Fwd: Comments on Staff Paper on "Blending of imported coal with domestic coal to mitigate the domestic coal shortage"

From : Awdhesh Kumar Yadav <awdhesh@nic.in> Mon, Jun 13, 2022 06:28 PM

Subject : Fwd: Comments on Staff Paper on "Blending of imported coal with domestic coal to mitigate the domestic coal shortage" 1 attachment

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

From: "Harpreet Singh Pruthi" <secy@cercind.gov.in>
To: "Awdhesh Kumar Yadav" <awdhesh@nic.in>
Sent: Monday, June 13, 2022 6:12:51 PM
Subject: Fwd: Comments on Staff Paper on "Blending of imported coal with domestic coal to mitigate the domestic coal shortage"

From: amitmittal@lpgcl.com
To: "Harpreet Singh Pruthi" <secy@cercind.gov.in>
Cc: ankushj@lpgcl.com, vksbankoti@bajajenergy.com
Sent: Monday, June 13, 2022 5:40:36 PM
Subject: Comments on Staff Paper on "Blending of imported coal with domestic coal to mitigate the domestic coal shortage"

Dear Sir,

Please find the enclosed herewith written comments/ suggestions on behalf of Bajaj Group (with a capacity of 2430MW i.e. 3X660 at Lalitpur and 450 MW at BEL power stations) on the "Blending of imported coal with domestic coal to mitigate the domestic coal shortage".

We humble request you to consider our submission favourably and please do let us know, if you require any further clarification.

Thanking You

Amit Mittal
Head of Department - Regulatory Affairs
Bajaj Bhawan B-10, Sector–3,
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LPGCL & BEL comments on CERC Staff paper on Imported coal.pdf
8 MB

Ref: LPGCL-RA/CERC/2022/49

Date: 13.06.2022

The Secretary
Central Electricity Regulatory Commission
3rd and 4th Floor, Chandralok Building,
36, Janpath,
New Delhi.

Sub: Comments of Bajaj Group on the proposed Staff Paper on the "Blending of imported coal with domestic coal to mitigate the domestic coal shortage" as per public notice dated 13.06.2022.

Dear Sir,

Please find the enclosed herewith written comments/ suggestions on behalf of Bajaj Group (with a capacity of 2430MW i.e. 3X660 at Lalitpur and 450 MW at BEL power stations) on the "Blending of imported coal with domestic coal to mitigate the domestic coal shortage" as "Annexure A".

We humble request you to consider our submission favourably and please do let us know, if you require any further clarification.

Thanking You

Amit Mittal
Head of Department – Regulatory Affairs
(Authorized Signatory)

Lalitpur Power Generation Company Limited
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Annexure A

Comments on Blending of imported coal with domestic coal to mitigate the domestic coal shortage

A. **Brief basis of introducing staff paper of facilitation of the blending of import of coal**

1. Nationwide severe shortage of Domestic coal
2. Sharp increase in the Electricity Demand
3. MoP has issued several notification for procurement of Imported coal at least 10 % of their requirement
4. Generating companies are facing challenges to comply the MoP direction due to delay/absence of permission by the concerned beneficiary
5. MOP issued direction to CERC under section 107 of Electricity Act, 2003 to facilitate higher blending of up to 30 % with imported coal subject to technical feasibility, without the requirement of **prior consultation with beneficiaries up to 31.03.2023.**

Further, Regulation 43 of CERC (Terms and Conditions of Tariff) Regulations, 2019 provides a framework for the beneficiaries to take a considered decision whether to procure costly electricity. Accordingly, CERC issued a staff paper on 02.06.2022 and illustrated the impact of purchase of Imported coal in various scenario considering the Regulations norms.

In view of the above analysis, CERC has invited the comments, feedback and responses to process the matter and for giving directions regard to facilitation of the blending of import of coal up to 30%,

B. **Comments on the CERC proposed norms**

1. There should be no percentage restriction on blending of imported coal on a month to month basis in the proposed norms considering the nationwide high electricity demand and server domestic coal shortage. Blending should be allowed specifically as per plant technical feasibility of the power plant.

