

Draft Lignite Price Guidelines 2019 – 2024

Sub: Fixation of Transfer Price of Lignite for NLC India Limited (NLCIL) Mines for the period 2019-24 - Reg.

Background:

The Guidelines for the period 2014-19 were issued by Ministry of Coal vide Order No.28012/1/2014-CA-II dated 02.01.2015 on the basis of which year wise lignite price for the period was calculated and adopted by the CERC while finalizing the power tariff for the period 2014-19.

Tariff Regulation for 2019-24 issued by Central Electricity Regulatory Commission (Terms and Conditions of Tariff) on 07th March, 2019, specifically mentioned that “the energy charge component of Tariff of the generating stations shall be determined based on the input price of coal and lignite, as the case may be, from such integrated mines computed in accordance with the regulations to be notified separately by the Commission.

Till the regulation for computation of input price of lignite is notified, the input price of lignite shall continue to be determined as per the guidelines specified by Ministry of Coal, Government of India.”

Further, Ministry of Coal vide letter No. 28012/1/2014-CA II dated 24th June,2019 has intimated that

“It has been decided by the competent authority that NLCIL’s Board, in consultation with the stakeholders, can decide lignite pricing at such frequency as the situation may demand.”

Based on above, NCIL Board desired that management to consult with the beneficiaries for fixation of transfer price of lignite w.e.f 01.04.2019 onwards and to be brought to the Board for consideration and approval. Till such time the price as on 31.03.2019 may be continued.

Accordingly, First meeting of stakeholders of NLCIL was held on 20th Aug, 2019 at NLCIL Registered Office to take the views of Stakeholders on the Lignite Price. During the meeting, stakeholders requested to circulate draft guidelines for their views and comments. A copy of the minutes of meeting is enclosed at Annexure – A.

Presently, in line with the guidelines issued by Ministry of Coal, NLCIL adopts Standalone price for the Mine - I (6.5 MTPA) as it feeds TPS-I, which supplies power only to TANGEDCO and pooled price for Mine - II & Mine - IA. With the commissioning of Neyveli New Thermal Power Plant (NNTPP), Mine - I need to be brought under the pooled price, as the power from NNTPP will be supplied to all other southern beneficiaries including TANGEDCO.

Regarding the issue of considering GCV based pricing instead of volumetric base, it is to be noted that Lignite from Neyveli Mines has moisture content of 46% to 56%. In general GCV of Lignite is ranging from 2400 to 2900 Kcal/kg under in-situ condition. Moreover, all the mines in Neyveli are located nearby. Therefore, there is not much variation in the GCV of Lignite of the above Lignite Mines. Hence adoption of GCV for pooled price is not feasible.

These guidelines shall be applicable to all existing mines as well as Mines commissioning on or after 01.04.2019. All the New Mines commissioning on or after 01.04.2019 in Neyveli shall be part of pooled price and price of Barsingsar Mine at Rajasthan will be worked out separately.

The following guidelines are hereby proposed for the tariff period 2019-24 effective from 01.04.2019.

A. Capacity Utilization , Funding Pattern & Additional Capitalization

I. Capacity Utilization

Lignite Mines of NLCIL are linked to Pithead Power plants. The Power industry is witnessing a decline in plant load factor of Thermal power plants due to growing capacity of power generation of renewable sources and thereby leading to lesser capacity utilization of thermal power generation including that by using lignite.

Moreover, Mining industry operation is risky and depends on vagaries of nature. The OB Lignite ratio is becoming unfavorable and higher than that worked out in FR and further Lignite seam washout in some areas are encountered. The performance of mines depends on various factors such as operational conditions increased challenges in land availability, space constraints, blasting requirements and continuous water management. The performance of mines over its entire life is to be taken into consideration while fixing parameters and shall not be based on any sporadic performance.

