

APP comments on Proposed Methodology for Determination of Escalation Rate for Transportation of Imported Coal

S.No	Provision as per CERC Order	APP Comments
	<p>Clause 2</p> <p>In this regard, Directorate General of Shipping, Ministry of Shipping, Government of India issued an Engineering Circular, dated 14th December 2018, on “0.5% max limit of the sulphur content in fuel oil-Compliance with the provisions of MARPOL Annex VI Regulation 14”. The circular is applicable to: (a) All seagoing Indian ships registered under Merchant Shipping Act, 1958 and (b) All bunker suppliers registered with GOI in accordance with Regulation 18 MARPOL Annex VI.</p>	<p>Point of clarification - Please refer the latest DG Shipping Circular dated 28.08.2019, which also states that the regulation is applicable to “All foreign flag-vessels visiting Indian waters”.</p>
	<p>Clause 4(1)(a)</p> <p>The LSFO prices are published by many index developers. Currently, the available sources of LSFO prices are as follows: (a) Low Sulphur Fuel Oil (LSFO) (0.5% Sulphur) Singapore, USD/t: Argus Media Ltd has started publishing the LSFO price since May 2018.</p> <p>Based on the availability of historical data on the price of fuel used in shipping, it is proposed to use LSFO price published by Argus Media Ltd for computing the escalation rate for transportation of imported coal/gas.</p>	<p>We understand that Argus started publishing LSFO data from 01-Oct-2018 and not from May 2018. This may please be verified.</p> <p>In view of changing dynamics of LSFO market, more importance should be given to recent index data series rather than availability of historical data. Therefore, availability of historical data should not be main guiding factor in selection of appropriate index.</p> <p>Singapore being the world’s largest bunkering hub had very less demand for LSFO 0.5 during the initial assessment period of Sep’18-Aug’19 as it was not the conventional fuel for shipping industry during such period. LSFO price data as early as Sep-2018 may not be representative of the market commencing from Jan. 2020 as shipping industry is likely to switch over to LSFO closer to the deadline i.e. late Q3 FY20.</p>



S.No	Provision as per CERC Order	APP Comments
		<p>Our members have also informed us that they feel Platts and Clarksons Research provides a more reliable index as compared to Argus.</p> <p>Therefore, it may be more appropriate to use Platts Marine fuel oil (0.5% S) index data, available from 1st July 2019 or Clarksons Research’s VLSFO data available from Sep 2019 onwards.</p>
	<p>Clause 4(ii)(a) read with Clause 4(i)(b)</p> <p>It is proposed to compute the escalation rate as under: Escalation rate applicable for the period from January to March 2020 shall be computed based on the LSFO price for the period from September 2018 to August 2019.</p>	<p>Regarding the period from Jan 2020 to March 2020, some of our members feel that even the recent LSFO price index data from Platts or Clarksons may not adequately capture the real volatility trends due to being relatively new. These members have suggested that the existing IFO 380cst which has been used for computing the escalation rates for imported coal till Dec 2019 may continue to be utilized for the period from Jan to March 2020 as an interim measure.</p> <p>On the other hand, some of our other members have opined that Platts price index data can be used for this period, with a minor change to the methodology for determination of escalation index for Jan 2020 – March 2020 in order to account for the dynamics and volatility.</p> <p>Accordingly, we request CERC to take an appropriate call on the above two options, based on the availability of market reflective price data.</p> <p>In case Platts data is used, (which is available from July 2019), in place of considering 12 months data for determination of escalation index for January 2020 – March 2020, the Platts data from July 2019 till December 2019 (a one-time departure from the normal practice of considering 12 months’ data) may be considered and index may be developed using six monthly data in the following way:</p>



S.No	Provision as per CERC Order	APP Comments
		<p>Illustration:</p> <ol style="list-style-type: none"> 1. Monthly average (July 2019: September 2019) = Q1 2. Monthly average (October 2019: December 2019) = Q2. 3. Monthly average (January 2020: March 2020) = Q3. 4. Monthly average (April 2020: June 2020) = Q4. <p>The proposed method for escalation index:</p> <ol style="list-style-type: none"> 1. $\{(Q2-Q1)/Q1\} * 4$ for Jan'20 -Mar'20 2. $\{(Q3-Q2)/Q2\} * 4$ for Apr'20 June'20 3. $\{(Q4-Q3)/Q3\} * 4$ for July'20-Sept'20 <p>This method is being suggested for the initial transition period till the demand and supply of new bunker fuel normalizes.</p> <p>October'20 onwards the Hon'ble Commission may adopt their usual methodology, based on Platts or Clarkson data capturing September'19 to August'20 series.</p> <p>In the scenario where only Argus data would be considered, it is our request to consider the data from December 2018 to November 2019 for Jan to March 2020. This would capture the data closer to the date of implementation. LSFO price data as early as Sep-2018 may not be representative of the market commencing from Jan. 2020 as shipping industry is likely to switch over to LSFO closer to the deadline i.e. late Q3 FY20. So a price index till September 2019 would not have captured the demand-supply dynamics as a result of this switchover. The resultant price, as an interplay between the new demand and new supply scenarios, should be the applicable price for bunker fuel. Hence, it is suggested to use data series closer to the implementation date.</p>