

Comments and suggestions on CERC Staff Paper on “Review of composite index used for computing the escalation rate for imported coal for bid evaluation and payment”

Submissions of Prayas (Energy Group), Pune

The Central Electricity Regulatory Commission issued a staff paper in June 2023, reviewing the composite index used for computing the escalation rate for imported coal for bid evaluation and payment. The staff paper proposes revising the index components and weightages to reflect the actual steam coal being imported into the country. This is a necessary and welcome step. Prayas (Energy Group) is happy to submit its comments on the staff paper with a view to further improving and strengthening it. These are given below.

1. Indonesian coal indices: The staff paper proposes using the ICI3 and Platts FOB Kalimantan 5000 (both 5000 kcal/kg GAR) with weightages of 32.5% each. Given that coal imported to India is likely to be of lower calorific value, it may be better to consider the ICI4 and Platts FOB Kalimantan 4200 (both 4200 kcal/kg GAR) with the proposed weightages of 32.5% each. This is likely to better reflect the price variations of the coal imported into India. Moreover, though ICI3 and ICI4 may have high correlation and Platts 5000 and Platts 4200 may have high correlation currently, shifting to the 4200 kcal/kg indices may be able to better reflect future price variations of the coal imported to India. Both these indices also have sufficient historical data. Therefore, we suggest that the revised index be composed of ICI4 and Platts FOB Kalimantan 4200 in equal weightage of 32.5% each.
2. Australian coal indices: The suggestion to lower the weightage of Australian coal to 10% from 25% is appropriate given that the share of Australian imports in steam coal imports is low. We commend this suggestion in the staff paper, along with the proposal for 65% weightage to Indonesian coal and 25% weightage to South African coal.
3. Providing clarity through an example: Paragraph 20 of the staff paper mentions that calorific values will be harmonized across indices by normalizing for 5000 kcal/kg and assuming a linear trend. It would be good to provide an illustrative example to explain how this calculation would be done. It would also be good to clarify whether the 5000 kcal/kg to be normalized to is GAR or NAR, to avoid confusion.

We request the Commission to consider these comments while finalizing the revised composite index to compute the escalation rate for imported coal for bid evaluation and payment.

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