Since inception, Neyveli Mines have achieved capacity utilization of around normative level. Further the Capacity Utilization in terms of average production for last 5 years is less than the normative level as shown below:

<i>Detail</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>	<i>Average</i>
<i>% Production to total capacity</i>	<i>86.74</i>	<i>83.17</i>	<i>90.25</i>	<i>82.25</i>	<i>79.25</i>	<i>84.32</i>

Considering the difficulties encountered in mining and also the past performance, the Normative Capacity utilisation shall continue to be 85% for Neyveli Mines. However, considering the lower requirement of lignite to meet the generation of power by Barsingsar Thermal and most of the mining activity is outsourced, the capacity utilization for Barsingsar Mines shall be 78%.

In line with CERC guidelines, recovery of Lignite price due to surrender of power of the linked Power Plant will be allowed with the applicable energy rate billed for the month. The same will be invoiced in the lignite price for subsequent month. Quantity of lignite while arriving at such charges will be based on the quantity of lignite which would have been consumed considering the specific consumption of linked power plant for that month in which surrender of power has occurred.

II. Funding Pattern – Debt Equity ratio

In line with earlier guidelines, Net Fixed Assets (NFA) methodology with actual funding pattern shall be adopted for old mines, i.e., Mine – I, Mine – I Expansion, Mine – IA and Mine – II.

Gross Block Methodology with 70:30 Debt Equity Ratio shall be adopted for Mine – II Expansion and Barsingsar Mine and other projects that would be declared under commercial operation on or after 01.04.2019. If the Equity investment is more than 30%, the Equity in excess of 30% will be treated as normative loan, If the equity deployed is less than 30% of the capital cost, actual equity will be considered for determination of tariff, in line with CERC guidelines in determination of Tariff 2019 – 24.

Similar to CERC guidelines, it is allowed to continue on NFA basis for old power plants of NLCIL. Being linked mines, the same methodology has been adopted in the existing guidelines.

III. Additional Capitalization

Considering the lower life of auxiliary equipments, additional requirement of conveyors, roads, GWC equipments and also rejuvenation of SMEs, Capital additions based on annual budget/plans and as approved by the NLCIL Board, shall be taken for calculating this parameter.

In the Mines, Specialized Mining Equipment (SME), and Conventional Mining Equipment (CME) are deployed, which are having a fixed useful life. After completion of the useful life period, the above equipments need to be rejuvenated / revamped / replaced for further usage in the mines. Thus, the additional capital expenditure are required on year to year basis. Further actual capital expenditure is much lower than the projected capital expenditure for the Tariff period 2014-19 due to postponement of some planned expenditure, better maintenance of existing equipments which is evident in reduction in actual transfer price against the approved lignite price. Further the postponement of capital expenditure is possible to certain period beyond which it is inevitable, Capital expenditure is also required to be incurred for adopting best mining practices with respect to safety, environment, adoption of latest technology, First Mile Connectivity, rehabilitation or any other measures advised by Govt of India from time to time. Hence additional Capital expenditure will be included with the approval of the Board.

B. Component of Lignite Price

I. Operation & Maintenance (O&M) Expenses

Operation and maintenance expenses means the expenditure incurred on operation and maintenance of the mines and includes the expenditure on manpower, repairs and maintenance, spares, consumables, insurance, fuel etc. incurred for the mining activities and shall be escalated @ 11.50% on yearly basis.

The actual O&M expenses (excluding security expenses and Ground Water Management expenses which shall be separately charged similar to CERC

guidelines) incurred in 2018 – 19 with applicable escalation shall be the base O&M for 2019-20.

In case of new mines, O&M Expenditure for the first full year of operation after COD shall be determined based on O&M expenditure adopted in Feasibility Report and as latest approved by GOI/Board. O&M expenditure for the intermediate period of first full year operation and COD shall be at actual.

With respect to the query regarding inclusion of wage revision related costs in the normal O&M expenses, it is clarified that Wage Revision of Executives and Non Executives has been implemented with effect from 01.01.2017 for 10 years so there will not be any Wage Revision during the Tariff Period 2019-24.

II. OB Outsourcing Expenses:

With reference to the query raised on account of OB removal it is clarified that normal OB Removal expenditure is a part of O&M Expenses to the extent same is in line with FR however extraordinary or additional OB removal which is occurring due to adverse stripping ratio is done through Outsourcing under compulsion as it is not possible to deploy additional machinery and manpower permanently which is required for a shorter period for 3 to 4 years and will increase the cost of production in the long run. On year to year basis some anticipated OB removal quantity will be envisaged which will be approved by the Board of Directors and will be trued up on year to year basis.

