcal/kg for Richards Bay coal. The differential value for this particular grade is published alongside the API 3 in the weekly Argus/McCloskey's Coal Price Index Report. Any application of the differential should be heat-adjusted and the simple formula for doing so is as follows:

API 4 (monthly) + 5500 differential (monthly) * (5500/6000)

So, for example, the applied differential for May 2023 would be as follows:

\$110.75 + -\$9.68 = \$101.07

\$101.07 * (5500/6000) = \$92.65/t

We also see the proposal to use API 5 to account for the value of Australian imports into India as logical. This index is widely accepted by the market as a good representation of fair value of the grade and origin in question (NAR 5,500 kcal/kg, fob Newcastle, Australia). This is a type of coal that has been imported and consumed by Indian end-users in substantial volumes over recent years.

The proposal to continue to use ICI 3 also makes sense given the quantities of this type of coal imported and consumed in India, and the preference for using ICI 3 as a benchmark for purchasing and trading this particular grade.

We would note too that there is a significant amount of lower quality, GAR 4,200 kcal/kg coal imported from Indonesian into India. The main price benchmark for this coal would be ICI 4, which is also found in the

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Argus/Coallndo Indonesian Coal Index Report, alongside ICI 3.

Argus is keen to support CERC in whatever way possible to facilitate the proposed changes to the Composite Index. To that end I attach a copy of fixed price, index-relevant trades for Argus' component of API 5 and for Argus' component of ICI 3 over the past 3 months. Further, as requested at our recent meeting with the CERC team in New Delhi, we attach some recent index-linked trades for the ICI indexes by way of evidence that these prices are widely accepted in the market.

Yours sincerely

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