FW: NTPC Comments on CERC Staff Paper on Revised Coal Stock Norms

From : Harpreet Singh Pruthi <secy@cercind.gov.in> Mon, Jun 20, 2022 11:15 AM

Subject : FW: NTPC Comments on CERC Staff Paper on Revised Coal Stock Norms 2 attachments

To : Sunil Kumar Jain <sunil_jain@nic.in>

From: PBVENKATESH@NTPC.CO.IN <>
Sent: 27 May 2022 22:33
To: Harpreet Singh Pruthi <secy@cercind.gov.in>
Subject: NTPC Comments on CERC Staff Paper on Revised Coal Stock Norms

Dear Sir,

A Staff Paper titled “Methodology for Computing ‘Deterrent Charges’ for maintaining lower coal stock by coal based thermal generating stations” has been circulated by the Hon’ble Commission seeking comments / suggestions from concerned stakeholders. In this regards, NTPC comments are enclosed herewith for consideration please.

Regards,

P.B.Venkatesh,
AGM (Comml.)
NTPC Ltd.

NTPC Comments - Revised Coal Stock Norms.pdf
2 MB

NTPC Comments - CERC Staff Paper - coal Stocking Norms.docx
24 KB

<u>NTPC Comments</u>
<u>on CERC Staff Paper</u>
<u>Methodology for Computing 'Deterrent Charges'</u>
<u>for maintaining lower coal stock by coal based thermal generating stations.</u>

1. **Availability on Quarterly Basis** –

The CERC Staff Paper has proposed as under:

"42(8) (i) In case, the Plant Availability in any month is short by more than 5 % but up to 25 % of NAPAF and average coal stock availability for the last three months (month for which reduction in capacity charges are computed and two months preceding that month) is lower than the average coal stock norms specified by CEA for the respective three months:"

Revision of Coal Stocking Norms in Coal Based Thermal Plants was issued by CEA vide letter dated 27.11.2022 with approval of MOP which stipulates maintaining Normative Availability on a quarterly basis.

Relevant portion of the CEA Revised Coal Stocking norms is extracted as under:

a) Power plant designed on domestic coal: In the event, the availability is less by 5% or more from the Normative Availability (as applicable) on <u>quarterly basis</u>, the fixed charge shall be reduced to the extent of shortfall in Normative Availability and in addition, the reduction below the Normative Availability shall be multiplied by a factor of 0.2 (i.e. levy of additional 20% due to reduced availability) to determine the charges payable for non-maintenance of coal stock on <u>quarterly basis</u>.

b) Power plant designed on imported coal: In the event the availability is less by 5% or more from the Normative Availability (as applicable) on <u>quarterly basis</u>, the fixed charge shall be reduced to the extent of shortfall in Normative Availability and in addition, the reduction below the Normative Availability shall be multiplied by a factor of 0.5 (i.e. levy of additional 50% due to reduced availability) to determine the charges payable for non-maintenance of coal stock on <u>quarterly basis</u>.

c) Further, in case the availability is less by 25% or more from the Normative Availability (as applicable) on <u>quarterly basis</u>, the fixed charge shall be reduced to the extent of shortfall in Normative Availability and in addition, the reduction is beyond 25% below the

Normative Availability shall be multiplied by a factor of 1 (one) (i.e. levy of additional 100% due to reduced availability) to determine the charges payable for non-maintenance of coal stock on *<u>quarterly basis</u>*.

This above is also aligned to the existing FSA provisions which also provides quantities on quarterly basis. The Fuel Supply Agreement (FSA) provides that the Annual Contracted Quantity (ACQ) shall be divided into Quarterly Quantity which is specified as a certain percentage of the ACQ. The Monthly Quantity is specified as one third of the Quarterly Quantity.

Considering monthly availability would have significant implications. The same has not been envisaged by the CEA Revised Coal Stock Norms and the MOP directions in this regard. Achieving target availability in a shorter period enhances the risk considerably and multiplies the penal implications. It may be mentioned that presently target availability is to be achieved separately in high demand season and low demand season which is for periods of 3 months and 9 months respectively**.**

It is therefore submitted that availability may be considered on quarterly basis as stipulated by CEA in its revised coal stock norms instead on monthly basis as proposed by CERC Staff Paper. The staff paper has proposed average coal stock for preceding three months including the current month for which computation is being made. On similar lines, it is suggested that average availability of the preceding three months including the current month for which computation is being made may be used.

2. **Penalty should be levied only if target availability is not achieved due to coal shortage -** The direction issued by MOP to CERC under Sec-107 of EA-2003 vide letter dt. 22.02.2022 at S. No. 3(c) provides as under:

   <u>In the event availability of any power plant is less than Normative availability due to less coal stock maintained by the power plant</u>, the power plant has to face disincentive in terms of reduction in fixed charges to the extent of shortfall in Normative availability and levy of additional factor due to reduced availability as penalty.

Therefore, in line with the above MOP direction, the plant should not be penalized if the shortfall in availability is due to reasons other than shortfall in coal stock. Penalty should not be levied in the following reasons.

i. Penalty should not be levied during the period when a unit / station is under planned capital shutdown or annual overhauling, or a unit is under shut down due to reasons not attributable to coal shortage.

ii. There could be instances where the unit may be under shutdown for long periods due to breakdown of major equipment like Generator Transformer, high turbine vibration, etc.

