**Subject:- Methodology for IlXing 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:-

**ME-THODOLOGY FOR FIXING FLOOR/RESERVE PRICE**

**1. For IlXing 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 u pfront 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. ISO/-per

to=e. The resultant bid price (Rs/to=e) 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 IlXing 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 IlXing Reserve Price for coal mines/blocks to be allotted to the**

**Government Companies for specified end-uses:**

A fixed Reserve Price of Rs.l 00 / - per tonne of *coal* shall be payable, as

per actual production by the successful allottee. The statutory royalty payable

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 *mai* 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-l 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 Itxing 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-l)/generation capacity tQ be**

**contracted through cost plus PPAs or through tariff bid based PPAs**

**(Case-I) in future:**

a. A Ceiling Price of ClL 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 ClL for the power sector. The bidder

quoting the lowest will be the successful bidd~r. 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-specilied 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-l

bidding as formulated by MoP, for escalation of fuel cost from captive

mInes.

c. A fixed Reserve Price of Rs.l00 / - 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 ClL notilied 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.

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-I)** - 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 biel 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-I) 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

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 ClL 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** he been provided for in. para 4.(b) above. For future bidding coal blocks, the chen prevailing CILpnce 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 Pro'ision) Ordinance,

2014, a separate methodology will be form ulated.