

Comments on CERC Staff Paper on the Revised Methodology for Application of the Escalation Rates for Payment

Association of Power Producers appreciate the initiative taken by CERC to reduce two types of lag. Before we come to the specifics, we urge the Hon'ble Commission to consider publication of indices at a shorter frequency (1-3 months) which would be keeping more current with the market and more reflective of the incurrence of cost and its recovery from the perspective of both the Generators as well as the Procurers.

As per the Staff Paper dated 10.04.2018:

5. In view of the petitions/representations, the issue has been examined. There are two types of lags (i) lag in the availability of data at the time of notification of the escalation rate (at present 3 months lag); and (ii) lag in the application of the escalation rate (9 months lag i.e. including 3 months lag in the data).

The proposed draft suggests uniformity in data points for all sources viz. Domestic Coal, Imported Coal, Domestic Gas, etc. However, a careful reading for Imported Coal and Domestic Coal Escalation methodology brings forth the point that **with this proposed change, the time lag for recovery of Imported fuel energy & fuel transportation charges will further increase by 2 months as compared with the existing methodology**, and therefore it would be regressive in nature.

As Domestic Fuel & Transportation and Imported Fuel & Transportation differ on the aspect of data availability, we are submitting our detailed comments based on fuel source – Domestic and Imported Coal.

1. Comments on the proposed methodology for application of the Escalation Rates for Domestic Coal

The revised methodology is a welcome step, as this will provide much needed relief to Generators in terms of recovery of Coal & Transportation cost by reducing the time lag in application of escalation rates.

1.1. Applicability of proposed methodology for Domestic Coal

In this context, it may be recalled that Association of Power Producers had filed a petition 63/MP/2017 before the Hon'ble Commission seeking change in methodology for computation of escalation rate for Domestic Coal based on actual Coal prices in place of WPI. After acknowledging the inadequacy of WPI in computation of cost reflective escalation rate in 63/MP/2017, the Hon'ble Commission has disposed of the petition by order dated 22.03.2018 informing the petitioner that the Commission has again taken up with DIPP to develop index

for non-coking Coal exclusively used by the Power sector. As the matter was pending for disposal by the Commission, CERC notified escalation rates in the interim period starting from April 2017 on provisional basis.

In light of the above, it is suggested that the methodology proposed in the Staff Paper should be ideally applied from April 2017 notification onwards. However, pending decision of DIPP in this matter, it is suggested to notify escalation rate (provisional) from April 2018 onwards. If DIPP notifies separate index for Non-coking Coal supplied to Power sector, the Hon'ble Commission may notify final escalation rates from April 2017 onwards, based on new index for Power sector and the proposed methodology to reduce time gap.

Vide its notification dated 19.04.2018, the Commission has decided that the payment index applicable as on 31st March 2018 shall remain provisional at the same level for the period Apr-2018 to Sep-2018 or till further notification, whichever is earlier. It is requested that the Commission notify escalation rates for the month of April 2018 as soon as possible.

To illustrate, the Coal Transportation cost has increased significantly in Jul-2017, which was not incorporated in October 2017 escalation rates. As Annexure, the computation of escalation rate for transportation of Coal for April 2018 is enclosed. It can be seen that the annual escalation is as high as 88.62% for 125 km and 25.59% for 500 km distance. Therefore, it is imperative to issue notification for escalation rates for April 2018 at the earliest to stem the continuing under-recoveries of the Generators on this account.

1.2. Payment of Supplementary bill and carrying cost

It must be ensured that supplementary bills raised for truing up the provisional escalation rate upon notification of the final escalation rate shall be paid by the Procurer within 3 days of receipt of such bill by the Procurer.

Further, with the proposed methodology, due to 6 monthly publication of rates, Generators have to wait for at least 10 months till the actuals are realised thereby adversely affecting the working capital requirement of the Generator. For example, October 2018 notification would apply from Jan-2018 to Jun-2018 and by the time generator raises the supplementary bill, it would be a lag of 10 months, putting additional financial stress on already distressed projects.

Accordingly, we request CERC to consider/ propose that the supplementary/future bills would be paid along with interest so as to ensure that the generator is financially compensated for the working capital loss incurred during the said period.

Further, to ensure that the adjustments in payments between Generating companies and procurers would be made through supplementary bills or future bills is accomplished seamlessly (without any delay), in its notification CERC may like to advise/clarify to the Discoms appropriately.

1.3. Transition Period

CERC notification should bring more clarity on implementation date of the revised methodology e.g. if CERC has migrated to revised methodology in April 2018 notification, it should mention that Bills already raised based on indices from Jul-2017 to Dec-2017 shall be revised/trued up and full proportionate offset/adjustment shall be available for transitional period of cross-over from old to new methodology.

