

## APP comments on Proposed Amendments to Case-4 Methodology

### 1) APP comments on amendments proposed by Dhariwal Infrastructure Ltd vide letter dt 17.06.2019

Ref no.	Amendments proposed by Dhariwal Infrastructure Ltd	APP Comments
1.A	<p><b><u>GCV for coal quantity evaluation</u></b></p> <p>It is suggested that for evaluation of allocation of coal the GCV be taken as 80% of the lowest equilibrated GCV for that grade.</p>	<p>We agree with the issue raised by Dhariwal Infrastructure Ltd that evaluation of coal allocation on the basis of Mid-Point GCV (equilibrated) is not the correct method since it leads to significantly lower allocation of coal than what is actually required given the fact that As-Received GCV is lower.</p> <p>However, we feel that the following method may be used for computing the coal allocation quantity:</p> <ul style="list-style-type: none"> <li>i. For a new Case-4 tender issued to replace an expiring Case-4 tender (with same coal source), the average GCV (ARB) received under the previous tender's coal supply may be used, provided that there is no change in particulars of coal.</li> <li>ii. For new tenders, the average GCV (ARB) of the State Genco plant (which is being replaced) for the year preceding the bid date can be used. Such data would be readily available with State Gencos and further would be verified by 3rd party.</li> </ul>
1.B	<p><b><u>GCV for coal quantity reconciliation</u></b></p> <p>It is suggested that for Coal-Power reconciliation purpose between Buyer &amp; Seller, reports of primary third party analysis at loading end be solely relied upon and contract be provisionally closed with release of PBG, with retention of Rs. 2 Lakh per pending referee analysis.</p>	<p>We agree with the suggestion provided by Dhariwal Infrastructure Ltd.</p>

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	<p>Contract should provide a methodology that in case of some quantity of coal being not sampled, the results of the sampled quantity may be extrapolated to the un-sampled quantity as Average GCV for reconciliation purpose.</p>	
2	<p><b><u>Capacity allocation in proportion to coal allocation</u></b></p> <p>If the 10-day advance coal allocation by the State/Buyer is less than that required for 100% utilization of the contracted capacity by the Seller then unutilized capacity should be freed and shall be at the disposal of the Seller for use on the short term market/exchange on day ahead basis.</p>	<p>We agree with the point raised by Dhariwal Infrastructure Limited.</p> <p>To avoid stranding of asset due to non-availability / non-allocation of coal, the Seller should be allowed to use, at its sole discretion and without any revenue sharing obligation, that portion of contracted capacity for which coal has not been allocated.</p>
3	<p><b><u>Standard Bidding Document</u></b></p> <p>It is suggested that the Methodology for use of coal by IPPs issued by the Ministry of Power vide letter dated 20th February, 2017 and its subsequent amendments may be consolidated and issued as a Standard Bidding Document so the Procurers follow the same.</p>	<p>We believe that the methodology issued by MoP is quite exhaustive and can be followed, without the need to issue a SBD.</p> <p>However, Procurers may be instructed to follow the provisions laid out in the Guidelines in letter &amp; spirit uniformly.</p>
4	<p><b><u>Billing &amp; Payment</u></b></p>	<p>We agree with the principal issue raised by Dhariwal Infrastructure Limited regarding better management of working capital &amp; cash flow cycle.</p>

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	<p>For better working capital management and cash flow, it is proposed that a fortnightly billing cycle be implemented in place of the monthly billing cycle. This will bring in a substantial relief to the bidders who are already struggling with cash flows/ debt servicing of their stressed assets.</p>	<p>We suggest that provision for Weekly Billing be allowed instead of monthly billing, as agreed by Gujarat Discoms earlier, with payment due date being 5 days and LPS applicable beyond delay.</p> <p>This will provide much needed relief to stressed assets.</p>
5	<p><b><u>Merit Order Dispatch</u></b></p> <p>For the purpose of Merit Order, 90% of the lump sum Tariff should be considered.</p>	<p>We feel that since the tariffs for power supply under this Case-4 will be very low, the plants providing power under the Case-4 methodology should be accorded must-run status.</p> <p>If must-run status cannot be provided, then we agree with the suggestion made by Dhariwal Infrastructure Limited that for the purpose of Merit Order, 90% of the lump sum tariff should be considered.</p>
6	<p><b><u>Contract Extension</u></b></p> <p>Two consecutive contract extensions may be allowed of one year each.</p> <p>Escalation with WPI / CPI may be allowed on 20% of the lump sum tariff (deemed fixed cost), subject to ceiling of then applicable variable cost of replaced Genco.</p>	<p>We agree with Dhariwal Infrastructure Limited's contention that two consecutive contract extensions may be allowed of one year each.</p> <p>Further, we suggest that 25% of the lump sum tariff be considered as normative fixed cost (solely for purpose of escalation) and escalation based on WPI (all commodities) be applied, with base being the WPI applicable as on Bid Date.</p> <p>We also suggest that the methodology provide that the term of the tender may be extended to Medium Term Basis (for 5 years) so that the benefit can be maximized.</p>



