

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

**Coram:
Shri P.K. Pujari, Chairperson
Shri I.S. Jha, Member
Shri Arun Goyal, Member
Shri P.K. Singh, Member**

Petition No. 7/SM/2022

Date of order: June 6, 2022

In the matter of

Methodology for computing the Escalation Rates for Imported Coal for Payment on Monthly Basis

A: Background

In pursuance of Clause 5.6 (vi) of Ministry of Power (MOP) Notification dated 19.01.2005, as amended from time to time, on “Guidelines for Determination of Tariff by Bidding Process for Procurement of Power by Distribution Licensees”, the Central Electricity Regulatory Commission (CERC) notifies various escalation rates including the escalation rate for imported coal, every six months, for the purpose of payment.

2. MOP, vide its letter dated 13th April 2022, has highlighted the need for notification of escalation rate for imported coal for payment on monthly basis, to avoid the lag in the notification of escalation rate with reference to actual variation in the price of imported coal. Relevant extract from the communication from the Ministry of Power is as under:

“After careful consideration, Government have decided that the escalation index for imported coal may be notified on a monthly basis by CERC, in addition to the present six-monthly escalation index. In existing PPAs where the generating company and the procurer agree, they can use the monthly index. For future PPAs, Government proposes to make provisions in the

bidding guidelines and bidding document for use of the monthly Escalation index for imported coal. The present practice of notifying escalation rates every six months, in addition to notification on monthly basis, should also be continued, to be used by sellers and procurers, in the context of concluded PPAs.”

3. In view of the above, the Staff of the Commission, through a discussion paper dated 6.5.2022, had proposed a methodology for computing the escalation rates for imported coal for payment on monthly basis. This is in addition to the notification of the escalation rates for payment on six-monthly basis.

B: Proposed Methodology in the Staff Paper

4. The methodology proposed for computing the escalation rates for imported coal for payment on monthly basis was as under:

“II: Proposed methodology for notification, computation and application of the escalation rates

4. *It is proposed that the escalation rates for different escalable sub-components of energy charge for plants based on imported coal shall be notified on monthly basis as under:*

- (i) escalation rate for imported coal;*
- (ii) escalation rate for transportation of imported coal; and*
- (iii) escalation rate for inland handling of imported coal*

5. *The data on price/price indices as specified at Para 3.3 above shall be used for computing the escalation rates. Simple average of weekly/daily data on price/price indices shall be used for arriving at the monthly data on price/price indices.*

6. *It is proposed that the monthly escalation rate shall be computed using the monthly data on price/price index as under:*

Formula for calculating monthly escalation is as under:

$$\frac{\{(Current\ month\ price\ index - Previous\ month\ price\ index)\}}{Previous\ month\ price\ index} \times 100$$

Illustration:

If the current month (April 2022) price index is 110 and the previous month (March 2022) price index is 100, the method of calculation of escalation for the month April 2022 is as under:
 $\{(110-100)/100\} \times 100 = 10\%$

7. It is appropriate to follow the above illustration for computation and application of the escalation rate for imported coal and other related escalation rates to be notified on monthly basis. However, in general the billing takes place in the first week of the following month (say May 2022) for supply of electricity for the current month (say April 2022). If we follow the above illustration, the escalation rates for the month of April 2022 may not be available at the time of billing (May 2022) due to lag in the availability of the data.

8. Therefore, it is proposed that:

- (i) the escalation rate shall be computed based on the above formula; and
- (ii) the computed escalation rate shall be made applicable as explained in the following table:

Notification and Application of the Escalation Rate		
Issue of Notification	Data for the period used for computing the Escalation Rate	Escalation Rate Applicable for the Month
May 2022	March 2022 (Base month) and April 2022 (Current month)- In case of Escalation Rate for Imported coal and Transportation of Imported Coal	May 2022
	January 2022 (Base month) and February 2022 (Current month)- In case of Escalation Rate for Inland handling of Imported Coal	
June 2022	April 2022 (Base month) and May 2022 (Current month)- In case of Escalation Rate for Imported coal and Transportation of Imported Coal	June 2022
	February 2022 (Base month) and March 2022 (Current month)- In case of Escalation Rate for Inland handling of Imported Coal	

9. Using the monthly escalation rates, index value for payment can be computed. In this regard, a sample calculation has been provided in the following table.

