Government of India
Ministry of Coal
Lok Sabha
Unstarred Question No. 6181
To be answered on 04.04.2018
Privatization of Coal

6181. SHRI JAYADEV GALLA:

Will the Minister of COAL be pleased to state:

(a) the reasons for proposed opening up of coal to private sector for mining;

(b) the quantum of FDI Government is expected to get due to this decision; and

(c) the extent to which this decision will help in revival of coal-based power plants which are now on totters?

ANSWER

MINISTER OF RAILWAYS AND COAL
(SHRI PIYUSH GOYAL)

(a) to (c): The methodology for auction for coal mines/blocks for sale of coal under the provisions of the Coal Mines (Special Provisions) Act, 2015 and the Mines and Minerals (Development and Regulation) Act, 1957 including enabling provisions for Foreign Direct Investment has been approved by the Government and Order in this regard has been issued on 27.02.2018. A copy of the Order is attached with the reply. Auction of coal mines for sale of coal is expected to bring efficiency into the coal sector due to increased competition and deployment of best possible technology into the sector. Increased competition in the market will lead to higher domestic production, better utilization of mining resources for development of India and ensure assured coal supply. The methodology would ensure distribution of natural resources in a fair and transparent manner within the ambit of existing law.

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No.CBA2-13011/1/2017-CBA2-Part(1)
Government of India
Ministry of Coal

Shastri Bhawan, New Delhi,
Dated the 27th February, 2018

ORDER

Subject: Methodology for Auction of Coal Mines/Blocks for sale of coal under the Coal Mines (Special Provisions) Act, 2015 and the Mines and Minerals (Development and Regulation) Act, 1957.

The undersigned is directed to refer to Rule 8 (3) of the Coal Mines (Special Provisions) Rules, 2014 read with Section 8 (5) of the Coal Mines (Special Provisions) Act, 2015 and Rule 3(1) (d) of the Coal Blocks Allocation Rules, 2017 read with Section 11A of the Mines and Minerals (Development and Regulation) Act, 1957 and to say that the Central Government has approved the methodology for auction of coal mines/blocks identified under the relevant Act for sale of coal as mentioned in para 2 below:

2.1 Methodology for auction of coal mines for sale of coal on Rs. per tonne basis:

2.1.1 Bid Parameter: The auction will be an ascending forward auction whereby the bid parameter will be the price offer in Rs./tonne which will be paid to the State Government on the actual production of coal.

The floor price shall be unit ratio in terms of Rs. per tonne basis, determined in accordance with methodology as mentioned at Sl. No. 1 of Ministry of Coal's order no. 13016/9/2014/CA-III dated December 26, 2014 at Annexure-I.

The bidder who submits the highest price offer (Final Price Offer) shall be the Successful Bidder.

2.1.2 Sale and/or Utilisation of Coal: There shall be no restriction on the sale and/or utilization of coal from the coal mine. The Successful Bidder shall be free to sell coal in any manner as may be decided by the

Successful Bidder including sale to affiliates and related parties, utilize coal for captive consumption and export of coal.

2.1.3 Coal Production Schedule: Successful Bidder shall have certain degree of flexibility to manage its production depending on the market scenario and will be allowed to reduce its production below Peak Rated Capacity of the coal mine. Successful Bidder shall also be allowed to increase its production subject to a revision in Mining Plan and statutory approvals. While the Successful Bidder shall be allowed to manage his production quantity (subject to the cap as per the Mining Plan) in the event of any economic downturn or other such event, a drop in the actual production is allowed, not below 50% of the production as per the Mining Plan. However, in any five year block, the Successful Bidder will have to mine out at least 70% of the production as per the Mining Plan.

2.1.4 Annual Adjustment of the Final Price Offer (including windfall gains, if any): Windfall gain can be defined as a very significant increase in revenue in comparison to increase in costs. During the mining lease period, as a natural course, it is expected that the selling price of coal as well as cost of production will increase due to inflation. Windfall gains may arise in some situations, resulting in significant increase in the profit of Successful Bidder.

In order to capture the potential revenue upside, including windfall gains (if any), the Final Price Offer (Rs./tonne) shall be considered as base for the year of bidding with yearly adjustment linked to the Wholesale Price Index – coal (of relevant grade) as published by GOI, Ministry of Commerce and Industry (website: www.eaindustry.nic.in) subject to the condition that such figure shall not at any time be less than the Final Price Offer. It shall be the responsibility of the concerned State Governments to carry out the above calculation for determining adjusted Final Price Offer and collecting the same from the Successful Bidder.