In such cases, where outage or reduction in DC is due to reasons other than coal shortage, there is already provision for reduction in fixed charges in the existing CERC regulations. Therefore, the stations should not be double penalized on this account and must be exempted from levy of penalty because of non-maintenance of normative coal stock.

3. **Obligation for Ensuring Coal Stock only on generators is not fair -** Penalty should not be levied in case shortfall in coal stock is due to lower supply by the coal company or due to logistics and transportation issues attributable to the Indian railways and is not directly attributable to any negligence on part of the generating company. It is submitted that NTPC coal stations have Coal Supply Agreement with the Coal India Limited and its subsidiaries. Transportation of coal from the linked mine to the station in pithead stations is through dedicated MGR system, which is operated by the station. It may be noted that pithead stations are better placed as compared to non-pithead stations with respect to coal stock position as station has direct control over the transportation logistics.

   In case of non-pithead stations, the transportation of coal is through Indian Railways (IR). Both CIL & its subsidiaries and IR are government instrumentalities and natural monopolies. While the Coal Companies are CPSUs operating under the administrative control of the Ministry of Coal, Indian Railways comes under the Ministry of Railways, Government of India. Thus, in addition to NTPC, the responsibility of making requisite quantity of coal available at the station rests equally on the Coal Companies and Indian

Railways. The generating company is accountable for arranging coal for achieving target availability to ensure full recovery of fixed charges. However, penalizing the generating company for not maintaining coal stock as per the revised coal stock norms in spite of taking all efforts to procure coal diligently is not justified.

The CEA revised coal stocking norms dated 6th Dec 2021 provides for recommendation by CEA / MoP for enhancing coal supply to generating station according to system of monthly grading of Gencos/IPPs based on the performance of generating company in maintaining coal stock and status of payment to coal companies. **It further provides that if Central State Genco or IPP submits programme as per the Monthly Scheduled Quantity (MSQ as per the FSA) of the individual plant, but still is not able to maintain coal stock due to reasons, such as less coal supply by CIL, less rake availability, running at very high PLF, etc. (>= 85% PLF), then such plant will be kept in green zone.**

NTPC regularly participates in the sub-group meetings held for coal coordination, where all stakeholders including MOC, MOP, CEA, Indian Railways and generating companies participate. NTPC places the requirement of coal for each station, which is then endorsed by the Coal Supply subject to the coal availability. Indian Railways then sanctions railway rakes as per availability and operational considerations. NTPC makes advance payment to the coal companies for supply of coal. Similarly, there is LC mechanism for payment to railways. Therefore, Coal companies and Indian Railways play a pivotal role in materialization of supply to the stations, over which the generating companies do not have much control.

It is therefore submitted that if generating company is able to demonstrate its actions for procuring coal diligently, i.e. it submits programme as per the Monthly Scheduled Quantity (MSQ as per the FSA) of the individual plant, requisition for rakes, makes advance payment, etc., but is still not able to maintain coal stock due to reasons, such as less coal supply by CIL, less rake availability, attributable to Coal Company or the Indian Railways; it should not be penalized for any deficiency or lapse on part of the coal companies or the Indian Railways.

4. **Revision in Coal Stock Norms used for Computation of Working Capital -**

   CERC Tariff Regulations, 2019 provides following cost of coal stock for computation of working capital as under:

   i. Pit-head stations - 10 days

   ii. Non pithead stations - 20 days.

   Revised coal stock norms proposed by the Staff Paper is as under -

   i. Pit-head stations - 12 to 17 days depending on month of year.

   ii. Non pithead stations - 20 to 26 days depending on month of year.

   Existing Norms for coal stock in working capital is lower than the proposed coal stock norms for both pithead and non-pithead stations. The implication of revised coal stock norms on the working capital requirement of NTPC coal-based stations would be approximately Rs. 910 crores, which would translate to increase in interest on working capital by approximately 100 crores.

   In order to ensure continuous power supply to the beneficiaries and considering the current materialization of domestic coal, the Govt. of India vide letter dated 28.04.2022 has issued revised targets for NTPC regarding importing 20 million MT coal by October 2022, which would need additional working capital requirement of Rs. 36,000 crores (considering landed price of imported coal @ Rs. 18,000 per MT) and would translate to interest on working capital of Rs. 3780 crores.

   In-principle, all expenses incurred in a cost-plus tariff framework subject to regulatory prudence is allowed in tariff. ***It is therefore submitted that coal stock norm for computation of working capital need to revised accordingly and aligned to the proposed revised coal stock norms.***

5. **Force Majeure Events -** Coal supply to generating company would be affected on account of force majeure events impacting the Coal Company or the Indian Railways or the generating company, like unprecedented natural calamities, floods, accidents in mines, disruption in rail traffic, law & order situation etc. It is submitted imposition of penalty in such cases must not be insisted upon.

6. **Phased Implementation -** It may be noted that presently the country is facing severe shortfall in domestic coal. Generators have been directed to import coal for blending at least 10% and to up to 30% imported coal with domestic coal. There is also direction for operationalization of non-operating imported plants. In such a scenario of high coal requirement, it would not be possible to build required stock levels especially in non-pithead stations. Therefore, it is submitted that the penalty mechanism may be implemented in a phased manner. This is required as stations would not be able to build up required stocks in view of high PLF and present levels of supply.