Sample Calculation of Index Value for Payment			
Month	Monthly Escalation Rate (%)	Index Value (assumed starting at 100)	Remarks
<i>Apr-22</i>		100	<i>Starting Index Value</i>
<i>May-22</i>	5%	105.00	
<i>Jun-22</i>	-2%	102.90	
<i>Jul-22</i>	10%	113.19	

C: Comments/Suggestions of Stakeholders

5. Comments and suggestions of stakeholders and other interested persons on the proposed methodology were invited through a public notice dated 6.5.2022. In response to the public notice, the comments and suggestions have been received from the following:

- (1) Adani Power (Mundra) Ltd (APMuL)
- (2) Tata Power Company Ltd (TPCL)
- (3) Gujarat Urja Vikas Nigam Ltd (GUVNL)
- (4) Sembcorp Energy India Ltd (SEIL)
- (5) Power Company of Karnataka Ltd (PCKL)

6. The comments and suggestions submitted by these stakeholders are discussed in brief in the following paragraphs (paragraphs 6.1 to 6.5). Comments of stakeholders are also available on the website of the Commission.

6.1 Adani Power (Mundra) Ltd. (APMuL) submitted that:

- (1) The Commission may consider notifying monthly escalation index in the first week of every month duly capturing data of previous month. This will enable reduction in the lag to 1 month as the escalation index-based Mar-2022 (Base month) vis-a-vis Apr-2022 (Current month) data would be available in the first week of May-2022 and the same shall be used for supply of power in May-2022, to be billed in Jun-2022.

- (2) As per the Staff Paper, the monthly escalation index can be used for existing PPAs also with mutual agreement. Therefore, to take care of such requirement, it is necessary to notify a correction factor for the existing PPAs from present six monthly escalation index to monthly escalation index.
- (3) There may be disagreement between generating company and procurer on adoption of monthly escalation rate, therefore it is suggested that implementation of monthly escalation methodology be made applicable for the existing PPAs also from the date of notification and nothing shall be left to parties.

6.2 Tata Power Company Ltd (TPCL) submitted that:

- (1) The escalation index for imported coal on monthly basis may be notified from April 2022 onwards. This would help the generators in transitioning from six monthly index to monthly index in a smooth manner as the regular notification (based on six monthly escalation rates) is also notified in the month of April for implementation. Also, the Ministry of Power letter was issued on 13.04.2022 enabling the monthly escalation rates to be issued from April 2022 onwards.
- (2) In order to capture the escalation in imported coal price without any gap period it is requested to allow one-time escalation for the generators opting for monthly escalation rates, when they transition from March 2022 to April 2022. This would address the lag between the actual price paid and the billing price, which will be beneficial for the DISCOMs as well.

6.3 Gujarat Urja Vikas Nigam Ltd (GUVNL) submitted that:

- (1) In the existing framework, the escalation in coal prices for previous 6 months is made applicable to the next 6 months in an equated manner, which not only ensures determination of escalation index on an average basis for 6 months but also allows indexation on energy charge for payment in uniform manner avoiding impact due to abrupt coal price

movement. Moreover, in the existing PPAs, bidders would have quoted the bid taking into account the CERC escalation indexation methodology. Therefore, the changeover from 6 monthly to monthly will not only deviate from the bid dynamics but also distort the existing indexation framework. In view of the above, any modification in escalation methodology should not be made applicable to the existing PPAs.

- (2) Actual cost at which coal has been procured is not taken into consideration in the CERC index. The price variation on monthly basis may affect the end buyer. Therefore, the escalation rates based on average pricing notified on 6 monthly is more appropriate and consistent in the interest of stakeholders.
- (3) At present distribution utilities are recovering the variation in power purchase cost from retail consumers through fuel surcharge which is determined on quarterly basis and approved by the respective State Electricity Regulatory Commission. Allowing escalation in tariff on monthly basis may lead to abrupt variation in power purchase cost.

6.4 Sembcorp Energy India Ltd (SEIL) submitted that:

- (1) The proposal for notification of escalation rates on six monthly and on monthly basis and leaving it to mutual agreement between procurer and seller will not serve the purpose. Procurers (Discoms) may not be interested to amend any of the existing provisions considering the inclination of Discoms towards maintaining status quo. It is therefore suggested that CERC should issue directive that all the existing PPAs have to mandatorily amend relevant clauses suitably to incorporate use of proposed monthly escalation rates.
- (2) The escalation rates for domestic coal and its transportation should also be published on a monthly basis to avoid any time gap and mismatch for domestic coal components also.

6.5 Power Company of Karnataka Ltd (PCKL) submitted that:

- (1) The data used for computing the escalation rate for imported coal based on composite index applying 25% weightage to each index has been proposed in the staff paper. The coal is being procured from a particular country, therefore, the index of coal of a particular country from where the coal is being procured may be considered for computing the escalation rate. Otherwise, the differences in the cost of coal will continue.