**2) APP comments on amendments proposed by TANGEDCO vide letter dt 09.10.2019 and 29.01.2020**

Ref no.	Amendments proposed by TANGEDCO	APP Comments
a	<p>a) Bidder must be an IPP Generating Company (or) be a Consortium of maximum three (03) firms out of which one shall own a coal based Thermal Power Generating Station (or) company with an irrevocable MOU with IPP which has achieved commercial operation at the time of Bidding.</p>	<p><b>We disagree with TANGEDCO’s proposal of allowing consortiums to participate.</b></p> <p>The contention raised by TANGEDCO is that different members of a consortium may have expertise in different areas such as coal transportation, power trading etc and can bring efficiency in the process.</p> <p>We submit that even in case of a standalone IPP participating in the process, there is no bar / restriction on such IPP to avail services of professional agencies to handle coal transportation etc.</p> <p>Further, allowing consortiums to participate will only complicate the process. To cite an example - in case of Bidder’s event of default leading to contract termination, the Bidder shall be liable to pay Termination Payment over and above the encashment of Performance Guarantee. The mechanism for recovery of the termination payment from a consortium, shall be complicated and may eventually lead to long drawn legal cases.</p> <p><b>Hence we disagree with TANGEDCO’s proposal of allowing consortiums to participate.</b></p>
c	<p>c) The Installed Capacity of the operating Units from which power is proposed to be generated shall be equal to or more than 600 MW.</p>	<p><b>We strongly disagree with TANGEDCO’s proposal of minimum capacity of 600 MW.</b></p> <p>The Case 4 methodology was devised to utilize the capacity of stranded assets of IPPs while bringing relief to consumers in terms of lowering of variable costs. There are a number of stranded units (without PPA) of configuration 250 MW and above. <b>If any 250/300 MW unit can bid a lower figure than a corresponding 600 MW unit, then it is wholly to the gain of the consumer and TANGEDCO’s</b></p>



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		<p><b>proposal to restrict the bidding to 600 MW plants shall only restrict competition resulting in ultimate loss to the consumers.</b></p> <p>To further demonstrate our point, the Case 4 bidders will get coal as per clause 13.1(iii) of the Methodology of Use of Coal by State in IPP vide MoP letter dated 20/2/2017, wherein it is specified:</p> <p style="text-align: center;"><i>The Gross Heat Rate to be considered for coal quantity calculations shall be the Gross Heat Rate specified by the Bidder or as specified by CERC for equivalent unit capacity whichever is lower.</i></p> <p>CERC Tariff Regulations 2019 gives the following guidance on Maximum SHR :</p>

