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To
 The Secretary,
 Central Electricity Regulatory Commission (CERC),
 Chanderlok Building,
 36 Janpath, New Delhi – 110 001
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Sub: Comments on “Review of Composite Index used for Computing the Escalation Rate for Imported Coal for Bid Evaluation and Payment”

Sir,

This is in reference to Central Electricity Regulatory Commission (CERC) notice dated 09-06-2023 inviting comments and suggestions of the stakeholders on Staff Paper release on “Review of Composite Index used for Computing the Escalation Rate for Imported Coal for Bid Evaluation and Payment.”

In the staff paper, In light of the developments in the international coal market, the quantum of steam coal imported into India, and the various factors affecting coal prices, such as global demand and supply dynamics, heightened uncertainties due to geopolitical reasons, and changes in the methodology for the HBA (Harga Batubara Acuan) index by the Government of Indonesia, the Central Electricity Regulatory Commission (CERC) has recognized the need to review the existing composite index for imported coal and proposed the following revised methodology for development of composite index used for computing the escalation rate for imported coal.

Name of Country	Descriptions of Index	Publisher	Weightage
South Africa	API3 - FOB Richards Bay at 5500 Kcal/kg NAR	Argus/McCloskey	25%
Australia	API5 – FOB Newcastle, 5500 Kcal/kg NAR	Argus/McCloskey	05%

	Platts FOB Newcastle 5500 Kcal/kg NAR	S&P Global Platts	05%
Indonesia	ICI3 – FOB Kalimantan 4600 Kcal/kg NAR (5000 Kcal/kg GAR)	Argus/Coalindo	32.5%
	Platts CI – FOB Kalimantan 4700 Kcal/kg NAR (5000 Kcal/kg GAR)	S&P Global Platts	32.5%

Comments / suggestions on CERC staff paper for escalation index methodology

1. Weightage to various international coal indices:

In the Staff Paper it is mentioned that the country has been consistently importing majority of steam coal from Indonesia (more than 68%). Further, it has been observed that low Calorific Value of Indonesian coal is mainly used in the Indian Power Sector and with availability of credible / reliable low Calorific value indices, it has been proposed to modify the weightage allocation to various indices of different countries taking into consideration the basket mix with emphasis on reducing the weightage of GCV of coal for which price is being taken into consideration (for South Africa & Australia coal). The details of the quantum (in %) of steam coal importers in India during FY 2013 to FY2023 is as under:

F.Year	Indonesia	South Africa	Australia	Other country
FY 2013 to FY2023	68%	20%	4%	8%

Comments: At the outset, the proposed revision in the Staff paper is to increase the weightage of Indonesian coal in view of actual data pattern signifying that significant quantum of coal is being imported from Indonesia as compared to premium coal indices of South African and Australian coal. However, the Staff Paper does not provide for data / details which regard to the quantum of various GCV of coal being imported for generation of electricity in India and its weightage in the matrix of total coal imported. As per the details available from Coalmint, premium research and business Intelligence Company on coal market, the significant quantum of coal imported by India comprises of lower GCV coal. The details of share of GCV of coal during last 3 years as published by Coalmint is as under:

(In MnT)

Year	4200 & below GCV (GAR)	Higher than 4200 GCV (GAR)	Grand Total

2021	31.7	32.1	63.8
2022	42.5	60.6	103.1
2023	13.7	15.3	29.0
Total	87.9	108.0	195.9
Simple average	45%	55%	100%

As can be observed from above, out of total reported GCV quantity of 195.9 Million Ton imported coal during last 3 years, around 45% quantity of imported coal is of Gross Calorific Value of 4200 kcal/kg & below.

The primary reasons for such high share of lower GCV coal in overall import is the market pricing dynamics as per which the lower GCV coal price reduces in an accelerated manner with reduction in GCV of coal i.e. there is higher discount on lower GCV coal as compared to proportionate price of higher GCV coal.

In case of consideration of any higher GCV coal for harmonize to 5000 GCV, it is humbly submitted to take into consideration the prevailing discount for sub-category of coal since as per the market dynamics & historic price trend with reduction in GCV, the price of coal reduces in an accelerated manner as compared to proportionate pricing.

It is relevant to mention that Govt. of Indonesia recognizing the above aspects has started publishing two new indices namely HBA1 index 5200 kcal/kg GAR and HBA2 4200 kcal/kg GAR since March 2023 in addition to main HBA Index for 6322 kcal/kg GAR GCV coal. While, HBA Index is relevant for royalty payment to the Govt. in Indonesia, the introduction of sub-category of HBA for 4200 GCV itself signifies that the same is having a considerable share in coal being exported from Indonesia.

In the above backdrop, following is suggested:

- (a) Considering the high import of steam coal from Indonesia for electricity generation in India, at present, it is suggested that the proposed methodology for a composite index should primarily consider the only Indonesian Steam Coal Indices provided by Argus/Coalindo and S&P Global Platts.

To accurately reflect the imported coal price trends, it is recommended to consider the Indonesian Steam Coal Indices for both 5000 GAR and 4200 GAR coal grades. These two coal grades are commonly imported by India for electricity generation and are

representative of the market dynamics. The inclusion of both coal grades in the composite index allows for a more understanding of the pricing trends and variations in the steam coal market. It ensures that the index reflects the actual price movements of the coal grades being imported for specifically electricity generation in India.

However, In future, while reviewing the composite index, actual steam coal imported into India for generation of electricity from various country on weighted average basis may be consider for subsequent period.

(b) The Indonesian steam coal is commonly traded on GAR (Gross As Received) basis in international coal market, and considering the high import of steam coal from Indonesia on GAR basis and also given higher weightage of Indonesian coal in proposed staff paper, therefore, it is suggested that to normalize the calorific values to 5000 Kcal/kg at GAR (Gross As Received) basis instead of 5000 Kcal/ kg at NAR (Net at Received) when developing the composite index methodology.

(c) The summarize details are as under accordingly.

Name of Country	Descriptions of Index	Publisher	Weightage (%)
Indonesia	ICI3 – FOB Kalimantan 5000 Kcal/kg GAR	Argus/Coalindo	XXXX
	ICI4 – FOB Kalimantan 4200 Kcal/kg GAR	Argus/Coalindo	XXXX
	Platts CI – FOB Kalimantan 5000 Kcal/kg GAR	S&P Global Platts	XXXX
	Platts CI – FOB Kalimantan 4200 Kcal/kg GAR	S&P Global Platts	XXXX

2. Data repository for coal imported in India:

There are various generators procuring imported coal from various countries for onward supply of power to the Distribution Companies. The details / data with regard to procurement of coal from country of origin, Gross Calorific Value, shipping cost, statutory levy etc. are relevant for ascertaining the cost of power in the larger interest of consumers of the country.

In the above context, Hon'ble Commission is requested that a data repository / dedicated e-portal may be developed and maintained on the website of Hon'ble Commission wherein generators importing and consuming the imported coal are mandated to submit / upload

such imported coal details on regular intervals for wider knowledge of stakeholders and in consumers' interest.

3. **Review of composite Index:** it is suggested to review the composite index every two year on weighted average basis actual steam coal imported into India for generation of electricity for subsequent period.

Thanking you,

Yours Sincerely,



(J J GANDHI)

General Manager (commerce.)

C.F.W.Cs to

1. The Managing Director, GUVNL
2. The Director (Finance), GUVNL