OB removal which is outsourced shall be allowed as a separate item based on budget approved by Board of Directors of NLCIL. Actual Expenditure of OB Removal will be reviewed on quarterly basis and necessary adjustment will be carried out in the lignite price for the subsequent quarter.

III. Return on Equity

With reference to the query w.r.t justification of charging return on Equity @ 15.50%, it is clarified that the return on equity has been considered similar to CERC guidelines.

Return on equity shall be computed at the base rate of 15.50% for mines (in line with the CERC Tariff Regulations 2019-24).

Tax on Return on Equity

Return on Equity shall be grossed up with the applicable Corporate Tax rate of the respective year.

IV. Interest on Loan Capital

With reference to the query raised on account of reduction in the rate of interest, it is clarified that NLCIL is proactively taking steps for refinancing of loan at periodical intervals and the benefit is passed on to the consumers as per the regulations. Further loans availed by NLCIL are based on prevailing market rate of interest.

For Mines for which price is determined on Gross Block method, the rate of interest shall be the weighted average rate of interest calculated on the basis of actual portfolio. If there is no actual loan for a particular year but normative loan is still outstanding, the last available weighted average rate of interest shall be considered. The interest on loan shall be calculated on the normative average loan of the year.

Normative loan outstanding as on 01.04.2019 shall be worked out by deducting cumulative repayments considered for lignite pricing up to 31.03.2019 from the Gross Normative Loan.

The repayment of loan for each year of the pricing period 2019 – 24 shall be deemed to be equal to the depreciation allowed for the corresponding year/period.

Under Net Fixed Assets method, interest on loan shall be considered at actuals.

V. Depreciation

With reference to the query raised w.r.t the Rate of Depreciation, it is clarified that Rate of Depreciation for specialized mining equipment as per Companies Act, 2013, is higher, which is 8 years. However, NLCIL has taken an approval from Ministry of Corporate Affairs (MCA) for charging lower Rate of Depreciation of 15 years, which is a lower rate than the stipulated rate as per the Companies Act.

For equipments/machinery other than Specialized Mining Equipment (SME), depreciation shall be charged as per the provisions of the Companies Act 2013, The rates of depreciation notified by Ministry of Corporate Affairs vide

its letter No.45/G/2006-CL-III, dt 29.08.2007 shall be adopted for Specialized Mining equipments commissioned on or after 31-08-2007.

VI. Interest on Working Capital

The rate of interest on working capital shall be on normative basis and shall be considered at one year MCLR (Marginal Cost of Fund based Lending Rate) of State Bank of India plus 350 basis points. One year MCLR will be taken as on 01-04-2019.

Components of Working Capital

With reference to the query of lignite stock level, it is clarified that while firming up the lignite price guidelines for 2014-19, MoC has reduced the stock level to 20 days from proposed 30 days. In view of various exigencies in mines operations, monsoon and regular maintenance and up keeping of mining equipments, the 20 days stock is reasonable to feed the pit headed power plants.

Keeping in view of the Lignite Stock as allowed by CERC for thermal stations and at the same time considering the requirement of lignite during monsoon period and also during exigencies like strike, natural calamities etc and in order to have uninterrupted supply of lignite to Thermal Stations, the inventory of lignite shall be restricted to 20 days' production at normative capacity of 85% for Neyveli Mines and 78% for Barsingsar mine. Therefore, the Working Capital shall cover -

- a. One-month Operation & Maintenance Expenses
- b. Twelve months' consumption of spares
- c. 20 days Lignite stock at cost as on 31st March of the preceding financial year.

VII. Mine Closure Expenses

With reference to the query raised w.r.t Mine Closure cost, it is clarified that Mine Closure deposit and escalation is in line with MoC Guidelines and is statutory in nature and same was clarified during the previous period Lignite Price Guidelines.

Mine closure expenses shall be allowed as per the annual Mine Closure Cost calculated based on the guideline issued from time to time by MoC in this regard.

