

The News Building,  
1 London Bridge Street,  
London, SE1 9GF

**FAO: Harpreet Singh Pruthi**

Secretary

CENTRAL ELECTRICITY REGULATORY COMMISSION

3rd & 4th Floor,

Chanderlok Building, 36,

Janpath,

New Delhi -110 001

**No. Eco-12/2/2023-CERC**

**June 29, 2023**

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

Dear Sir,

While we very much support the reasoning behind the proposed changes to the import coal fuel calculation, as it is something we had previously proposed to CERC back in 2013 and through continued engagement with the CERC since, we are disappointed that McCloskey's Indonesian benchmarks were not considered for inclusion into the proposed formula, despite their significance to the international thermal coal market.

And we are also unsure why another 5,500kc NAR Australia price assessment was included in the composite index since the physical benchmark for that quality is recognized as being the API5 in the same way as API3 is for South African coal, with many physical cargoes priced against it.

It seems very perplexing that McCloskey, now part of Dow Jones<sup>1</sup>, Indonesian benchmarks are not being considered as a component of the Composite Index, as we are widely viewed as a premium source of pricing information for coal from this region. McCloskey, via its M42 - Indonesia (4,200kc GAR) FOB - benchmark, is responsible for the only listed derivative for Indonesian coal and because of this, and its API partnership with Argus, McCloskey coal indexes account for 80% of all derivative thermal coal globally.

McCloskey has a long running pedigree in Indonesian coal pricing, going back to 2002 with its M50 *Indonesian Sub-Bituminous index*, that later went on to become the first exchange listed Indonesian derivative (launching in November 2010 on the Singapore Exchange (SGX) and, later, on the InterContinental Exchange (ICE) and the Chicago Mercantile Exchange (CME)). This prices index specification is 4,700 kc/kg NAR (5,000 kc/kg GAR) and it has been published since 2002. It is used in physical contracts by major South-East Asian buyers, a growing number of Chinese generators and major coal producers in Indonesian

# McCLOSKEY

BY OPIS, A DOW JONES COMPANY

Exchange listing being relevant as it a recognition that the price index is the benchmark for that quality and it requires the provider to be transparent about its methodology and calculations and be subjected to the highest compliance standards with an annual audit against the IOSCO principals conducted by an external auditor. Except for the API series none of the other price assessments considered for the Composite Index are subjected to a full annual IOSCO<sup>2</sup> audit.

When the CERC first revised the Composite Index in 2013 to include Indonesian price assessments there was a logic to include the Indonesian assessments providers used in the Indonesian royalty rate calculation, the HBA, even if the price assessments used in the HBA were different to those used by the CERC<sup>2</sup>. However, the HBA has recently been reformed and no longer uses a basket of international indices as its basis, moving to its own calculation based on transaction receipts provided to the Indonesian government.

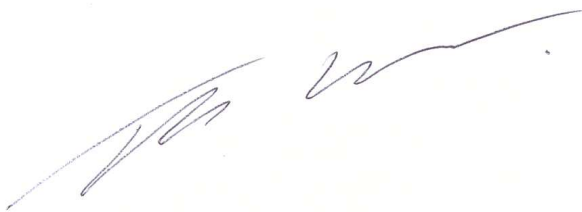
Consequently, in our opinion CERC should now consider Indonesian price assessments that are used by the industry. There are only two Indonesian sets of indices actively used in physical contracts by the industry, these are the ICI and McCloskey suites.

The McCloskey indices are materially used by the industry both in physical contracts and as a settlement price for exchange listed derivatives. We are unaware of any other indexes besides the API series and ICI series that are actively used to price physical thermal coal in Asia or Africa.

We strongly suggest that CERC takes this opportunity to include the M50 Indonesian Sub-bituminous marker, a proven and actively used price index, with high degree of acceptance and market credibility, into its calculation. We believe it will add additional credibility to the calculation, and counter suggestions that the components of its Composite Index are not leading benchmarks.

We would be delighted to discuss the relevancy of the McCloskey Indonesian prices indexes at your earliest convenience.

Yours Sincerely



John Howland  
Vice President  
McCloskey by OPIS, a Dow Jones Company  
E: [Jhowland@OPISnet.com](mailto:Jhowland@OPISnet.com)  
M: +447580751119

# McCLOSKEY

BY OPIS, A DOW JONES COMPANY

<sup>1</sup> IHS Markit was acquired by S&P Global on February 28 this year. The coal, metals and mining business of IHS Markit was divested at the request of the competition regulators to allow the sales process to go ahead. This business was purchased by Dow Jones and it re-took the name McCloskey, which is the brand name for many of our products. Dow Jones, publishes The Wall Street Journal and The Times of London.

<sup>2</sup> The HBA used the Indonesian Coal Index (ICI) 6,500 kc/kg GAR price assessment and the Platts Indonesian 5,900 kc/kg GAR price assessment.

<sup>3</sup> IOSCO is the International Organization of Securities Commissions. It is an association of organizations that regulate the world's securities and futures markets. Members are typically primary securities and/or futures regulators in a national jurisdiction or the main financial regulator from each country. Its Indian representative is the Securities and Exchange Board of India, (*Ms. Madhabi Puri Buch, Chairperson*)

## **Further Background**

To access the McCloskey Thermal Coal and Petcoke marker price methodology click [here](#)

To access the McCloskey by OPIS IOSCO PRA Principles Audit Report click [here](#)

## **Coal derivatives**

There are currently just four exchange listed coal indices for international thermal coal, API2 (delivered into Europe), API4 (South Africa), gC Newcastle (Australia) and M42 (Indonesia).

The most relevant one to India is McCloskey's M42 index for Indonesian 4,200 kc GAR material. McCloskey's M42 has a very strong correlation coefficient of 0.95 to the M50 McCloskey Indonesian 5,000 kc GAR index, meaning it can reliably be used as a proxy for hedging purposes, tracking the underline movements very closely.

While the calorific value of this coal is below the 5,000kc GAR specification favoured by CERC it would allow those companies with exposure to CERC's Composite Index, to have the ability to build a synthetic version in the paper market to mitigate their price risk to severe price movements. M42 also correlates better to API5 than gC Newcastle does (while API3 can be very effectively hedged using API4). This is another demonstrable advantage that McCloskey's Indonesian indices have over all the other markers for Indonesian coal.

This tight relationship to a listed Indonesian index is something that no other available index provider is capable of doing, underlining its relevance and utility to the global coal trading community.