Gujarat Urja Vikas Nigam Limited

Sardar Patel Vidyut Bhavan, Race Course, Vadodara: 390 007

CIN U40109GJ2004SGC045195

An ISO 9001:2015 Certified Company
Phone: 0265-2311797, Fax No. 0265-2327483
www.guvnl.com
e-mail : de1csp.guvnl@gebmail.com

GUVNL/Comm./ 980 **Date :08-07-2024**

To
Secretary
Central Electricity Regulatory Commission
6th, 7th & 8th Floors, Tower B, World Trade Centre,
Nauroji Nagar, New Delhi- 110029
Email: secy@cercind.gov.in

Sub.: Staff Paper on "Methodology for Transition from Six-Monthly Escalation Rates to Monthly Escalation Rates for Imported Coal"– Reg.

Sir,

This has reference to public notice dated 24.05.2024 seeking comments of the Stakeholders on the Staff Paper on the "Methodology for Transition from Six-Monthly Escalation Rates to Monthly Escalation Rates for Imported Coal".

In this regard, it is to state that in response to Public notice dated 06.05.2022 by CERC, GUVNL had submitted its views/ suggestion / comments submit vide letter dated 20.05.2022 on methodology for computing the escalation rates for imported coal for payment on monthly basis which are not repeated herewith for sake of brevity but may be considered as part of this comments / submission.

In the staff paper, it is mentioned that there is a need to specify the changeover rate or correction factor for transition from six monthly escalation rates to monthly escalation rates for the existing PPAs, as without the same, the parties to the PPAs may not be in a position to switch over from six monthly escalation rates to monthly escalation rates.

The views along with comments & suggestions of GUVNL on Staff paper are as under:

1. At present, Hon'ble Commission notifies six monthly escalation rates for (1) Energy charges comprising (a) Imported Coal, (b) transportation of imported coal, (c) inland handling of imported coal and (2) capacity charges components, to worked out the applicable Tariff for the month. Since, capacity charge component is also made applicable on the same indices as per Port handling at present, the clarification with regard escalation on Capacity charges components for transition from Six-Monthly Escalation Rates to Monthly Escalation Rates may also be provided.

2. In the Staff Paper, Ministry of Power letter dated 13.04.2022 has been referred highlighting the need for escalation rates for imported coal on monthly basis to

avoid the lag in notification of escalation rates to actual variation in price of imported coal. Thereafter, Hon'ble Commission has been releasing the monthly escalation rates for imported coal from April 2022 onwards. However, since the 6 month escalation rates are considering the past 12 months data on rolling basis and is applied for future period on linear basis distributed over 6 months. Meaning thereby, the ECR for the 6 month period is average out for reflecting the past 12 months imported coal prices through equated indexation for next 6 months through applicability of escalation indices. However, with Monthly Escalation indices notified for the month (assuming T month) in a manner reflects the imported coal price variation in T-1 month as compared to base of T-2 month. Therefore, the coal price index which will be reflected with adoption of monthly index during transition needs to take into consideration the monthly variation and 6 month escalation data with shifting the applicability to previous 6 months as suggested in option 1 may not reflect the true variation in the imported coal prices under monthly index for base scenario for switchover.

In view of above, it is suggested that in order to ascertain the actual base value and to consider the monthly variation in the escalation indices from 2006 onwards, the month wise data with regard to the escalation (in %) may be released from the 2006 onwards which will enable the parties to the PPA to compute the escalation indices over the years and to arrive at a methodology for transition to monthly coal indices from 6 month coal escalation indices. Further, Hon'ble Commission vide order dated 25.09.2023 in Petition no. 12/SM/2023 has revised the methodology of considering the escalation and accordingly, the escalation from 2006 year onwards may be released based on old methodology as well as new methodology which will also enable parties to the PPA to arrive at a fair transition methodology.

3. In the proposed methodology at Option 1, it is suggested that six monthly escalation rates needs to be made applicable for current period instead of future period and parties to PPA would get escalation on the corrected base energy charge (corrected payment index) from the date of switchover. Further, it is mentioned that corrected rates for past period are used for arriving corrected payment index and are not meant to be used for purpose of payment.

   In the above context, it is to mention that the computation of the indices on monthly basis since inception period of PPA would be different for different PPAs and application of 6 month indices for considering the base index working which averages out the past period imported coal price variation may not reflect the true imported coal prices while fixing the starting point of monthly escalation indices. For simplifying the same, the suggestion as per Sr 1 above i.e. release of monthly escalation (%) under both the method may be released by Hon'ble Commission. Parties to the PPA after evaluating the start date of transition may adopt the corrected index value from financial bid due date.

4. In the proposed methodology at Option 2, it is suggested that parties to the PPA may adopt the escalation rates as notified by CERC and as applicable. Further, it is

suggested that if the gap in the data is addressed separately it would lead to double counting.

In the above context, it is to mention that for various PPAs, the 6 months escalation indices have been applicable for the purpose of payment wherein the tariff payment under PPA have been on indices worked out for past period and made applicable for future period. Since, the point of incidence for Monthly indices will not capture the last escalation data of 6 month period, it would not be feasible to outrightly transit to monthly indices as notified by Hon'ble Commission considering the commercial aspects under the PPA.

5. The present 6-month escalation indices has been implemented based on the methodology as notified by Hon'ble CERC in 2006 and subsequently as amended, the same has been implemented for the purpose of payment of tariff for the project selected through tariff based competitive bidding based on Ministry of Power Guidelines for more than 12 years. In view of the same, it is humbly suggested that in the Regulation to be notified for the Methodology for Transition under reference, the clarification may be incorporated that the decision with regard to changeover/ transition to monthly indices including methodology will be voluntary in nature and should not be binding, since such modality will have to be in-principally agreed by the Procurers of the PPA after taking into consideration the implication. For transition / switchover, it should be optional to adopt the revised modality for escalation indices for payment after evaluating the implication and through written consent by procurer.

Therefore, in view of above, it would be relevant if the escalation (%) data on monthly basis from 2006 onwards for both the composite index (new & old method) are released by Hon'ble Commission so as to enable GUVNL to analyze the scenarios using both methods i.e. monthly and six-monthly escalation to ensure that any switchover for existing PPAs does not result in any adverse impact on GUVNL to ascertain the applicable methodology for switchover with prior approval of State Govt.

It is requested to kindly take into consideration the above comments / suggestions of GUVNL.

Thanking you.

Yours faithfully,

(Sanjay Mathur)
General Manager (Commerce)

C.F.W.Cs to

1. Managing Director, GUVNL
2. Director (Finance), GUVNL