

bidding.	
<p>The Hon'ble MoS stated on 04 October 2004 that the proposal for competitive bidding may not be pursued further as it would invite further delay in the allocation of blocks considering that the Coal Mines (Nationalisation) Amendment Bill 2000 envisaging competitive bidding as a selection process for allocation of blocks for commercial purposes was pending in the Rajya Sabha with stiff opposition from Trade Unions and others concerned. The Hon'ble MoS disagreed with the views that the Screening Committee could not ensure transparent decision making which alone was not an adequate ground for switching over to a new mechanism. The matter was put up to the Hon'ble Prime Minister. The PMO on 14 October 2004 requested the Secretary (Coal) to respond to the issues raised by the Hon'ble MoS.</p>	<p>The said Amendment Bill sought allocation of coal blocks to Indian Companies for commercial mining, which met with stiff opposition from the trade unions.</p>
<p>The Secretary (Coal) stated on 15 October 2004 that the policy of allotment of coal blocks through competitive bidding was discussed with the Hon'ble Prime Minister and it was felt that since a number of applicants requested for allotment of blocks based on the current policy, it would not be appropriate to change the allotment policy through competitive bidding in respect of applications received on the basis of existing policy. Accordingly, the policy of allotment through competitive bidding could be made prospective and pending applications might be decided on the basis of the existing policy. Therefore, the cut-off date for considering applications as per the current policy and the proposed revised policy was taken as 28 June 2004. The matter was put up to the Hon'ble Prime Minister through Hon'ble MoS on 25 October 2004.</p>	<p>The applications for captive coal blocks received in MoC till 28 June 2004 were to be considered as per the extant Screening Committee procedure. Beyond this period, the proposed revised procedure was to be followed with prospective effect.</p>
<p>The PMO directed (01 November 2004) to amend the draft Cabinet Note for approval of the Hon'ble Prime Minister in his capacity as the Minister for Coal and Mines, after taking into account the issues relating to the Coal Mines (Nationalisation)</p>	---

<p>Amendment Bill 2000 and cut-off date for competitive bidding. It was further stated therein that "as the change in the policy of allocation of coal blocks for captive mining will be made effective prospectively. Therefore, there is no urgency in the matter. Accordingly, there is no need to bring in the required amendment in the Coal Mines (Nationalisation) Act through an Ordinance. It would be appropriate to bring in the required amendment through a Bill to be moved in the coming Parliament Session".</p>	
<p>The Secretary (Coal) placed (23 December 2004) the revised draft Cabinet Note to the Hon'ble MoS for approval, who in turn submitted the file on 28 January 2005 to the Hon'ble Minister of Coal¹¹ who opined (25 February 2005) that he was in complete agreement with the views expressed by the Hon'ble MoS in his note dated 04 October 2004 and as such the proposal need not be proceeded further.</p>	---
<p>The Secretary (Coal) put up a note on 07 March 2005 for approval of the Draft Cabinet Note to the Hon'ble Prime Minister in his capacity as the Minister of Coal¹², stating that decision on all applications received as on 28 June 2004 would have been taken by the end of March 2005 and if the revised procedure for allocation of coal blocks was not put in place quickly enough, pressures would again mount on the Government for continuing with the present procedure, which might not be desirable in the interests of bringing about total transparency in allocation of coal blocks. The PMO in turn communicated (16 March 2005) that the draft Cabinet Note be updated and sent back urgently.</p>	<p>The revised procedure needed to be in place at the earliest so that the next round of allotment of captive coal blocks, after the cut-off date was through competitive bidding.</p>
<p>The updated draft Cabinet Note was placed before the Hon'ble Prime Minister in his capacity as the Minister of Coal and the same was approved by him, as communicated by the PMO on</p>	---

¹¹ The Hon'ble Minister of Coal had assumed charge.

¹² The Hon'ble Prime Minister again held additional charge.

24 March 2005. The draft Cabinet Note was circulated to the concerned Ministries/Departments for their comments.	
The draft Cabinet Note incorporating the views of various States and comments of the Ministries and Departments with the observations of the MoC was placed by the Secretary (Coal) before the Hon'ble MoS on 21 June 2005 for approval of the Hon'ble Prime Minister in his capacity as the Minister of Coal, stating that it was desirable that decision on allocation of captive block through bidding route was taken at the earliest so that the process of allocation of coal blocks could continue unhindered.	---
Hon'ble MoS in his note (04 July 2005) to the Hon'ble Prime Minister in his capacity as the Minister of Coal, <i>inter alia</i> , stated that the implications of such a decision by the Cabinet needed to be considered in great detail and that there was a general reluctance on the part of power utilities to participate in the competitive bidding due to cost implications.	---
PMO vide note dated 09 August 2005 requested MoC to take urgent action as per the decisions in the meeting taken by the Principal Secretary to the Hon'ble Prime Minister held on 25 July 2005. It had been decided in the meeting that MoC would amend the Cabinet Note to take into account the concerns of the State Governments, where the coal blocks were located. The Coal Mines (Nationalisation) Act, 1973 would need to be amended before the proposed competitive bidding became operational. Since this was likely to take considerable time, it was decided that MoC would continue to allot coal blocks for captive mining through the extant Screening Committee procedure till the new competitive bidding procedure became operational.	PMO permitted continuance of the extant Screening Committee procedure till the proposed competitive bidding became operational. In all, 24 blocks (GR: 3,753.66 MT) were allocated in 2005.
The amended draft Cabinet Note was placed (04 November 2005) by the Secretary (Coal) before the Hon'ble MoS, who stated (12 January 2006) that PMO had taken a view to amend	---

the Coal Mines (Nationalization) Act which was a time consuming exercise and as such allowed the Department to proceed with the allocation of captive coal blocks under the extant mechanism. Hon'ble MoS stated that "several applications were received in respect of coal and lignite blocks already put on offer and which were under process and as such there was no immediacy in the matter and that the Note be resubmitted at an appropriate time keeping in view the issues involved".	
The Secretary (Coal) submitted a note (07 February 2006) to the Hon'ble Minister of Coal ¹³ through Hon'ble MoS, stating that PMO had been pressing for expeditious submission of the Cabinet Note. The matter was seen by the Hon'ble Minister of Coal on 07 March 2006.	As per the directions of the 5 th Energy Coordination Committee (February 2006), 81 coal blocks with GR of 20 BT were identified by MoC for allocation of captive coal blocks under different dispensations.
The Secretary (Coal) approved (16 March 2006) the submission of the final note to the Cabinet Secretariat.	---
A meeting was held (07 April 2006) in PMO wherein it was generally felt that it would be more appropriate to make an amendment in the Mines and Minerals (Development and Regulation) Act, (MMDR Act) 1957 so that the system of competitive bidding could be made applicable to all minerals covered under the said Act. The Secretary (Coal) approved (20 April 2006) a draft note to the Ministry of Mines with a request to obtain the comments of the Department of Legal Affairs on the legal feasibility of the proposed amendment to the MMDR Act, 1957	This was an expansion of scope of competitive bidding to include all other minerals.
Hon'ble MoS opined (27 April 2006) that the issue to amend the MMDR Act should be revisited as it involved withdrawing the	---