2.2 For sale of coal, Foreign Direct Investment to the extent of 100% may be allowed in coal mining activities including associated processing infrastructure to attract international players to create efficient and competitive coal market. The nodal Ministry/Department i.e. Department of Industrial Policy and Promotion shall be approached for the same.

2.3 Washing of coal by the Successful Bidder should be as per extant guidelines of M/o Environment, Forest and Climate Change.

2.4 The mines to be auctioned for sale of coal and their time schedule shall be decided by the Ministry of Coal.

2.5 Terms and Conditions / modalities including eligibility criteria shall be decided by Ministry of Coal as the same are part of Tender Conditions.

2.6 The above methodology for auction of coal mines shall also be applied for the coal mines to be auctioned for sale of coal under the provisions of the MMDR Act, 1957 and Rules made thereunder.

This issues with the approval of Competent Authority.

(Rishan Ryntathiang)
Under Secretary to the Government of India

To
1) The Nominated Authority, Ministry of Coal
2) JS (NKS), Ministry of Coal: For appropriate necessary action in respect of auction of coal mines under the relevant provisions of the MMDR Act, 1957 and Rules made thereunder.
3) Department of Industrial Policy and Promotion: For necessary action with respect to para 2.2 above.

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1) TD (NIC) – with the request to upload on the website of Ministry of Coal

Annexure-I

Most Immediate

No. 13016/9/2014-CA-III
Government of India
Ministry of Coal

Shastri Bhawan, New Delhi,
Dated the 26th December, 2014

ORDER

Subject:- Methodology for fixing Floor/Reserve Price for Auction and Allotment of Coal Mines/Blocks.

In accordance with the provisions of Rule 8(3) of the Coal Mines (Special Provisions), Rules, 2014 and Section 8(5) of the Coal Mines (Special Provisions), Ordinance, 2014 the Government is pleased to approve the Methodology for fixing Floor/Reserve Price for Auction and Allotment of Coal Mines/Blocks as mentioned below:-

METHODOLOGY FOR FIXING FLOOR/RESERVE PRICE

1. For fixing floor price for Auction for sectors like Steel, Sponge iron, Cement, Captive Power etc.:

The Intrinsic Value of the coal block will be calculated by computing its Net Present Value (NPV), based on Discounted Cash Flow (DCF) method. The 10 % of this intrinsic value will be payable upfront in 3 installments of 5%, 2.5% and 2.5% as prescribed in the bidding document. The final NPV (after subtracting the upfront payment received from the bidder) will then be annuitized to become equal to a unit ratio in terms of Rs/tonne (viz. floor price). In this case for calculation of intrinsic value, it is proposed that, the extant notified price of CIL (price of domestic coal) for the non-regulated sectors for the corresponding GCV bands will be taken into account for computing NPV. However, floor price shall not be less than Rs. 150/- per tonne. The resultant bid price (Rs/tonne) shall be considered as base for the year of bidding with yearly escalation linked to the WPI. The statutory royalty payable on coal will continue to be governed as per extant rules.

2. For fixing Reserve Price for coal mines /blocks to be allotted for power projects to be set up in future on tariff based bidding (Case-2) and

3. For fixing Reserve Price for coal mines/blocks to be allotted to the Government Companies for specified end-uses :

A fixed Reserve Price of Rs.100/- per tonne of coal shall be payable, as per actual production by the successful allottee. The statutory royalty payable

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on coal will continue to be governed as per extant rules. This would ensure that there is no adverse impact on power tariff. The successful allottee shall have to pay upfront payment, as may be prescribed in the tender/allotment document. There is no bidding on coal under these two categories. The 'Reserve Price' may be escalated using a pre-determined formula that is prescribed in now prevailing Standard Bidding Documents for Case-1 bidding as formulated by Ministry of Power for escalation of fuel cost from captive mines. However, for existing generation capacity contracted through tariff bid based PPAs (Case-2), arranging fuel is the responsibility of power procurer. Such Case-2 projects shall not be eligible to participate in the auction process for the coal blocks.