VIII. Statutory Payments

NLC India Limited shall recover the statutory charges imposed by State and Central Government such as GST, Compensation Cess, Royalty, DMF, NMET, Electricity Consumption Tax or any other taxes in connection with mining activities.

C. In addition to the above mentioned components, the following expenses shall be claimed separately at actual:

I. Foreign Exchange Rate Variation (FERV)

The extra rupee liability towards interest payment and loan repayment in respect of Foreign Currency Loan shall be permissible as and when payment is made.

II. Security Expenses

Security expenses will not form part of the O&M expenditure and shall be claimed separately at actual on monthly basis.

III. Ground Water Management Expenses

Ground Water Management Expenses comprises of the cost incurred for the purpose of managing the water pressure and level for the mining activities.

Ground Water Management Expenses will not form part of the O&M expenditure and shall be claimed separately at actual on monthly basis.

D. Others

I. Late Payment Surcharge

In case of payment of any bill for charges payable under these guidelines is delayed by Beneficiaries or other customers as the case may be, beyond a period of 45 days from the date of presentation of bills, a late payment surcharge at the rate of 1.5% per month shall be levied by NLC India Limited.

II. Adjustment of Receipts

Since, lignite price is claimed from EBs / Discoms as a part of the power tariff so this is not applicable to them. However, in cases of lignite sale for existing and future contracts, receipts shall be appropriated in the following order of priority:

- a. Late payment surcharge, if any.
- b. Arrear Bills, if any.
- c. Statutory dues in the current bills.
- d. Other charges in the current bills.

III. Miscellaneous

The lignite price worked out according to these guidelines shall be the applicable price of lignite for the respective year of the tariff period 2019-24.

The price can be modified with the approval of Board of Directors of NLC India Limited on a month to month basis within a range of 20% (increase/decrease) on the applicable price from time to time.

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Minutes of the first meeting of stakeholders of NLCIL for Pricing of Lignite

Agenda Price of Lignite used for power generation by NLCIL

Date of the Meeting 20.08.2019

Time of the Meeting 10.30 am to 12.00 pm

Venue Registered Office of NLCIL

Participants As per Annexure – 1

Shri Rakesh Kumar CMD NLCIL welcomed all the participants of the meeting. Shri Mukesh Agrawal, CGM Finance, NLCIL made a brief presentation to the stakeholders on the subject. A copy of the presentation is enclosed at Annexure – 2.

Deliberations:

During the deliberations, it was opined that due to connectivity of national grid and operation of merit order dispatch system at national level, the usage of lignite will be sustainable only when the price of the same is competitive and resulting into a better merit order rating.

It was also observed by the stakeholders that truing up mechanism has resulted into delay in decision and arrears settlement on account of difficulty in recovering the same by the Discoms as well as mismatch in the prices which is considered at the time of merit order dispatch and finally trued up price. It was suggested to keep the truing up component in lignite pricing to minimum. Moreover, NLCIL to intimate the impact of truing up from time to time during the current tariff period. On enquiring about the impact of truing up for the period of 2014-19, it was informed that the working for the same is under process and necessary petition in this regard will be submitted to CERC under intimation to Discoms.

It was enquired about the status of NNTPS commissioning and operation. NLCIL informed that Unit 1 of NNTPS is anticipated to commission by Sep 2019 and Unit 2 is expected to be commissioned by Dec 2019. It was also informed that unlike TS 1 which was dedicated for supplying power to Tamil Nadu only, NNTPS is going to supply power to Southern Discoms like other plants of Neyveli. Therefore, it was deliberated and decided that Pool Price mechanism to be made applicable to Lignite supplied from Mine 1.

The stakeholders enquired about the process to be followed in fixing the lignite price this tariff period. It was intimated that keeping in view the CERC regulation 2019-24 and communication received from MoC, Board of Directors of NLCIL advised to consult the stakeholders to fix the lignite price. After due deliberations, it was decided that NLCIL should draft the lignite price guidelines based on CERC regulation 2019-24 and after considering the views of stakeholders suitably.

The stakeholders were requested to share their views for the purpose of finalizing the guidelines, working of the lignite transfer price and submission /filing to CERC. for fixation of the transfer price of lignite.