¹³ The Hon'ble Minister of Coal had again assumed charge.

current powers of the State Governments and it had the potential to become a controversial issue. The Hon'ble Minister of Coal stated (27 April 2006) that the views expressed by the Hon'ble MoS were appropriate and MoC should refrain from making suggestions which had implications for federal polity.	
The advice of the Hon'ble Minister of Coal was sent (02 May 2006) to the Ministry of Mines to suggest appropriate modifications in the tentative draft. The draft with the suggestions of the Ministry of Mines was referred to the Ministry of Law and Justice, Department of Legal Affairs for their views on the legal feasibility of the proposed amendment.	
The Ministry of Law and Justice advised MoC to initiate suitable measures for amendment of the MMDR Act, 1957. The development was communicated to the PMO and the Cabinet Secretariat vide MoC Note dated 15 September 2006.	<p>Out of 81 coal blocks identified in February 2006, 38 coal blocks (GR: 6.1 BT) were advertised in September 2006.</p> <p>It was mentioned in the advertisement that earlier applications, if any would not be considered.</p> <p>In 2006, 53 coal blocks (GR: 17,791.53 MT) were allocated.</p> <p>In 2007, 52 coal blocks (GR: 11,862.22 MT) were allocated.</p>
Thereafter the matter was dealt with by the Ministry of Mines and finally a Bill to amend the MMDR Act, 1957 was introduced in the Parliament on 17 October 2008.	No coal blocks were advertised for allocation after the introduction of the MMDR Amendment Bill, 2008.
The Amendment Bill was referred to the Standing Committee	In 2008, 24 coal blocks (GR:

on Coal and Steel on 31 October 2008 for examination and report. The Standing Committee submitted its report on 19 February 2009 to the Parliament and made certain recommendations.	3,549.52 MT) were allocated.
The Hon'ble MoS (Coal) held a meeting on 10 August 2009 with the State Ministers of Mining and Geology of coal and lignite bearing States.	In 2009, 16 coal blocks (GR: 6,892.55 MT) were allocated.
The Cabinet approved the Cabinet Note on 28 January 2010. The Hon'ble Minister of Mines moved the motion on 18 February 2010 for passage of the MMDR Amendment Bill, 2008 in the Budget Session of Parliament (2010).	---
The MMDR Amendment Act, 2010 was passed by both the Houses of the Parliament in the Monsoon Session (26 July 2010 to 31 August 2010). Assent of the Hon'ble President of India was obtained on 08 September 2010 and the Amendment was notified in the Gazette of India (Extraordinary) on 09 September 2010.	---
The Secretary (Coal) chaired a meeting on 22 September 2010 with the representatives of the Ministries of Power, Mines, Petroleum and Natural Gas, Steel, Department of Industrial Policy and Promotion and the Planning Commission to discuss various issues on finalisation of the modalities for competitive bidding as the selection process for allocation for coal and lignite blocks. Draft bid documents were discussed in the meeting of the Committee on 31 January 2011.	In 2010, only one coal block (GR: 800 MT) was allocated. No coal block was allocated in 2011 (November 2011).
MoC issued (April 2011) a notice inviting comments from stakeholders. A meeting with the stakeholders was convened by the Hon'ble Minister of Coal on 25 July 2011 to have further discussions on competitive bidding.	The modalities for competitive bidding of coal blocks were yet to be worked out and competitive bidding is yet to commence (February 2012).

Audit analysis of the events, revealed that the policy initiative to introduce competitive bidding with the objective to bring in transparency and objectivity in the allocation process of coal blocks commenced from 28 June 2004. However, the process got delayed at different stages and the same was yet to materialize even after a lapse of seven years.

As of June 2004, 39 coal blocks (net) stood allocated and during the period from July 2004 to September 2006 (till the time the matter was referred to the Ministry of Mines for taking action on the issue of amendment of MMDR Act for introduction of competitive bidding for all minerals), further 71 blocks (net) were allocated. In all, since July 2004, 155 coal blocks (net) were allocated to various Government and private parties following the existing process of allocation, which lacked transparency and objectivity and also allowed substantial windfall gains to the allocattees.

Incidentally, the Expert Committee on Road Map for Coal Sector Reforms (December 2005) had also emphasized that the procedures and processes of allocation of coal blocks needed to be improved to expedite the allotment of the captive coal blocks in a transparent and effective manner.

This issue is discussed in the succeeding paragraph.

In a consultative meeting taken by Secretary (Coal) on 28 June 2004 with the stakeholders regarding policy of allocation of captive coal blocks, it was felt that in the face of competing claimants for an economic resource which is scarce, competitive bidding is the method that results in economic allocation of resources to those who require/ deserve it most. This was the mechanism of resource allocation accepted in any market driven economy. Competitive bidding is proposed for better allocation of resources, a more economic allocation of resources limited to the end user. The bids are not likely to go beyond control because the principles of economics would restrict them to within the relevant commercial limits. On the other hand, in the absence of bidding, there would be discretion and opaqueness which could lead to complaints. This could be easily eliminated through competitive bidding route which is transparent.

In fact, Audit also observed that various Central Government Ministries, Departments and State Governments supported the implementation of competitive bidding for allocation of captive coal blocks as discussed below:

- Planning commission supported the concept of bidding of coal blocks for captive/ group captive mine and attaching penalties for non performance.
- Ministry of Mines and Department of Expenditure concurred with the proposal of Ministry of Coal for introduction of competitive bidding.
- Ministry of Steel stated that no coal blocks should be left to CIL/subsidiaries and such companies should also enter the bidding process so that the best available blocks are given to the deserving bidders.
- Ministry of Power and the State Governments of Chhatisgarh, Rajasthan and West Bengal however, expressed their reservations on the implementation of competitive bidding for allocation of captive coal blocks.

As already discussed in the preceding paragraphs, Audit, observed that this system lacked transparency, objectivity and allowed windfall gains to the allocattees.

The Ministry stated (February 2012) that Notification to bring into effect the Amendment Act regarding competitive bidding has been sent for vetting of Ministry of Law. The process of identification of coal blocks for allocation has already been initiated and is likely to be finalized shortly. The modalities for fixing of floor price/ reserve price are also being worked out.

The reply corroborates the audit contention that the process of competitive bidding conceived in June 2004 was yet to be effectively put in place.