D: Analysis and Decision

7. We have considered the submissions made by the stakeholders. There is no major objection from the stakeholders on the data and formula proposed for computing the escalation rates on monthly basis. However, PCKL has suggested that the index of coal of a particular country from where the coal is being procured may be considered for computing the escalation rate. This issue was discussed in detail in the past and it was decided to adopt composite index for computing the escalation rate for imported coal as specified in the CERC order dated 23.12.2013 in Petition No.308/SM/2013. The relevant extract of the order is as under:

“10. A suggestion was made by some of the stakeholders to use country specific indices. We have considered the suggestion and are of the view that country specific indices may not always be available, or reliability could be an issue. Moreover, the rationale for using composite index instead of country specific index is to induce efficiency in procurement and diversification of supplies. As regards the suggestion for prudence review of indices, we are of the view that the composite index shall be reviewed and revised as and when the need arises.”

8. Most of the stakeholders have raised issues on the implementation of the monthly escalation rates particularly in the context of the existing PPAs. APMuL and TPCL have suggested to allow one-time escalation for transition from six monthly to monthly escalation rates. TPCL also suggested that the escalation rates may be notified from April 2022 for the purpose of transition. GUVNL has raised concerns on the adoption of monthly escalation rates for the existing PPAs and submitted that any modification in escalation methodology should not be made applicable to the existing PPAs.

9. In this context, the Commission notes that the MOP's communication dated 13th April, 2022 stipulates that in the existing PPAs where the generating company and the procurer agree, they can use the monthly index. Accordingly, the parties to the existing PPAs may mutually decide as to whether to continue to use the six-monthly escalation rates or adopt the monthly escalation rates as notified by the Commission from time to time. As the proposal in the staff paper was limited to the methodology for computing monthly escalation rates, the suggestion of changeover rate or correction factor for transition from six monthly escalation rates to monthly escalation rates for the existing PPAs is beyond the scope of the present order.

10. However, at the same time, the Commission recognizes 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 Commission, therefore, may address the issue separately.

11. APMuL also suggested that the monthly escalation rates may be notified in the first week of every month duly capturing the data of previous month. As explained in the staff paper, there is a lag in the availability of data. Therefore, the suggestion has not been considered.

12. SEIL suggested that the escalation rates for domestic coal and its transportation should also be published on monthly basis. In this context, the Commission would like to clarify that though data on price index for domestic coal is available on monthly basis, there are constraints on availability of data for transportation of domestic coal on monthly basis. Therefore, the suggestion has not been considered.

13. Keeping in view the advice of MOP for notification of escalation rates on monthly basis to reduce lag in the notification of escalation rates and the comments/suggestions of the stakeholders, the Commission orders as under:

(1) To notify the following escalation rates for different escalable sub-components of energy charge for plants based on imported coal on monthly basis, in addition to the notification of the escalation rates for payment on six-monthly basis:

- (i) escalation rate for imported coal;
- (ii) escalation rate for transportation of imported coal; and
- (iii) escalation rate for inland handling of imported coal

(2) The data on price/price indices and its composition used for computing the escalation rates being notified on six monthly-basis shall be used for computing the escalation rates notified on monthly basis.

(3) For computing the monthly escalation rates, the following formula shall be used:

$$\{(Current\ month\ price\ index - Previous\ month\ price\ index) / Previous\ month\ price\ index\} \times 100$$

(4) The computed escalation rate shall be made applicable as explained in the following table:

Notification and Application of the Escalation Rate		
Issue of Notification	Data for the period used for computing the Escalation Rate	Escalation Rate Applicable for the Month
May 2022	March 2022 (Base month) and April 2022 (Current month) - In case of Escalation Rate for Imported coal and Transportation of Imported Coal	May 2022
	January 2022 (Base month) and February 2022 (Current month)- In case of Escalation Rate for Inland handling of Imported Coal	

June 2022	April 2022 (Base month) and May 2022 (Current month) - In case of Escalation Rate for Imported coal and Transportation of Imported Coal	June 2022
	February 2022 (Base month) and March 2022 (Current month)- In case of Escalation Rate for Inland handling of Imported Coal	

(5) The present practice of notifying escalation rates every six months, in addition to notifying escalation rates on monthly basis, shall also be continued for use by sellers and procurers in the context of already concluded PPAs. In the existing PPAs, where the generating company and the procurer mutually agree, they may use the monthly escalation rate.

14. We direct that the escalation rates for imported coal for payment on monthly basis applicable for the period commencing from April 2022 be notified in accordance with the methodology discussed in Paragraph 13 of this order, until further directions.

**Sd/
(P.K. Singh)
Member**

**Sd/
(Arun Goyal)
Member**

**Sd/
(I.S. Jha)
Member**

**Sd/
(P.K. Pujari)
Chairperson**