2. Further, ceiling for blending of imported coal should be allowed as percentage of total annual consumption and not on month to month basis. Blending ratio shall be within the maximum ceiling quantity of imported coal arrived on annual basis and Generating company shall be allowed to utilise imported coal up to the shortfall quantity between its coal requirement and coal availability under Fuel Supply Agreement (FSA). Impact of ECR of such blending should be allowed on actual basis to be recovered from Beneficiaries. However, the ceiling of 30% on quantity usage on annual basis, seems to be reasonable.
3. Cost of Imported coal should be allowed on actual, provided that the cost of imported coal is arrived through transparent International Competitive Bidding process and the limit of 20% of preceding months and 30% of Base Energy Charge Rate as approved by Commission should be discontinued, for next 2-3 years, till such time demand supply situation of domestic coal stabilises.

4. If the Coal liquidity ratio computed on 1st day of month/day fixed by competent authority is more than or equal to 1, then Discoms should pay the cost of imported coal in advance. Coal liquidity ratio is proposed to be computed as under:

$$\frac{\textit{Total oustanding Amount}}{(\textit{Weighted Average cost of coal for preceding 3 months X Daily normative coal consumptionX no. of due days})} \leq 1$$

Note:

1. Outstanding amount as on 1st Day of nth month (in Rs Crore.)

2. Weightage Average cost of Coal for preceding 3 months (average landed cost of coal for (n-1) (n-2) & (n-3) months) (in Rs/Tonne)

3. Daily Normative consumption considering 85% PLF (in Tonnes)

4. No of due days as per Applicable provisions of PPA/ Regulations (in Days)

a. Illustration:

1) Capacity of Plant 300 MW (Total no. of outstanding due days 45 as per Regulations):

Particulars	Total Outstanding Amount in Crore	Wtd Avg coal Cost for last 3 months (Rs./MT)	Daily Normative Coal consumption MT	Ratio
Scenario 1	30	2000	5000	0.67
Scenario 2	45	2000	5000	1.0
Scenario 3	60	2000	5000	1.33

From the above data, if the outstanding ratio is higher than the 1 as mentioned in Scenario 3, Discom is liable to pay the cost of imported coal in advance to Generator.

5. In addition to conditionality of payment in advance mentioned above, Regulation 34 (a) (i) of the CERC Tariff Regulations 2019 provides interest of working capital cover as under:

   "(i) Cost of coal or lignite and limestone towards stock, if applicable, ***for 10 days for pit-head generating stations and 20 days for non-pit-head generating stations*** *for generation corresponding to the normative annual plant availability factor or the maximum coal/lignite stock storage capacity whichever is lower"*

   For most of the Generating Companies having PPA with DISCOMs, Hon'ble Commission has determined the parameter of Cost of coal towards stock based on the weighted average rate of coal considering actual coal received during preceding 3 months of the control period (FY 2019-24), whereas at present due to increase in the percentage of Imported coal procurement, the required working capital requirement is much higher and since the working capital is on normative basis, truing up is not provided in the Regulations. Therefore, it is pertinent to mention that the Hon'ble Commission should relook the computation and **allow**

   a) **Advance Billing by Generator for procurement of Imported Coal and payment by the Discoms, based on expected coal**

usage of imported coal before the start of the respective month. Generator should be directed to submit its coal usage plan and submit the differential cost with respect to expected usage of imported coal and cost of domestic coal for the same quantity, by 25th of every month and Discoms should pay this differential amount by 30th of every month or else Generators can claim Deemed DC in case of coal shortage for the quantity of coal for which payment is not done by Discoms.

b) **Alternatively, Discoms can opt for Reimbursement of the differential amount of Actual interest on working Capital on basis actual cost of applicable normative alternate coal stock** (10 days for pit-head generating stations and 20 days for non-pit-head generating stations) and **Normative Interest on Working Capital allowed by the Commission in its Tariff order, along with Carrying cost for that month.**

6. In addition to conditionality of payment in advance mentioned above, Regulation 34 (a) (ii) of the CERC Tariff Regulations 2019 provides interest of working capital cover as under:

   "((ii) ***Advance payment for 30 days towards cost of coal or lignite and limestone*** *for generation corresponding to the normative annual plant availability factor;"*