Thus, there was an element of subjectivity, opaqueness and lack of transparency which allowed windfall gains to the allocattees.

5.3.2 Windfall gains to the allocattees, including private parties

In the existing system of allocation of coal blocks, the allocattees of explored coal blocks are required to collect the Geological Report from CMPDIL for preparation of the Mine Plan and pay only the exploration costs incurred by CMPDIL for preparation of the Geological Report. On start of production from the allocated blocks, the concerned allocattee pays royalty on coal as per the existing rules/laws which, in any case, is required to be paid to the respective State Government even for purchase of coal from CIL.

As discussed earlier, MoC had pointed out (June 2004) that there was a substantial difference between the price of coal supplied by CIL and the cost of coal produced through coal blocks allocated for captive mining and as such, there was windfall gains to the allocattees, part of which the Government wanted to tap through competitive bidding. The windfall gains to the allocattees were expected to be substantial.

Audit has worked out the windfall gains, although on a rather conservative basis¹⁴, based on the following assumptions:

- As detailed exploration establishes reserves at a confidence level of 90 per cent, the geological reserves of each block have been reduced by 10 per cent. MoC had maintained (July 2004) that the chances of expected coal reserves not materialising would be, if at all, very remote.
- The sale prices (basic) of different grades per tonne of a comparable mine of CIL, prevailing on the date of transfer of the block to the allocattee can be considered to arrive at the windfall gains at rates prevailing at the time of allocation.
- To arrive at the cost of production (including investment costs and payments made for Geological Reports of CMPDIL) in each of the blocks, cost of production of comparable CIL mines in the year of transfer has been taken for each of the blocks.

- MoC had recognized (June 2004) that there was a substantial difference between the price of coal supplied by CIL and the cost of coal produced through coal blocks allocated for captive mining and as such there was windfall gains to the allocattees.
 - Audit worked out such windfall gains at ₹ 6.31 lakh crore (PSEs ₹ 3.37 lakh crore and private parties ₹ 2.94 lakh crore) based on the prices prevailing during the year of allocation on constant cost and price basis.
 - The amount would work out to Rs. ₹10.67 lakh crore (PSEs ₹ 5.88 lakh crore and private parties ₹ 4.79 lakh crore) if the price prevailing on 31 March 2011 is considered.
- The difference in the sale price and cost of production has been worked out for each of the coal blocks and the same has been multiplied by the respective discounted reserves¹⁵ (90 per cent of geological reserves) to arrive at the estimated total windfall gains to different allocattees, both at the rates prevailing at the time of transfer as also at current prices (31 March 2011).
- 12 coal blocks (GR: 4,846.26 MT) allocated for UMPPs have not been considered as the same were allocated on tariff based bidding.

¹⁴ Primarily because instead of price of median grade of coal, price of the lowest grade has been taken into consideration, while calculating the windfall gains (sale price of CIL minus cost price of CIL.)

¹⁵ The actual extractable reserves may vary based on the mining plan

Based on the above methods, the estimated windfall gain worked out to ₹ 6.31 lakh crore (PSEs ₹ 3.37 lakh crore and private parties ₹ 2.94 lakh crore) based on the prices prevailing during the year of allocation on constant cost and price basis and as on 31 st March, 2011; the amount would work out to ₹10.67 lakh crore (PSEs ₹ 5.88 lakh crore and private parties ₹ 4.79 lakh crore) as detailed below:-

As per prices prevailing in the year of allocation and on 31 March 2011

(Figures ₹ In Crore)

Calendar Year of Allotment	Govt Companies			Pvt Companies			Total (Govt. + Pvt.)		
	90% of GR in MT	Benefit Extended as per rates prevailing in the year of allotment	Benefit Extended as per rates prevailing on 31 March 2011	90% of GR in MT	Benefit Extended as per rates prevailing in the year of allotment	Benefit Extended as per rates prevailing on 31 March 2011	90% of GR in MT	Benefit Extended as per rates prevailing in the year of allotment	Benefit Extended as per rates prevailing on 31 March 2011
		(Rs. In Crore)			(Rs. In Crore)			(Rs. In Crore)	
2004	1709	45087	56949	0	0	0	1709	45087	56949
2005	1388	34056	45561	1776	39146	85523	3163	73203	131084
2006	8660	185119	259547	3011	62085	111764	11671	247204	371311
2007	7000	64066	207098	1747	38284	51502	8746	102350	258599
2008	288	6704	7364	2682	54445	80137	2970	61149	87501
2009	303	2438	11285	4605	99735	150574	4908	102174	161859
Total	19349	337471	587803	13820	293695	479500	33169	631166	1067303

The Actual amount of gain to the allocattees may change depending upon the mining plan, cost of extraction of coal by the allocattees, market price of the coal and quality of coal.

The company wise list of windfall gains on both the bases is given in the **Annexure 1**.

In conclusion,

- MoC needs to urgently work out the modalities to implement the procedure of allocation of coal blocks for captive mining through competitive bidding to bring about 'objectivity' and 'transparency' in the allocation procedure.
- This would also bring in revenue for the Government as part of the substantial windfall gains accruing to the allocattees of captive coal blocks.
- MoC needs to ensure that the benefit of low cost of coal production through allocation of coal blocks for captive mining to the allocattees is passed on to the public.

The Ministry stated (February 2012) that the inference that there would be windfall gains and the Government wanted to tap a part of it through competitive bidding appears to be based on incomplete appreciation of the circumstances prevailing then and sequence of events thereafter.

The Ministry added that coal produced from captive blocks was not available for commercial sale and out of 137 blocks 62 coal blocks were allocated to the government companies. Out of a balance of 75 coal blocks, 17 coal blocks were allotted to power sector where tariff is regulated on the basis of input costs and the transfer price of coal is assessed on actual cost basis. In case of Steel and cement sector, though prices of end products are not regulated but a competitive market ensures the best benefit for the consumers.

While appreciating the constraints and the view point of the Ministry; the fact remains that coal being a natural resource ought to have been allocated to private players on competitive bidding as it brings in more transparency and objectivity in the system. In fact, audit observations have also been corroborated by the recent SC judgement on 2 G Spectrum which *inter alia*, held that the State is deemed to have a proprietary interest in natural resources and must act as a guardian and trustee in relation to the same. They can augment their resources but the object should be to serve the public cause and to do the public good by resorting to fair and reasonable methods. Every action/ decision of the State or its agencies/ instrumentalities to give largesse/ confer benefits must be sound, transparent, discernible and well defined policy. Thus, the State legally owns the natural resources on behalf of citizens and the natural resources cannot be allocated to private hands without ensuring that the benefit of the low cost of the natural resources would be passed on to the citizens.