4. For fixing the ceiling price for coal mines/blocks to be auctioned for generation capacity having cost plus PPAs or for generation capacity having tariff bid based PPAs (Case-1)/generation capacity to be contracted through cost plus PPAs or through tariff bid based PPAs (Case-1) in future :

a. A Ceiling Price of CIL Notified price for each coal block will be fixed and the bidders will be mandated to quote lower than this Ceiling Price. The Ceiling price shall be fixed at Run-of-Mine (ROM) price of equivalent grade, as specified by CIL for the power sector. The bidder quoting the lowest will be the successful bidder. This will be taken for transfer price to the plant from the coal block. The resultant bid price of coal will be escalable in line with a pre-specified escalation formula for the purpose of considering the energy charge. This method will ensure that the benefit of lower bid price is passed through to the consumers.

b. The bid price of coal shall be considered as base for the year of bidding and it shall be escalable with pre-determined formula that is prescribed in now prevailing Standard Bidding Document for Case-1 bidding as formulated by MoP, for escalation of fuel cost from captive mines.

c. A fixed Reserve Price of Rs.100/- per tonne of coal shall be payable, as per actual production by the successful allocattee. The statutory royalty payable on coal will continue to be governed as per extant rules i.e. at the CIL notified price. Similarly, the reserve price may also be escalable using the same formula as in 'b' above.

d. The successful allottee shall have to make upfront payment @ 10 % of the intrinsic value of the coal block in 3 installments of 5%, 2.5% and 2.5%, as prescribed in the bidding document.

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e. To ensure that, the benefit of coal is passed on to the consumers, the following conditions has been prescribed:

I. **For generation capacity having cost plus PPAs or generation capacity to be contracted through cost plus PPAs in future** – For the purpose of determining the fuel cost for cost plus PPAs, the Appropriate Commission will allow bid price of coal along with subsequent escalation as provided in coal block bid document as being equivalent to the Run of Mine (ROM) cost of coal together with other allowable expenses and levies, provided that it shall not lead to higher energy charge throughout the tenure of PPA than that which would have been obtained as per the terms and conditions of the existing PPA.

II. **For the generation capacity contracted through tariff bid based PPAs (Case-1)** – The Appropriate Commission shall review the quoted energy charge keeping in view that the actual bid price of coal along with subsequent escalation as provided in coal block bid document as being equivalent to Run of Mine (ROM) cost of coal alongwith statutory levies and other permissible components of energy charge, provided that such revision shall not lead to higher energy charge throughout the tenure of PPA than that which would have been obtained as per the terms and conditions of the existing PPA. For this purpose, the allocation of coal block under the new provisions shall be treated as "Change in Law" to enable the Appropriate Commission to revise the tariff downwards in accordance with the provisions of PPA.

III. **For the generation capacity to be contracted through tariff bid based PPAs (Case-1) in future** - The Appropriate Commission shall while adopting the tariff under Section 63 of the Electricity Act, 2003, ensure that the energy charge is derived based on the actual bid price of coal along with subsequent escalation as provided in coal block bid document as being equivalent to Run of Mine (ROM) cost of coal alongwith statutory levies and other permissible components of energy charge.

IV. **For this purpose Ministry of Power will make suitable provisions in the Tariff policy and/or in the bidding guidelines issued under the Electricity Act, 2003.**

f. For power plant having uncontracted capacity, the bidder shall be mandated to cap its merchant capacity at 15 % of the generating

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capacity linked to the allotted coal block for sale of power outside medium and long term PPAs contracted under Section 62 or Section 63 of the Electricity Act, 2003. Further the bidder shall have to pay an additional reserve price for the quantum of coal used for power sold in the merchant market. The additional reserve price for coal used for merchant sale of power shall be based on intrinsic value of the coal block annuitized over the yearly production in Rs/tonne terms. The intrinsic value can be arrived at with the existing approved methodology for steel/sponge iron/cement sectors/captive power. The additional Reserve Price shall not be less than Rs. 150/- per tonne. Further the resultant additional reserve price (Rs/tonne) shall be considered as base for the year of bidding with yearly escalation linked to the WPI.

5. Any further revision of CIL price after the bid due date would not have any impact on the bid price of the blocks already bid as escalation on that price has already been provided for in para 4.(b) above. For future bidding of coal blocks, the then prevailing CIL price will be considered for determining ceiling price.

6. For auction/allotment of coal blocks for the purpose of sale of coal as provided in Section 4(2) of the Coal Mines (Special Provision) Ordinance, 2014, a separate methodology will be formulated.

This issues with the approval of Competent Authority.

(S.K. SHAHI)
Director
Ph.23382807

Nominated Authority,
Ministry of Coal

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