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		<p data-bbox="1245 304 1850 400">Provided that the design heat rate shall not exceed the following maximum design unit heat rates depending upon the pressure and temperature ratings of the units:</p> <table border="1" data-bbox="1245 416 1827 735"> <tr> <td>Pressure Rating (Kg/cm<sup>2</sup>)</td> <td>150</td> <td>170</td> <td>170</td> </tr> <tr> <td>SHT/RHT (°C)</td> <td>535/535</td> <td>537/537</td> <td>537/565</td> </tr> <tr> <td>Type of BFP</td> <td>Electrical Driven</td> <td>Turbine Driven</td> <td>Turbine Driven</td> </tr> <tr> <td>Max Turbine Heat Rate (kCal/kWh)</td> <td>1955</td> <td>1950</td> <td>1935</td> </tr> <tr> <td colspan="4"><b>Min. Boiler Efficiency</b></td> </tr> <tr> <td>Sub-Bituminous Indian Coal</td> <td>0.86</td> <td>0.86</td> <td>0.86</td> </tr> <tr> <td>Bituminous Imported Coal</td> <td>0.89</td> <td>0.89</td> <td>0.89</td> </tr> <tr> <td colspan="4"><b>Max. Design Heat Rate (kCal/kWh)</b></td> </tr> <tr> <td>Sub-Bituminous Indian Coal</td> <td>2273</td> <td>2267</td> <td>2250</td> </tr> <tr> <td>Bituminous Imported Coal</td> <td>2197</td> <td>2191</td> <td>2174</td> </tr> </table> <table border="1" data-bbox="1245 775 1827 1134"> <tr> <td>Pressure Rating (Kg/cm<sup>2</sup>)</td> <td>247</td> <td>247</td> <td>270</td> <td>270</td> </tr> <tr> <td>SHT/RHT (°C)</td> <td>537/565</td> <td>565/593</td> <td>593/593</td> <td>600/ 600</td> </tr> <tr> <td>Type of BFP</td> <td>Turbine Driven</td> <td>Turbine Driven</td> <td>Turbine Driven</td> <td>Turbine Driven</td> </tr> <tr> <td>Max Turbine Heat Rate (kCal/kWh)</td> <td>1900</td> <td>1850</td> <td>1810</td> <td>1800</td> </tr> <tr> <td colspan="5"><b>Min. Boiler Efficiency</b></td> </tr> <tr> <td>Sub-Bituminous Indian Coal</td> <td>0.86</td> <td>0.86</td> <td>0.865</td> <td>0.865</td> </tr> <tr> <td>Bituminous Imported Coal</td> <td>0.89</td> <td>0.89</td> <td>0.895</td> <td>0.895</td> </tr> <tr> <td colspan="5"><b>Max. Design Heat Rate (kCal/kWh)</b></td> </tr> <tr> <td>Sub-Bituminous Indian Coal</td> <td>2222</td> <td>2151</td> <td>2105</td> <td>2081</td> </tr> <tr> <td>Bituminous Imported Coal</td> <td>2135</td> <td>2078</td> <td>2034</td> <td>2022</td> </tr> </table> <p data-bbox="1059 1190 2029 1334">Thus, subcritical units (Pressure less than 220 bar) have a prescribed maximum turbine heat rate ranging from 2250 to 2273 kCal/kWh. Since both 600 MW units as well 200 MW units are subcritical, there is no appreciable savings in coal quantity between the two.</p>	Pressure Rating (Kg/cm <sup>2</sup> )	150	170	170	SHT/RHT (°C)	535/535	537/537	537/565	Type of BFP	Electrical Driven	Turbine Driven	Turbine Driven	Max Turbine Heat Rate (kCal/kWh)	1955	1950	1935	<b>Min. Boiler Efficiency</b>				Sub-Bituminous Indian Coal	0.86	0.86	0.86	Bituminous Imported Coal	0.89	0.89	0.89	<b>Max. Design Heat Rate (kCal/kWh)</b>				Sub-Bituminous Indian Coal	2273	2267	2250	Bituminous Imported Coal	2197	2191	2174	Pressure Rating (Kg/cm <sup>2</sup> )	247	247	270	270	SHT/RHT (°C)	537/565	565/593	593/593	600/ 600	Type of BFP	Turbine Driven	Turbine Driven	Turbine Driven	Turbine Driven	Max Turbine Heat Rate (kCal/kWh)	1900	1850	1810	1800	<b>Min. Boiler Efficiency</b>					Sub-Bituminous Indian Coal	0.86	0.86	0.865	0.865	Bituminous Imported Coal	0.89	0.89	0.895	0.895	<b>Max. Design Heat Rate (kCal/kWh)</b>					Sub-Bituminous Indian Coal	2222	2151	2105	2081	Bituminous Imported Coal	2135	2078	2034	2022
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d	<p>d) The bidder's (any one of the consortium member) annual turnover shall be minimum Rs. 450 Crores in any one of the previous three financial years as on the date of bid opening. The turnover of the Bidder should only be from business related to Power Supply of Coal and Transportation of Coal. Attested photo copies of annual audited financial statement/balance sheet/income tax statement duly certified by the chartered accountant for the above years three years should be furnished.</p>	<p><b>We strongly disagree with TANGEDCO's proposal to include a minimum turnover criteria for participation in the tender.</b></p> <p>At the outset, the basic premise of TANGEDCO's proposal that it will default on its payment obligations is not in the spirit of the Electricity Act 2003 as well as MOP's recent notifications on ensuring adequate payment security for Gencos by Discoms. Further, this is in itself an event of default as per the Case-4 methodology issued by MoP and hence this contention cannot be permitted. Case-4 contract must not be allowed to be used as tool for working capital management.</p> <p>Also, Case-4 tenders are an avenue of relief to several stranded assets, which are already reeling under financial troubles. Hence imposing any minimum turn-over criteria will prevent participation from such IPP's.</p> <p><b>Hence we disagree with TANGEDCO's proposal of including minimum turnover criteria for participation in the tender and we feel that such discriminatory practices may not be encouraged.</b></p>