The argument of the Ministry for power sector needs to be viewed in the light of the fact the Central Electricity Regulatory Commission(CERC) Tariff Regulations are not applicable to the merchant power plants set up by the Independent Power Producers(IPPs). Further, CERC Tariff Regulations 2009-14, allow normative operation and maintenance expenses for coal and lignite fired generating stations as against the actual cost of production of coal. In fact, for steel and cement sectors, the competitive market forces cannot ensure that the allocattee would pass on the benefit of low cost of natural resources to the citizens.

5.3.3 Some coal blocks allocated without tying up Exploration and Development

In order to ensure that the coal blocks were allocated in an informed manner and that there were no hurdles to their commencement of production, basic issues related to exploration and development should have been tied up in advance.

Audit, however, observed that this was not done in many cases, which delayed the commencement of production as can be seen from the following:

- MoC decided (October 2003) that no allocation of a captive block would be done unless the block was explored to ease preparation of a Mining Plan (the approval of Mining Plan is a pre-requisite for implementation of the coal mining project) and assessment of

extractable reserves of a mine. This would have helped the Screening Committee to take decisions on allocation of coal blocks in a more informed and accurate manner.

In fact, the Expert Committee on Road Map for Coal Sector Reforms (December 2005) also opined that releasing coal blocks with inferred and indicated categories of reserves for captive mining were not likely to achieve the objective of increasing the number of players in coal mining in the short to medium term.

MoC allocated 194 blocks with geological reserve (GR) of about 44 BT for captive mining till 31 March 2011. Out of these, only 142 were explored blocks (GR: 23.391 BT) and the balance 52 were either regionally explored or unexplored coal blocks (GR: 20.156 BT), which required further exploration for preparation of Mining Plan.

- The Geographical Coordinates System, practised internationally, expresses coordinates of a block in terms of longitudes and latitudes. The earlier blocks which were identified for the captive list, were either surveyed by CMPDIL in local rectangular grids with assumed values or were not surveyed by CMPDIL and these blocks were only regionally explored by GSI/MECL¹⁶. Hence, precise coordinates i.e. longitudes and latitudes for the blocks were not available with MoC at the time of allocation. This could delay production on account of demarcation disputes as happened in the cases of Gare IV/6 Block (M/s. Jindal Steel and Power Limited and M/s. Nalwa Songe Iron Limited jointly), Gare IV/7 Block (M/s. Raipur Alloys) and Ramchandi Block (M/s Jindal Steel and Power Limited), where there were overlap disputes.
- There were disputes due to overlapping of coal blocks with Coal-Bed Methane (CBM)¹⁷ blocks. Biharinath Block was allocated (February 2007) for captive coal mining to Bankura DRI Mining Manufacturing Private Limited and the same was also allocated to GEECL¹⁸ by the Ministry of Petroleum and Natural Gas for CBM extraction. Though a co-development plan was worked out by the Ministries, GEECL obtained a stay order from the Hon'ble Delhi High Court restricting the coal allocattees from the development of the coal block. Similarly, in the case of Patal East Block (allocated in November 2007) and Moira Madhujore Block (allocated in October 2009) there was overlapping of coal blocks with CBM blocks. This adversely affected the development of these coal blocks.

The Ministry stated (February 2012) that exploration takes a fairly long time and it would not be possible to consider allocation of only explored blocks due to their limited

¹⁶ Mineral Exploration Corporation Limited

¹⁷ Coal bed methane is a form of natural gas extracted from coal beds

¹⁸ Great Eastern Energy Corporation Limited

availability. Meetings of all the stake holders were held to resolve the disputes in consultation with CMPDIL and concerned coal company.

We find it difficult to agree with the Ministry as this system of firming of the reserves would have helped the Screening Committee to take decisions on allocation of coal blocks in an informed and more rational manner. In fact, this was also one of the recommendations of the Expert Committee that only explored blocks are to be offered to the allocates.

5.3.4 Excess Allocation of Coal to Reliance Power Limited

Sasan UMPP of 3,960 MW capacity was initially allocated (September 2006) two blocks – Moher and Moher-Amlohri Extension with GR of 600 MT to meet the coal requirement of 16 MT per annum for their power plant. As the production from the above two blocks (12 MT per annum) was not sufficient to meet their requirement, the Ministry of Power requested MoC to allocate another block to Sasan UMPP. Accordingly, MoC allocated (October 2006) Chhatrasal coal block having GR of 150 MT to Sasan UMPP which brought the overall GR with the UMPP to 750 MT.

The allocation letter stipulated, inter-alia, that no coal should be sold, delivered, transferred or disposed of except for the stated captive mining purposes, except with the previous approval of the Central Government on case to case basis. Further, any surplus coal is to be handed over to the local CIL subsidiary or to any person designated at a transfer price to be determined by the Government as indicated by the following clauses:

- 'the coal produced from these mines was to be exclusively used in the Sasan UMPP'- *Clause (i).*
- 'The modalities of disposal of surplus coal/middlings/rejects, if any, would be as per the prevailing policy/instructions of the Government at the relevant point in time and could also include handing over such surplus coal/middlings/rejects to the local CIL subsidiary or to any person designated by it at a transfer price to be determined by the Government' - *Clause (vi).*
- 'No coal shall be sold, delivered or disposed of except for the stated captive mining purposes except with the previous approval of the Central Government.' - *Clause (xii).*

Sasan UMPP was awarded to Reliance Power Limited (RPL) in August 2007 after competitive bidding. RPL subsequently submitted (September 2008) revised Mining Plan of Moher and Moher-Amlohri Extension for enhancing production from 12 to 20 MT per annum by using latest mining technology. On the request of RPL, the Empowered Group of Ministers (EGoM) directed (August 2008) MoC to issue necessary orders for permitting use of surplus coal in other projects

of RPL, subject to certain conditions. Accordingly, MoC allowed (February 2010) the use of surplus coal in Chitrangi Power Private Limited (CPPL), a subsidiary of RPL, subject to certain conditions¹⁹.

While approving (February 2009) the revised Mining Plan of Moher and Moher-Amlohri Extension (GR: 575 MT/Production: 20 MTY), the Standing Committee of MoC observed that "at the time of presentation of Mining Plan for 12 MTY, the party was asked to examine the possibility of enhancement of production beyond 12 MTY such that the projected total requirement of 16 MTY to the downstream Sasan UMPP could be entirely met from Moher and Moher-Amlohri Extension blocks. However, the party conveyed that the project cannot sustain 16 MTY production, and they have been allotted another coal block in the region namely Chhatrasal to meet the balance requirement of coal."

The Standing Committee, however, approved the revised Mining Plan of Moher and Moher-Amlohri Extension. As per the revised Mining Plan, the entire coal requirement of Sasan UMPP would be met from these blocks and there would be a surplus of 4 MT of coal per annum.