Views of TANGEDCO

1. Reason for considering additional capital expenditure in Mine 2 even though the mines has completed its normal life during 2014-19. Necessary justification should be given for capital expenditure, if any, to be considered during 2019-24.
2. On one side, annual escalation @ 11.50 % on O&M is considered and on the other side, wage revision is separately allowed in the past. Wage revision should not to be claimed separately and it should be part of the O&M expenditure in 2019-24.
3. OB removal considered for the period 2014-19 was very high. Justification may be given for any extra expenditure on account of OB removal.
4. Mine closure expenditure is escalated year on year at 5%. This escalation needs justification.
5. Return On Equity is considered at 15.5% which is on the higher side. Possibility of reducing the return on equity may be explored and to be kept at lower rate of return.
6. Interest on loan should be in line with the prevailing interest rate of the market.
7. Present capacity utilization of the NLCIL Mines is 93%. The normative capacity utilization of 85% may be increased accordingly.
8. The lignite price of NLC mines could be pooled based on the Gross Calorific Value instead of in volumetric terms.
9. For the purpose of working capital, Lignite stock level is considered as 20 days for Mines in addition to stock at Power Plant. Necessary review should be done to remove / decrease the period of stock at Mines.

Views from PCKL

1. ROE is considered at 15.5% is on the higher side.
2. Capacity utilization of NLCIL mines need to be increased in view of higher actual utilization.
3. Stock level considered for working capital needs to be reduced from 20 days to 10 days.
4. Depreciation for specialized mining equipment is on higher side. It needs to be reviewed.
5. For some mines, wherever NFA is applicable, it may be reviewed.

NLCIL response:

The views of Stakeholders will be examined and after considering the same Draft Guidelines for 2019-24 will be forwarded to all Stakeholders for their comments.

It was decided to adhere to the following timelines for finalization the Draft Guidelines for Fixation of Lignite Price:

Circulation of Draft Minutes of the Meeting	-	20 th August 2019
Feedback on draft minutes of the Meeting	-	21 st August 2019
Circulation of Finalised minutes of the Meeting	-	21 st August 2019
Circulation of Draft Guidelines to Stakeholders	-	24 th August 2019
Comments on Draft guidelines by Stakeholders	-	by 31 st August 2019
Final meeting with Stakeholders	-	7 th September 2019 at 11.30 am

Meeting ended with thanks to the chair.

Annexure 1**List of Participants****NLC India Limited**

Sl No.	Name	Designation
1	Shri. Rakesh Kumar	CMD
2.	Shri NNM Rao	Director (Plg& Projects)
3	Shri Prabhakar Chowki- Thru' VC	Director (Mines)
4.	Shri Shaji John	Director (Power)
5.	Shri. A. Ganesan	Exe. Director (Comml)
6.	Shri Mohan Reddy	CGM TS to CMD
7	Shri MukeshAgarawal	CGM (Finance)
8	Shri K.Viswanath	Company Secretary
9.	Shri .Dhanasekar	GM (Commercial)
10	Shri.Nambirajan	GM (Commercial)
11	Smt P. Vasuki	DGM (Commercial)
12	Shri Subbarao	DGM TS to CMD
13	Shri BhaweshSanghwi	Manager Finance

TANGEDCO

SL.NO.	NAME	DESIGNATION
1.	Smt.V.UMA MAGESWARI	CFC/REG.CELL
2.	Smt.R.RAMALAKSHMI	SE/CERC
3.	Smt.K.S.INDRAKUMARI	EE/CERC
4.	Shri.R.JAYAPRAKASH	AO/CERC

PCKL – Karnataka

SL.NO.	NAME	DESIGNATION
1..	Smt.SAVITHRAMMA	DEPUTY DIRECTOR

ELE.DEPARTMENT/PUDUCHERRY

SL.NO.	NAME	DESIGNATION
1.	Shri.T.CHANEMOUGAM	EE/GENERAL

APPCC(APTRANSCO)

SL.NO.	NAME	DESIGNATION
1.	Shri.UMAMAHESWARAI AH	DEE

RUVNL

SL.NO.	NAME	DESIGNATION
1.	Shri.SANJAY SINGH NEHRA	SE/BILLING

TAQA

SL.NO.	NAME	DESIGNATION
1	Shri.K.RAGHUNATHAN	COMPANY SECY
2.	Shri.G.VENKATAKRISHNA	MANAGER-FC&A



NLC INDIA LIMITED
WELCOME
Stakeholders
ON
Lignite Pricing for the Tariff Period 2019-24

20th Aug, 2019

CERC issues Tariff Guidelines for power stations for each Tariff period in consultation with all Stakeholders.

