Lignite Transfer Price Guidelines 2019 – 2024


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, NLCIL 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. Subsequently draft guidelines were submitted to the

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beneficiaries on 25th August'2019. Subsequent to the same, the observation of DISCOM's has been received on the same. Based on earlier consensus, 2nd meeting was taken place on 7th Sept'2019 at NLCIL, registered office. The observations of the beneficiaries, was discussed in detail and the clarifications of NLCIL was explained to the beneficiaries.

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.

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

Considering the difficulties encountered in mining and also the past performance, the Normative Capacity utilization shall continue to be 85% for Neyveli Mines. However, considering the lower requirement of lignite to meet the generation of power by Barsingsar Thermal, the capacity utilization for Barsingsar Mines shall be considered at 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 taken place.

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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 for the tariff period 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

In mines, auxiliary equipment’s having life of around 8 years need periodic replacement/ rejuvenation to maintain same level of production. Moreover, requirement of land is essential for sustained mining operation. Further, due to movement of mines, increased area of operation and higher OB Lignite ratio, higher blasting requirement, additional equipment’s like conveyor, CMEs, GWC equipment’s and roads etc are required. Capital additions based on annual budget/plans and as approved by the NLCIL Board, shall be taken for calculating this parameter. However, the details of capitalization will be periodically shared with beneficiaries.

B. Component of Lignite Price

I. Operation & Maintenance (O&M) Expenses

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

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, outsourcing OB removal expenses 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 annual basis and necessary adjustment will be carried out in the lignite price for the subsequent year.

III. Return on Equity

Return on equity shall be computed at the base rate of 15.50% for all 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

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.

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V. Depreciation

Rate of Depreciation for specialized mining equipment is based on the approval taken from Ministry of Corporate Affairs (MCA). 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 of SBI shall be taken as on 01-04-2019.

Components of Working Capital

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

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

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 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 “Sub-committee of Board of Directors for Pricing of Lignite & Power” 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.