Subsequently, in March 2009, the Standing Committee of MoC took up the Mining Plan of Chhatrasal Block (GR: 131.85 MT; Production 5 MTY) for approval. The Standing Committee observed that:

- The decision of EGoM to meet the entire requirement of Sasan UMPP as also utilisation of surplus coal stood fulfilled with the allotment of Moher and Moher-Amlohri Extension Block itself. The need for the allocation of an additional block thus prima facie had no justification except that the three blocks were mentioned in the bid documents and that the EGoM decision also refers to these three blocks for the Sasan UMPP.
- There was no justification for the allocation of Chhatrasal coal block for supplying coal to the Sasan UMPP. The Committee was therefore, initially inclined to return the Mining Plan as it was originally meant primarily for supplying coal to Sasan UMPP.
- RPL had proposed to set up a 3,960 MW capacity Thermal Power Station at Chitrangi in Madhya Pradesh. Out of this capacity, RPL's offer for 1,241 MW capacity had been accepted by the MP Power Trading Corporation on tariff based bidding subject to the

¹⁹ (a) Incremental coal quantity would be determined based on the Mine Plan approved by MoC, (b) The 3,960 MW Sasan UMPP would have the first right and overriding priority over all coal produced from the allotted blocks and the allocatee should ensure that the generation from the UMPP for the entire contracted period would not be affected by utilisation of incremental coal by any other project of the Group, (c) End use of coal from these blocks would be restricted to power generation, (d) The power generated by utilizing incremental coal from these captive coal blocks would be sold through tariff based competitive bidding and (e) Specific permission should be considered on submission of specific proposal at the appropriate time.

approval of MPERC. The off-take arrangements for balance capacity were yet to be tied-up.

- However, taking a larger view in the context of the overall need for stepping up coal production and in the light of the extant EGoM decision and also since this block does stand allocated for the UMPP, it was felt that the Committee should go ahead and consider the Mining Plan as per the mining feasibility and as provided under the purview of the Standing Committee.

Sasan UMPP was thus left with a total surplus of 9 MT of coal per annum. The requirement of coal for Sasan UMPP worked out to 400 MT @ 16 MT per annum for 25 years. Considering the geological resources of 706.85 MT of Moher, Moher-Amlohri Extension and Chhatrasal coal blocks allocated to Sasan UMPP, out of which 560.36 MT were mineable during the period of Power Purchase Agreement as per the approved mining plan, the availability of surplus coal is 160.36 MT (560.36 MT – 400 MT). After deducting the cost of production (of RPL as considered by PFC during the loan appraisal of RPL for Sasan UMPP) from the selling price of coal per tonne as notified by CIL for equivalent GCV prevailing as of January 2012, the estimated undue benefit extended to RPL was Rs.4875 crore²⁰ over a period of 25 years. The actual amount of gain may be different based on the actual extractable quantity, cost of extraction and the transfer price.

Audit further observed that the de-reservation of Moher and Moher-Amlohri Extension from NCL²¹ would reduce the coal reserves of Amlohri open cast project of NCL by 48 MT valuing ₹ 4,928.30 crore (at the rate of ₹ 1,026.73 per tonne) and also reduce its project life from 24 to 20 years.

Similarly, shifting of the boundary of Nigahi open cast project of NCL would result in reduction of mineable reserves by 9 MT valuing ₹ 924.06 crore (at the rate of ₹ 1026.73 per tonne).

The guidelines for allocation of captive coal blocks clearly stated that “the blocks offered to private sector should be at reasonable distance from existing mines and projects of CIL in order to avoid operational problems.”

The details of the above can be seen from the boundary map of these four blocks, given in **Annexure – II**.

²⁰ Mineable coal reserves as per the approved Mining Plans for Moher, Moher Amlohri and Chhatrasal coal blocks over the period of Power purchase agreement being 560.36 MT less 400 MT required for operation of Sasan UMPP of 25 years @ 16 MT per annum gives surplus coal of 160.36 MT. This translates to a undue financial benefit of Rs 4875 crore i.e. 160360000 tonnes X Rs. 304 (Rs.735 being the notified sale price per tonne including royalty of coal of equivalent GCV of CIL less Rs. 431 being the cost of extraction including royalty per tonne as considered by PFC for loan appraisal of RPL)

²¹ Northern Coalfields Limited – a subsidiary of Coal India limited

The Ministry stated (February 2012) that as far as transfer of land from NCL to Sasan Power Limited was concerned, the consultations were held with the Ministry of Coal. NCL had been asked to resolve the matter as per the legal opinion given by Department of Legal Affairs on the issue of transfer of land acquired under CBA Act.

In case of Tilaiya UMPP, MoC allocated (July 2007) Kerandari B and C coal blocks (GR: 972 MT) to M/s. Jharkhand Integrated Power Limited (a wholly owned subsidiary of the Power Finance Corporation). The blocks were transferred to Reliance Power Limited (RPL) in August 2009 as SPV for Tilaiya UMPP (3,960 MW) on tariff based bidding. The power generated from Tilaiya power plant was to be supplied at a levelized tariff of ₹ 1.77 per kwh. The Mining Plans of the coal blocks, allocated for Tilaiya UMPP envisaged production 761 MT over the period of Power Purchase Agreement (25 Years). For the same capacity of power plant (3,960 MW), Sasan required 16 MTY of coal.

MoC allocated 972 MT of geological reserves for equivalent to 40 MTY for Tilaiya UMPP. If compared to the coal requirement of Sasan UMPP of 400 MT (@ 16 MT per annum for 25 years), the excess allocation of coal to Tilaiya UMPP works out to 516.52 MT ($916.52 \text{ MT}^{22} - 400 \text{ MT}$). However, based on the quantity of mineable coal, the surplus coal worked out to 361 MT ($761 \text{ MT} - 400 \text{ MT}$). After deducting the cost of production (as applicable in case of Sasan UMPP) from the selling price of coal per tonne of equivalent GCV as notified by CIL (January 2012) the estimated undue benefit that 'may accrue'²³ to RPL for Tilaiya UMPP would be Rs.10,974 crore²⁴ over a period of 25 years of the Power Purchase Agreement. However, the total coal production from the coal blocks considering the period of mining lease (beyond PPA of 25 years) was 73.65 MT which has not been considered while working out the estimated undue benefit.

In conclusion, the undue benefit to RPL for Sasan and Tilaiya UMPPs is estimated to be ₹ 15,849 crore.