### Additional Comments

In addition to the above, we request that the following additional comments may also be taken into consideration:

1. The tolling framework under the Case-4 framework is primarily aimed at lower cost conversion of power, while also ensuring utilization of stressed and stranded IPPs. The present Case-4 methodology has a lot of room for improvement in when it comes to reducing the stress on the IPPs. Currently, coal cost is to be borne upfront by the IPP. There is a 3 to 4 month repayment cycle as, on the one hand, coal cost is to be deposited with Coal India about one month in advance of the start of power generation, considering various lead times, and on the

other hand, payment from Discoms is released late and that too in small tranches. This adds further to working capital needs which are not only at high interest rates but also extremely difficult for IPPs to obtain from Banks in the current depressed scenario.

**Therefore, in order to bring out the most effective and efficient implementation of this tolling mechanism, it is recommended that tenders are called on pure tolling charge basis where coal should be paid for by the State and provided to the IPP with a benchmark GCV on ARB (As Received Basis).** The Buyer State can fix the heat rate as approved by CERC.

2. Transmission charges should be paid directly by the State (Buyer entity) to PGCIL. Similar to s.no. 1 above, this will help in reducing stress on the IPPs and this amount is being reimbursed anyway as part of the bid price along with variation in PoC charges.
3. Ceiling tariff should be fixed strictly in line with the existing methodology on the basis of variable cost of the State's Unit / Power Station that is proposed to be shut down and whose output is sought to be replaced with power from the Case 4 tender. Unfortunately, in reality, the ceiling tariff is being fixed on the basis of the most efficient State Genco Power Plant that receives the cheapest coal and has the lowest variable charge and which would continue to operate. This skews the process, giving the State Discom a double advantage in cost and at the same time further squeezing the already stressed IPPs.
4. Case-4 Methodology be suitably amended to allow for supply of power from alternate sources and for swapping of coal allocation, both of which would be for plants under the same parent / ownership. This will be cost neutral to the process for the Utility / Buyer while also bringing in flexibility for the generator.
5. **Applicability of Case-4 methodology for Private Discoms:**
  - The Ministry of Power has notified the methodology for use of coal by State in Private Generating Stations (Case-4).
  - As per the methodology, the State ('Buyer') supplying coal will invite Tariff Bids from the prospective IPPs for use of domestic coal out of aggregated coal allocated to respective State and supplying power in lieu of transfer of such coal. This flexibility is aimed at reducing the cost of power generation.
  - There are several privately owned Discoms that have linkage based generation such as Torrent Power (422 MW AMGEN), CESC (750 MW Budge Budge TPS), Adani Electricity Mumbai Ltd (500 MW Dahanu TPS) and TPDDL (1050 MW Maithon Power Plant).



**Suggested amendment** – In view of above, a suitable clarification may be issued stating that Case-4 bidding process can be initiated by private Discoms too, so that the benefit of reduced cost of power generation can be enjoyed by the end consumers of such Discoms.

6. Many provisions from MoP OM dated 05.04.2018 on methodology for flexibility in generation and scheduling of thermal power stations to reduce emissions, can be allowed under Case-4 post-bidding, at the option of the Supplier and subject to mutual acceptance. This would innovate the tolling process under Case-4 while further reducing the power generation costs, thereby working to the benefit of consumer.
  - As per the methodology, the generating company shall have flexibility of using Thermal power or renewable power to meet its scheduled generation from the specific thermal generating station. Beneficiaries of the Power will also get firm power including Renewable power, which will help them to meet their RPO obligations.
  - The net gain realized, if any, from supply of RE power in place of thermal power shall be passed on to the beneficiary appropriately. The extra thermal generation capacity available corresponding to renewable generation would be made available as additional power at the time of need to the beneficiary.

**Suggested amendment** – In view of the above, Case-4 methodology may also have provision to allow for flexibility in generation and scheduling by the thermal generator.