   Similarly, as mentioned above most of the Generating Companies having PPA with DISCOMs, Hon'ble Commission has determined the parameter of Cost of coal towards advance based on the weighted average rate of coal considering actual coal received during preceding 3 months of the control period (FY 2019-24), whereas at present due to increase in the percentage of Imported coal procurement, the required working capital will be much higher. Therefore, it is pertinent to mention that the Hon'ble Commission should relook the computation and guide the norms which

   a) **Advance Billing by Generator for procurement of Imported Coal and payment by the Discoms, based on expected coal**

usage of imported coal before the start of the respective month. Generator should be directed to submit its coal usage plan and submit the differential cost with respect to expected usage of imported coal and cost of domestic coal for the same quantity, by 25th of every month and Discoms should pay this differential amount by 30th of every month or else Generators can claim Deemed DC in case of coal shortage for the quantity of coal for which payment is not done by Discoms.

b) **Alternatively, Discoms can opt for Reimbursement of the differential amount of Actual interest on working Capital on basis actual cost of applicable normative alternate coal stock (**10 days for pit-head generating stations and 20 days for non-pit-head generating stations) and **Normative Interest on Working Capital allowed by the Commission in its Tariff order, along with Carrying cost for that month.**

C. <u>Commission needs to clarify the followings:</u>

1. It may be noted that proposed Staff paper only seeks to amend the 2nd and 3rd provisions to Regulations 43 (3) of CERC Tariff Regulation 2019 and the 1st proviso of Regulations 43 (3) of CERC Tariff Regulation 2019 provides as under:

> *"Provided that in such case, prior permission from beneficiaries shall not be a precondition, **<u>unless otherwise agreed specifically in the power purchase agreement</u>**;"*

Further, 2nd & 3rd proviso of Regulations 43 (3) of CERC Tariff Regulation 2019 provides as under:

> *"Provided further that the weighted average price of alternative source of fuel shall not exceed 30% of base price of fuel computed as per clause (5) of this Regulation:*
>
> *Provided also that where the energy charge rate based on weighted average price of fuel upon use of alternative source of fuel supply exceeds 30% of base energy charge rate as approved by the Commission for that year or exceeds 20% of energy charge rate for the previous month, whichever is lower shall be considered and in that*

event, prior consultation with beneficiary shall be made at least three days in advance."

2. Commission has specifically given illustration considering the 2nd and 3rd Provisions of the Regulation 43 (3), wherein the provisions of weighted average rate of coal and increase in percentage of Energy Charges Rate has been mentioned.
3. Whereas, the Hon'ble Commission has commented anything about the 1st proviso of Regulation which provides specific condition of prior permission from beneficiaries if it is agreed **specifically in the Power Purchase Agreement.** Therefore, it is pertinent to mention that during finalization of norms, Hon'ble Commission has to relook on this proviso and needs specifically give directions otherwise 1st proviso will always supersede the 2nd and 3rd proviso under this Regulations. In some of PPAs of Generators like LPGCL and BEL, there is specific provision of PPA which provides for prior approval of alternate coal usage by the beneficiary irrespective of the percentage impact of ECR.

   Article 6.5 of PPA provides as under:

   > *"The responsibility for arrangement of Fuel shall be with the Developer who shall procure the Fuel under coal linkage granted to the Seller by the Central Government on the recommendations of GoUP . In case of any short supply , procurement of fuel indigenous / imported preferably through long term contract or on spot-purchase / short-term contract / E-auction basis from domestic and/or international suppliers /traders shall be within or outside India.* ***The Seller shall obtain the prior consent of Lead Procurer about procurement of coal from any source other than coal linkage.*** *In case the permission is not granted by the Lead Procurer within seven (7) working days from the date of receiving the application, it would be considered as deemed permission and if rejected then it would be considered as procurer's inability to procure which would make conditions of clause 4.4.3 of the agreed PPA applicable and loss of availability due to rejected fuel quantity shall be taken in to account while computing availability and fixed charges."*

4. **In view of above, it is apparent that with present proposed amendment, this alternate terms are applicable to only those PPAs which do not have any specific provision for prior approval of alternate coal from the beneficiary <u>and will be applicable to only PPAs which do not have any specific provision for prior approval of alternate coal.</u>**