The Ministry stated (February 2012) that the blocks were allocated on the basis of requirement as assessed by Ministry of Power. However, the mine capacity depends on the finalisation of Mining

²² Revised GR as per approved Mining Plan

²³ Though the GOI has not yet decided on usage of surplus coal to RPL, the recommendation in January 2010 by the EGOM to allow usage of such surplus coal to the allocatees, indicates that the benefit may accrue to RPL in this case also.

²⁴ Total mineable coal as per approved mine plan of the Kerandari B and C mines over the period of 25 years PPA being 761 MT less 400 MT being the coal requirements of Tilaiya UMPP for 25 years @ 16 MT per annum gives surplus coal of 361 MT. This translates to a likely undue financial benefit of Rs 10,974 crore i.e. $36,10,00,000 \text{ tonnes} \times \text{Rs. } 304$ (Rs.735 being the notified sale price per tonne including royalty of coal of equivalent GCV of CIL less Rs. 431 being the cost of extraction including royalty per tonne as considered by PFC for loan appraisal of RPL in case of Sasan Project). It is pertinent to mention that the average cost of extraction of coal of nearby CIL Piperwar mine was even less at Rs. 224 per tonne.

Plan and the surplus coal is required to be disposed off as per the existing guidelines and the terms and conditions of allocation letter.

Audit is of the opinion that though the issue of usage of the surplus coal is defined in the guidelines of the MOC and is also forming a part of the bid documents but the allocation letter did not spell out upfront on the issue of usage of surplus coal.

Thus, the decision of the GoI to allow the allocatees to use the surplus coal for its other project to transfer the same to CIL/other departments at a transfer price had a significant financial implication. However, GoI did not stipulate this upfront in the allotment letter or guidelines or otherwise. In fact, this ambiguity rendered the bidders to interpret the clauses for usage of the surplus coal and vitiated the process of allocation. Subsequent decision to allow the allocatee to use the surplus coal in its other projects resulted in accruing of undue benefit to the allocatees to the detriment of the ultimate power consumers, as the allocatee was not expected to factor into value of the surplus coal while offering the bid price for the sale of power.

There is a possibility of production of surplus coal from the captive coal blocks, if the coal production materializes before the commissioning of the end-use project (EUP) or if the coal production outpaces production in EUP. There could also be wilful diversion of coal to the black market by an allocatee as in the reported case of Prakash Industries, allocatee of Chotia Block in Chattisgarh.

A draft policy on the disposal of surplus coal produced from the captive coal blocks was still under finalisation by MoC in consultation with the Ministry of Law and Justice (February 2012). Even in the case of RPL, although permission has been granted for transfer of surplus coal to its other projects, the transfer price is yet to be worked out.

MoC should urgently finalize and implement a policy for disposal of surplus coal produced from the captive coal blocks as also ensure a strict vigil on the production and use of coal from the captive coal blocks. In fact, even the Expert Committee on Road Map for Coal Sector Reforms (December 2005), inter-alia, also recommended that production from captive blocks during mine development or periodic surpluses during mine operations must be sold to CIL / SCCL at a negotiated price with a band of plus or minus 10 percent of CIL price for the same quality of Coal.

5.4 Delays in Commencement of Production and Non-Achievement of Milestones

As per the guidelines of MoC, the item-wise time schedule for various operations to be carried out by the allottees of captive coal blocks before commencement of production is given in Table 5.4.

Table 5.4
Time schedule for various operations

SL. NO.	EVENT	TIME LIMIT in months from '0' date
1	Allocation	0
2	Purchase of GR	1.5
3	Bank Guarantee	3
4	Mining Lease Application	3
5	Mining Plan submission	6
6	Mining Plan approval	8
7	Previous approval application	11
8	Previous approval	11
9	Forest Clearance application	12
10	Forest Clearance	18
11	Environment Clearance Application	12
12	Environment Clearance	18
13	Mining Lease grant	24
14	Land acquisition begin	9, 19
15	Land Acquisition	30, 36
16	Opening permission application	34, 40 for OC
17	Opening permission grant	35, 41 for OC
18	Production	36, 42 for OC, 48, 54 for UG
19	Reaching Rated Capacity	

(OC→ Open Cast Mine, UG→ Underground Mine)

As would be seen from the above, the allocated captive blocks should commence production within 36 months (42 months for forest land) in case of open cast mines and 48 months (54 months for forest land) for underground mines from the date of issue of letter of allocation. Besides, additional two years was allowed for commencement of production for unexplored and regionally explored captive blocks.

5.4.1 Extent of delays

The extent of delays in starting of production by the 28 producing coal blocks as on 30 June 2011 is given in Table 5.4.1:

Table 5.4.1
Delays in starting production in case of producing coal blocks as on 30 June 2011

Year	Government							Private						
	No. of Blocks	No Delay	< 1 year	1-3 years	3-5 years	5-7 years	7-10 years	No. of Blocks	No Delay	< 1 year	1-3 years	3-5 years	5-7 years	7-10 years
1993-2003	12	4	6	1	0	0	1	13	2	1	1	7	2	0
2004	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2005	1	0	0	1	0	0	0	2	2	0	0	0	0	0
Total	13	4	6	2	0	0	1	15	4	1	1	7	2	0

As would be seen from the above, out of 28 producing blocks as on 30 June 2011, there was time overrun of more than three years from the normative production schedules in ten blocks.

The extent of delays in starting of non-producing coal blocks²⁵ as on 30 June 2011 is given in Table 5.4.2.

Table 5.4.2
Delays in starting production in case of non-producing coal blocks as on 30 June 2011

Year	Government						Private					
	NDP < 30.6.11	< 1 year	1-3 years	3-5 years	5-7 years	7-10 years	NDP < 30.6.11	< 1 year	1-3 years	3-5 years	5-7 years	7-10 years
1993-2003	5	0	0	5	0	0	9	0	1	4	1	3
2004	4	0	0	4	0	0	0	0	0	0	0	0
2005	5	1	3	1	0	0	13	0	13	0	0	0
2006	4	0	4	0	0	0	14	2	12	0	0	0
2007	4	4	0	0	0	0	10	10	0	0	0	0
Total	22	5	7	10	0	0	46	12	26	4	1	3

(NDP: Normative Date of Production)

In the case of 68 non-producing blocks where normative date of production was on or before 30 June 2011, there was time overrun of more than three years from the normative production schedules in 18 blocks.

The delays in starting of production of coal blocks by the UMPPs as on 30 June 2011 is given in Table 5.4.3.

