**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 GOT, Ministry of

Commerce and Industry (website: www.eaindustrv.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.

**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

....2/-

-2-

on doal,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-I)/generation capacity tct 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 chaige. 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 `1D' 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 -** 5or 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-3) -** 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 WIC

(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

....4/-

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capacity linked to the allotted coal block for sale of power outside

medium and long terra 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 cL 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.