

Tata Power Comments & Suggestions on Staff Paper for Review of Composite Index used for Computing the Escalation Rate for Imported Coal for Bid Evaluation and Payment

Based upon the CERC Staff Paper for review of “composite Index used for computing the escalation rate for imported coal for bid evaluation and payment”, Tata Power is suggesting following changes in indices & their weightages.

a) South African Coal: Except in 2022-23, the share of South African coal in total steam coal imports in India consistently varied between 16% and 29%. Keeping this in view, the price index of South African coal is proposed as part of the composite index with the same weightage. Among the available price indices, API3 5500 kcal/kg NAR of Argus/McCloskey has a very high correlation with API4 (presently used in the CERC composite index) and is more representative of steam coal imports into India. Therefore, the same is proposed as part of the composite index as a representative index for South African coal, with a weightage of 25%.

Tata Power Comments/Suggestions –

Tata Power is observing fuel under-recovery considering high coal cost not being compensated in the PPA tariff. To minimize losses, Tata Power source coal from different geographies which includes South Africa. Further, Tata Power gets freight tariff equivalent to Indonesia freight. South Africa freight is relatively high as compared to Indonesia freight. Hence, Tata Power tends to source high GCV (6000 NAR) coal from South Africa to optimise overall CIF basis cost under-recovery. The high GCV coal (6000 NAR) being traded at API-4 which is also acknowledged in the proposed staff paper.

Considering above points, Tata Power suggests that instead of replacing entirely API-4 index with 25% weightage with API3 index 25% weightage, CERC to maintain API-4 index with 12.5% weightage and API-3 Index to carry another 12.5% weightage. This will help to maintain balance between coal sourcing for high GCV (6000 NAR) and mid GCV (5500 NAR) in order to optimise cost of coal at CIF level.

b) Australian Coal: While formulating the mechanism for the coal price index in 2013, 25% weightage was given to Australian coal, considering that the share of steam coal imports from Australia may increase. However, it is observed that the steam coal imports from Australia were not significant till 2019-20. It is only in the last three years that the share of coal imported from Australia increased. Considering this trend in imports and its acceptability for contracts, the price index of Australian coal is retained as part of the proposed composite index, but with a lower weightage of 10% (presently it is 25%). Historical data on the two new price indices (i) API5 of Argus and IHS McCloskey 5500 kcal/kg NAR and (ii) Platts Newcastle index 5500 kcal/kg NAR is now available. These indices represent lower-CV coal, which is more representative for imports into India and are being used as reference prices for coal contracts. Therefore, in place of the GlobalCoal Newcastle Index, these two new indices are proposed to be considered as part of the composite index as representative indices for Australian coal, with a weightage of 5% to each index and an overall weightage of 10% to Australian coal.

Tata Power Comments/Suggestions –

Tata Power is observing fuel under-recovery considering high coal cost not being compensated in the PPA tariff. To minimize losses, Tata Power source coal from different geographies which includes Australia. Further, Tata Power gets freight tariff equivalent to

Indonesia freight. Australia freight is relatively high as compared to Indonesia freight. Hence, Tata Power tends to source high GCV (6000 NAR) coal from Australia to optimise overall CIF basis cost under-recovery.

Considering above points, Tata Power suggests that instead of having same GCV (5500 NAR) combination i.e., API 5 and Platts NewC 5500 NAR index with 5% weightage each, CERC to consider the combination of Global NewC 6000 NAR and Platts NewC 5500 NAR indices with 5% weightage each. This will help to maintain balance between coal sourcing for high GCV (6000 NAR) and mid GCV (5500 NAR) in order to optimise cost of coal at CIF level.

c) Indonesian Coal: It is noted from the analysis that Indonesian coal consistently forms a significant part of the steam coal imports in India. Therefore, it is worth assigning more weightage to the Indonesian coal indices as part of the composite index. Considering the relative merits, the indices published by Platts (5000 kcal/kg GAR) and Argus (ICI3 5000 kcal/kg GAR) are proposed to be retained as part of the composite index as representative indices for Indonesian coal. with a weightage of 32.5% to each index and an overall weightage of 65% to Indonesian coal.

Tata Power Comments/Suggestions - Ok with the CERC suggested Indices & their weightage.

d) Calorific value harmonization across indices and normalization. In this regard, no change is proposed. The calorific values shall be harmonized across indices by normalizing for 5000 kcal/kg and assuming a linear trend across indices of different calorific values of coal.

Tata Power Comments/Suggestions - Ok with the CERC suggested methodology.

e) Review of the composite index: The volatility in international coal prices has been quite significant in the recent past, and coal imports from other countries have increased. Thus, the composite index may need to be reviewed periodically, and indices of other coal exporting countries may need to be added once they have at least a 5% share in the total steam coal imports and subject to the availability of credible/reliable price indices. Keeping this in view, it is proposed to review the composite index every three years or as and when the need arises, whichever is earlier.

Tata Power Comments/Suggestions - Considering the dynamic coal market and recent shift of coal prices, Tata Power suggests 2 years or earlier review period is a better option.

Summary of the Tata Power Comments/Suggestions is tabulated below.

Country	CREC Suggested	Tata Power Proposal	Changes
South Africa	API-3 5500 NAR @25%	API-3 5500 NAR @12.5%	Both API3 & API4 with split weightage of 12.5% each.
		API-4 6000 NAR@12.5%	
Australia	API-5 5500 NAR @5%	Global NewC 6000 NAR@5%	Replacement of API-5 5500 NAR with Global NewC 6000 NAR
	Platts NewC 5500 NAR@5%	Platts NewC 5500 NAR@5%	
Indonesia	ICI-3 Argus 4600 NAR @32.5%	ICI-3 Argus 4600 NAR @32.5%	-
	Platts CI 4700 NAR @32.5%	Platts CI 4700 NAR @32.5%	