Table 5.4.3
Non-production from coal blocks allotted for UMPP

Sl. No.	Name of the Block	Name of the Allocatee	GR (MT)	Date of Allocation	Date of NDP	Delay from NDP
1	Moher	Sasan Power Limited,	316.66	13-09-06	March 2010	1 year 3 months
2	Moher Almohri Extn	a subsidiary of RPL	258.34	13-09-06	March 2010	1 year 3 months
3	Chatrasal		131.85	26-10-06	April 2010	1 year 2 months
4	Meenakshi	Power Finance Corporation	285.24	13-09-06	March 2010	1 year 3 months
5	Meenakshi B		250.00	13-09-06	March 2010	1 year 3 months
6	Dip side of Meenakshi		350.00	13-09-06	March 2010	1 year 3 months

As shown above, six coal blocks should have commenced production within 30 June 2011 against 12 coal blocks allotted for UMPP during September 2006 and June 2010. Out of these six blocks, three blocks (Moher, Moher-Almohri Extension and Chhatrasal) allocated to SPL were under litigation and production could not be achieved till date. In respect of other three blocks (Meenakshi, Meenakshi B and Dip side of Meenakshi), the developers were yet to be selected and Meenakshi and Dip side of Meenakshi blocks were under 'no go forest' area.

²⁵ Excluding blocks allocated for UMPPs and blocks which are scheduled for production beyond June 2011.

5.4.2 Factors responsible for delays

As on 31 March 2011, 194 coal blocks (net) stood allocated. Out of these, 28 coal blocks had commenced production as of 30 June 2011, leaving a balance of 166 coal blocks. Out of the balance 166 coal blocks, there were 68²⁶ coal blocks, whose normative date of production was on or before 30 June 2011.

In fact, even the Expert Committee on Road Map for Coal Sector Reforms highlighted (December 2005) that major delays occur, in most cases, in obtaining environmental clearance, approval for land and mining leases from the concerned State Governments and the subsequent land acquisition process. The Committee advocated that MoC should take a proactive role in monitoring the approvals and clearance by the State authorities. An empowered high powered committees of Secretaries should be set up for the purpose to consider the application for environment clearances within a time frame of four to six months.

Audit analyzed the factors responsible for delays in respect of these 68 coal blocks, which revealed the following:

- Most of the delays were on account of delays in land acquisition (LA), forest clearance (FC), granting of Mining Lease (ML), and approval of Mining Plan (MP) and clearance of Environment Management Plan (EMP).

The position as on 30 June 2011 is given in table 5.4.2.

Table 5.4.2
Non-producing blocks with pending milestones as on 30th June 2011

Year of Allocation	Non producing blocks with NDP on or before 30th June, 2011	Normative period of production	Milestone awaited ²⁷				
			FC	LA	ML	MP	EMP
1993-2003	14	Nov,2001 to Nov,2008	10	12	9	0	1
2004	4	Feb,2008 to April,2008	3	4	3	0	2
2005	18	Aug,2008 to May,2011	13	16	14	1	4
2006	18	July, 2009 to Dec, 10	17	18	18	1	10
2007	14	Aug,2010 to June, 11	10	12	14	2	9
Total	68		53	62	58	4	26

²⁶ Other than those allocated for UMPPs, which have already been covered in Table 4.4.1.3.

²⁷ There was no reconciliation of status of MP of 42 blocks, EMP of 15 blocks, FC of 11 blocks, ML of 4 blocks and LA of 3 blocks in the status report of June 2011 prepared by CCO from which this table has been prepared.

The Ministry stated (February 2012) that review meetings are held to evaluate the development of allocated coal blocks in which the representatives of the State governments and Central Ministries also participate and are requested to expedite all clearances.

However, the fact remains that despite efforts made by the Ministry of Coal the objective of production augmentation largely remained unachieved.

5.4.2.1 Delays on account of environmental clearances from MoEF

As would be seen from Table 5.5.2, out of 42 blocks, Environment Management Plans (EMP) and 57 blocks, Forest Clearance (FC) for which information was available, as many as 26 blocks (EMP) and 53 blocks (FC) were delayed on account of clearances from MoEF. While EMP is approved by MoEF, both MoEF and the State Governments play a role in grant of FC.

Of all the clearances, the MoEF clearance is the most time-consuming, since many departments and issues are involved in getting environmental clearances and also vast majority of the coal blocks are situated on forest land. Even geological investigations, which require drilling for exploration in these areas, require MoEF approval. This approval is a lengthy process and takes a lot of time. There was no mapping by the MoEF for segregating the entire coal bearing areas into 'GO' and 'NO- GO'²⁸ areas for each type of lease on the basis of forest cover and environmental and ecological sensitivity.

The Ministry stated (February 2012) that an exercise was undertaken jointly with MoEF in respect of nine coal fields to identify those coal bearing areas which have high density forest cover.

The fact remains that despite efforts of the Ministry the process of environment clearance could not be expedited.

5.4.2.2 Delays on account of grant of Mining Lease

As would be seen from Table 4.4.2, out of 64 blocks for which information on Mining Lease was available, as many as 58 blocks were delayed on account of delays in grant of Mining Lease. Both MoC and the concerned State Governments are involved in the grant of Mining Lease.

The time frame for approval of Mining Lease in India is 12 months. The time taken in India for grant of ML is usually 7 to 8 years as against 12 to 24 months in Western Australia, 12 to 36 months in Canada (Nova Scotia) and maximum 24 months in Indonesia. In Australia and Canada there is a single window procedure involving three to four Government agencies.

²⁸ EGoM has recently done away (2011) with the concept of 'GO' and 'NO- GO' and the issue is to be considered on case to case basis.

5.4.2.3 Delays on account of approval of Mining Plan

As would be seen from Table 4.4.2, out of 26 blocks for which information on Mining Plan was available, 4 blocks were delayed on account of delays in grant of Mining Lease. MoC grants approval for Mining Plan.

The guidelines for approval of Mining Plan were issued as late as in December 2010 by MoC, by which time 216 blocks (Net: 194) were allotted. This led to delays in approval of Mining Plan and consequential delays in implementation of the projects.

5.4.2.4 Delays by the State Governments in granting various approvals

There was no coordinated and planned approach by the State Governments and the Central Government towards commissioning of end-use projects and the commencement of production from the coal blocks. The abnormal time taken for obtaining mining leases, surface rights and the subsequent land acquisition and solving Resettlement and Rehabilitation issues as also the enormous delays in obtaining environmental clearances from the Central and State Governments have severely hindered the commencement of production from captive coal blocks. Although some states adopted a single window system for grant of various approvals, progress has not been visible so far.

5.5 Monitoring of Production of Coal Blocks

MoC had been monitoring the production of coal blocks allocated for captive mining since 1993. MoC appointed (January 2005) the Coal Controller Organisation (CCO) as the nodal agency for the purpose. MoC constituted (October 2009) a committee under the chairmanship of the Additional Secretary (Monitoring Committee) to monitor the development of allocated coal blocks/end use projects.