2. Comments on the proposed methodology for application of the Escalation Rates for Imported Coal

2.1. Lag in the availability of data

Para 7 of the Staff Paper states:

Lag in the availability of data that is used for computing the escalation rate cannot be avoided. However, the lag in the application of the escalation rate can be addressed by following an appropriate methodology.

It is submitted that there is no issue on the aspect of data availability for Imported Coal prices. The Imported Coal indices of GNC, API4, ICIC3, Platts CI which are used to determine the CERC escalation indices are available on weekly and monthly basis. The CERC escalation rates for Imported Coal may be continued to be determined as per prevalent practice of using data points of Mar-2017 to Feb-2018 for the CERC notification of April 2018.

The proposed methodology of using data points of Jan-2017 to Dec-2017 period for April 2018 notification for the sake of uniformity between Domestic and Imported Coal escalation rates does not bring in any efficiency as all escalation rates are not linked with each other and in fact is regressive as it introduces two months of additional lag for Imported Coal, which can be avoided. The revised methodology should push for greater efficiency and minimum lag in the escalation indices.

It is requested that the current practice of using Mar-2017 to Feb-2018 data points for April 2018 notification of Imported Coal escalation be retained.

Further, if the data series of Mar-2017 to Feb-2018 is used for April 2018 notification, then the applicability period for Imported Coal should be Sep-2017 to Feb-2018 of the same period as the data series.

It is further submitted that since data availability of international Coal indices is not an issue and the Staff Paper rightly seeks to reduce the lag in the application of the escalation, the frequency of issuance of escalation rate for Imported Coal be reduced from six-monthly issuance to monthly issuance. This would assist the industry in limiting the working capital blockage and make the recovery of cost almost real-time.

3. Additional comments

3.1. Clarification on implementation date of revised methodology

Para 11 of the Staff Paper states:

...in following the new method, the adjustments in payments between generating companies and procurers would be made through supplementary bills or future bills.

CERC notification should bring more clarity on implementation date of the revised methodology e.g. that CERC has migrated to revised methodology in April 18 notification, and it should mention that Bills already raised based on indices from Jul-2017 to Dec-2017 to revised/trued up and full proportionate offset/adjustment shall be available for transitional period of cross-over from old to new methodology.

3.2. Need for Illustration

We appreciate CERC's effort to reduce the gap between published escalation and actuals via true up concept. However, the paper does not give clarity w.r.t. to implementation. Accordingly, it is suggested to publish an illustration for ease of understanding.

3.3. Additional Suggestions

We understand that the Commission is bound by the provisions of Competitive Guidelines and Standard Bidding Documents notified by GoI while issuing different escalation rates. However, as the Commission is aware that the current dispensation leads to time lag in recovery of change in prices, it is requested to take up with GoI to amend the CBG and SBDs to avoid under-recovery of costs. The Commission may request the GoI to reduce frequency of notification of escalation rate to as is where is basis or monthly or quarterly basis for actual recovery of cost.

Annexure

Apr-Sep'2018 & Oct-Mar'19 escalation rates for Transportation of Coal (Est)

CERC Payment Escalation Rate for Period Apr'18 to Sep'18					
Period	125 km	500 km	1000 km	2000 km	3000 km
Jan-17	205.6	712	1349.5	2243.4	2793.4
Feb-17	205.6	712	1349.5	2243.4	2793.4
Mar-17	205.6	712	1349.5	2243.4	2793.4
Apr-17	205.6	712	1349.5	2243.4	2793.4
May-17	205.6	712	1349.5	2243.4	2793.4
Jun-17	205.6	712	1349.5	2243.4	2793.4
Jul-17	296.7	803.1	1440.6	2334.5	2884.5
Aug-17	296.7	803.1	1440.6	2334.5	2884.5
Sep-17	296.7	803.1	1440.6	2334.5	2884.5
Oct-17	296.7	803.1	1440.6	2334.5	2884.5
Nov-17	296.7	803.1	1440.6	2334.5	2884.5
Dec-17	296.7	803.1	1440.6	2334.5	2884.5
Average Index (Jan 17-Jun 17)	205.6	712.0	1349.5	2243.4	2793.4
Average Index (Jul 17-Dec 17)	296.70	803.10	1440.60	2334.50	2884.50
Half-Yearly Inflation	44.31%	12.79%	6.75%	4.06%	3.26%
Annual Inflation	88.62%	25.59%	13.50%	8.12%	6.52%