Corresponding to Tariff Guidelines issued by CERC, Ministry of Coal issues Lignite Pricing Guidelines for each Tariff period in consultation with all Stakeholders.

In 2019-24 CERC Regulations issued on 07th March, 2019, it is specifically mentioned that for computation of input price of coal and lignite from integrated mines , CERC will come with separate regulations.

MoC vide letter dated 24th June, 2019 has intimated that competent authority has decided that, NLCIL's Board, in consultation with the stakeholders, can decide lignite pricing at such frequency as the situation may demand.

1. As per the existing mechanism, after completion of the Tariff Period, till the approval of the new Lignite Transfer Price, the price approved by the CERC for the last year of the previous Tariff period will prevail.
2. NLCIL Board has advised to consult with Stakeholders for fixing the Lignite Pricing.

Changes during last 5 years in Power Sector

- Competitive Tariff due to Capacity Additions
- Cheaper Power through Renewable
- Merit Order
- Technical Minimum
- One Nation One Grid Connectivity
- Peak & Non Peak Supply

THANK YOU



(4) In case of the existing projects, the generating company or the transmission licensee, as the case may be, shall continue to bill the beneficiaries or the long term customers at the capacity charges or the transmission charges respectively as approved by the Commission and applicable as on 31.3.2019 for the period starting from 1.4.2019 till approval of final capacity charges or transmission charges by the Commission in accordance with these regulations:

Provided that the billing for energy charges w.e.f. 1.4.2019 shall be as per the operational norms specified in these regulations.

COMPUTATION OF INPUT PRICE OF COAL AND LIGNITE

FROM INTEGRATED MINE

36. Input Price of coal and lignite for energy charges: (1) Where the generating company has the arrangement for supply of coal or lignite from the integrated mine(s) allocated to it, for use in one or more of its generating stations as end use, the energy charge component of tariff of the generating station shall be determined based on the input price of coal or lignite, as the case may be, from such integrated mines computed in accordance with the regulations to be notified separately by the Commission.

COMPUTATION OF INPUT PRICE OF COAL AND LIGNITE

FROM INTEGRATED MINE

(2) Till the regulation for computation of input price of coal is notified, the generating company shall continue to adopt the notified price of Coal India Limited commensurate with the grade of the coal from the integrated mine:

Provided that after notification of the regulation for input price of coal, the same shall be applicable from 1.4.2019 or the date of commercial operation of the integrated mine, whichever is later, and the difference between the input price of coal so decided and the input price of coal for quantity billed shall be adjusted in accordance with the regulations to be notified.

(3) Till the regulations for computation of input price of lignite is notified, the input price of lignite shall continue to be determined as per the guidelines specified by Ministry of Coal, Government of India.

No. 28012/1/2014- CA II
Government of India
Ministry of Coal

Shastri Bhawan, New Delhi,
Dated the 24th June, 2019.

To

The Chairman-cum-Managing Director,
NLC India Limited,
Neyveli, Cuddalore District,
Tamil Nadu-607801.

Sub.: Lignite Price Guidelines- NLC India Limited- Reg

Sir,

I am directed to refer to NLCIL's letter dated 23.01.2019 for fixation of transfer price of lignite for NLCIL mines from 01.04.2019 onward.

2. The above matter was examined in this Ministry and it has been decided by the competent authority that NLCIL's Board, in consultation with the stakeholders, can decide lignite pricing at such frequency as the situation may demand.

Yours faithfully,



(Alka Shekhar)

Under Secretary to Government of India
Telefax No. 011-23386431
Email Id:- soca2.moc@nic.in