The responsibility of developing the coal block as per the prescribed guidelines and milestones of allocation letter rests entirely with the allocatees and in the event of wilful delay in the development of coal blocks/setting up of the end use project, the Government reserves the right to take appropriate action to de-allocate the said block. The Government in line with this periodically monitors and reviews the development of coal blocks in the review meetings. Wherever, delays are noticed, Government issues show-cause notices and advisories to such allocatees cautioning them to bring the coal blocks into production as per the guidelines/milestones chart and finally de-allocates the block.

5.5.1 Inadequate monitoring by MoC/CCO

CCO prepares a quarterly status report on development of coal blocks and associated end-use projects, on the basis of information furnished by the block allocatees, which is placed before the Monitoring Committee for review and for recommending suitable remedial action.

Audit observed that:

- CCO did not conduct any physical inspection of allocated coal blocks to ascertain the actual progress/production vis-à-vis the progress/production reported by the allocatees. The correctness of the data furnished by the allocatees, therefore, could not be vouched for.
- CCO did not have adequate sanctioned strength or men-in position for effective monitoring of coal blocks.
- MoC directed (July 2010) that the nine blocks which had achieved the peak rated capacity would not be reviewed further at MoC, but their progress would be monitored by CCO. CCO, however, failed to comply with these directives of MoC (November 2011).
- The Monitoring Committee was to review the progress of allocated coal blocks every month. The same was, however, not strictly followed and the meetings were held on quarterly basis.

Non-seriousness of some of the allocatees has been a concern. It has adversely affected the development of coal blocks for which MoC issued show cause notices and de-allocated 24 blocks upto June 2011 for lack of initiative for development of coal blocks by the allocatees. The proposed competitive bidding procedure was intended to increase financial stakes of the allocatees in the allocated blocks to bring the required sense of urgency in developing the blocks/end use projects, but that is yet to commence. There is also the issue of diversion of coal produced from the captive coal blocks to the black market.

In such a scenario, effective monitoring is required to ensure development of coal block as per the prescribed milestones as also to keep a watch on the use of produced coal. Moreover, instances of continued allocation to groups/consortium of companies, who had failed to develop blocks allocated to them earlier, could have been avoided. The MoC had allocated a number of coal blocks to some group of companies (Monet, JSPL, Bhusan, Hindalco, Tata and Jayaswal) without considering their previous performance in developing the blocks already allocated.

The Ministry accepted (February 2012) that there was a need to strengthen the CCO, Kolkata and stated that a proposal for creation of additional posts was under consideration.

5.5.2 Non-encashment of Bank Guarantee in case of default

MoC introduced (March 2005) the system of bank guarantee (BG) to ensure timely production from the coal blocks.

The Expert Committee on Road Map for Coal Sector Reforms (December 2005) recommended for submission of BG, 50 per cent of which linked to guaranteed production and 50 per cent to setting up of end use projects. MoC modified (January 2007) the system of BG and linked 50 per cent of BG amount with the milestones to be achieved before the start of production and balance 50 per cent of BG with guaranteed production. The furnishing of BG was also made applicable (July 2007) for the coal blocks allocated to Government Companies under the Government Dispensation. Since October 2009, the Monitoring Committee was to assess and recommend deduction of BG for encashment in case of laxity in development of coal blocks or end use plants as per the terms and conditions of the allocation letters /milestone timelines.

The Expert Committee also recommended for legal measures to cancel licenses issued earlier if the allottee failed to take adequate steps to bring the allotted mines to production or in setting up of end use plants.

Audit observed that:

- There was delay in introducing BG and linking it with the milestones. As a result, MoC could not expand the system of furnishing BG to 46 blocks allocated prior to March 2005. Further, achievement of milestones in respect of 118 blocks allotted prior to July 2007 was not linked with the BG and hence imposition of penalty for non-compliance of milestones could not be implemented.
- As per the terms and conditions of allotment of coal blocks, the BG amount would be modified based on the final peak/rated capacity of the mine. However, the same is yet to be done (November 2011).
- There was also no methodology for accounting of BG. No proper head of account was earmarked for deposit of encashed BG. As a result, CCO/MoC could not collect BG for five blocks viz, Pindrakhi, Puta Parogia, Mourya, Bhivkund and Bankui allocated during July 2008 and June 2010 (as of 15 August 2011). This included BG amounting to ₹ 247.98 crore in respect of Bhivkund, Bankui and Mourya Blocks.
- As of November 2011, lapsed BG worked out by audit was ₹ 311.81 crore against 15 blocks which needed to be renewed.
- MoC de-allocated 24 blocks upto June 2011 for lack of initiative for development of coal blocks by the allocatees. The Monitoring Committee also recommended (January and February 2011) for deduction of BG from 15 allocatees for delay in development of coal blocks. However, MoC could not encash the BG wherever applicable from these

allocattees as the modalities for such encashment was still to be worked out (November 2011). The Expert Committee also recommended for encashment of BG in full in such cases.

The Ministry accepted (February 2012) that there were no guidelines in place for calculation of the amount for encashment of bank guarantee and added that the same were under consideration.

5.6 Enabling framework for augmentation of coal production

Audit analysis of the extant framework for allocation of coal blocks, the enabling incentives and disincentives for scheduled production of qualitative coal revealed the following:

- (i) Government of India does not charge any money for allocation of coal blocks for captive mining except the cost of exploration. The allocattee has to pay mainly royalty to the State Government. Thus, the difference between the market price of the coal and the cost of production is a direct/incentive gain to the allocattee.
- (ii) In case of delayed production of coal, the allocattee is under the risk of deallocation of the coal block or penal action by the MoC viz., encashment of part or full bank guarantee besides depriving of the benefits of the coal production.

Thus, there is a scope for improvement in the system to facilitate augmentation of coal production to meet the demand of coal by the followings:

- (i) Speedy approval like mining lease, mining plan, forest clearance and environmental management plan from the various Ministries/Departments as also land acquisition from the concerned State Government,
- (ii) There should be incentives for timely production of quality coal, even in cases of production prior to commencement of the end use plant as also for production of surplus coal more than the requirement for the end use project, through a well laid down policy, by providing reasonable return over the cost of production to ensure that attempts for speedier creation of infrastructural facilities, particularly in power and coal sectors, for the development of the economy are encouraged with due incentive to the developer besides safeguarding the interests of the public at large where the State is the custodian of the natural resources and has to ensure the public good;
- (iii) Strengthening the Governance system for effective monitoring the achievement of milestones by the allocattees. In case of intentional delays by the non-serious players, timely penal action (including de-allocation of blocks) for non-performance needs to be enforced. The amount of the bank guarantee needs to be enhanced to increase the stake of the allocattee in order to restrict the non-serious players.

In sum, in the absence of an effective governance system of incentives and disincentives in place, the production of coal from the blocks allocated for captive mining fell short of targets.