

Executive Summary

Coal is the most important indigenous source of energy for Indian economy with a geological reserve of 2,85,863 million tonne and more than half of the current commercial energy is met by coal. The widening gap between the demand and domestic production of coal and consequent increase in coal imports to fill up the gap warranted a study to examine the adequacy and effectiveness of the action taken by Coal India Limited (CIL) and the Ministry of Coal (MOC) for augmentation of coal production. This assumes significance as there are instances where capacities in the power sector have been lying idle or facing difficulties in augmentation of capacity for want of coal. Further, though the Government of India (GOI) has notified certain sectors which may undertake captive mining of coal, the process of allocation of coal mines should be objective and transparent.

In the backdrop of the above factors, a Performance Audit on “Allocation of Coal Blocks and Augmentation of Coal Production” has been conducted. Significant audit findings are narrated below:

- For increasing the production of coal, the Expert Committee, chaired by Shri T.L. Sankar, on Road Map for Coal Sector Reforms (December 2005) had recommended that the drilling capacity of Central Mine Planning and Design Institute Limited (CMPDIL) be enhanced to at least 15 lakh metre per annum. As against it, the expected drilling capacity of CMPDIL was only 3.44 lakh metre in 2011-12. **(Para 3.2)**
- The rate of increase in production of coal by CIL during XI plan period remained far below the target envisaged by the Planning Commission. The low production was due to inadequate drilling capacities, backlog in overburden removal, mismatch between excavation and transportation capacities, low availability and under-utilisation of Heavy Earth Moving Machinery (HEMM) etc. Efforts of the MOC to increase production by de-reservation of 48 coal blocks of CIL and allocating the same to captive consumers did not yield the desired results as no production could commence from these blocks. **(Para 3.3)**
- New Coal Distribution Policy 2007 envisaged better distribution of coal to small and medium consumers. However, no monitoring mechanism was put in place in CIL for verification of end use of coal. **(Para 3.4)**
- 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". Audit, however, observed that de-reservation of Moher and Moher-Amlohri Extension from NCL in September 2006 and allocation to Sasan UMPP resulted in sharing of boundary of Amlohri Opencast Project of NCL with the private party. As such NCL could not access coal reserve of 48 million tonne of its Amlohri OCP. This also reduced its project life from 24 to 20 years. Similarly, the sharing of boundary of Nigahi Opencast Project of NCL with Moher-Amlohri Extension resulted in reduction of mineable reserves by 9 million tonne. **(Para 3.5)**

- There has been a continuous rise in production of coal from the opencast mines by CIL. However, there was an aggregate shortfall of production in ECL by 9.1 million tonne, CCL by 5.88 million tonne and MCL by 22.86 million tonne during 2006-07 to 2010-11. **(Para 3.6)**
- The production from underground mines has stagnated around 43 million tonne from 2006-07 to 2009-10 and decreased to 40 million tonne in 2010-11, which was 9.28 per cent of the total production of CIL in 2010-11. **(Para 3.7)**
- The Screening Committee recommended the allocation of coal block to a particular allottee / allottees out of all the applicants for that coal block by way of minutes of the meeting of the Screening Committee. However, there was nothing on record in the said minutes or in other documents on any comparative evaluation of the applicants for a coal block which was relied upon by the Screening Committee. Minutes of the Screening Committee did not indicate how each one of the applicant for a particular coal block was evaluated. Thus, a transparent method for allocation of coal blocks was not followed by the Screening Committee. **(Para 4.1)**
- The concept of allocation of captive coal blocks through competitive bidding was first made public on 28 June 2004 at an interactive meeting held with the stake holders under the chairmanship of Secretary (Coal). Following the meeting, a comprehensive note on “Competitive Bidding for allocation of coal blocks” was submitted (16 July 2004) by the then Secretary (Coal) before the Minister of State, Coal and Mines highlighting that “.....since there is a substantial difference between price of coal supplied by Coal India and coal produced through captive mining, there is a **windfall gain** to the person who is allotted a captive block.....”. It was, therefore, felt necessary by MOC to adopt a selection process which could be acceptable as demonstrably more transparent and objective. Auctioning of blocks was considered as one of the widely practised and acceptable selection process which was transparent and objective. The note further indicated that the “.....the bidding system will only tap part of the **windfall profit** for the public purposes.....”. Despite these facts, the GOI is yet (February 2012) to finalise the *modus operandi* of competitive bidding. **(Para 4.2)**
- As of June 2004, 39 coal blocks (net) stood allocated. 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), 71 more blocks (net) were allocated. In all, since July 2004, 142ⁱ coal blocks (net) were allocated to various Governments and private parties following the existing process of allocation. This allocation lacked transparency and objectivity. While admitting the above facts, the Ministry stated in March 2012 that the view that the system

ⁱ Out of 216 blocks (Para 5.1) allocated, 22 blocks (net) were de-allocated, 39 blocks were allocated prior to June 2004, 12 blocks were allocated to UMPP and one block pertains to SCCL.

of bidding could be introduced through administrative instructions was given by the Ministry of Law and Justice (MoLJ) on 28 July 2006 for the first time and in the light of the conflicting opinions, a reference was again made. MoLJ in its opinion dated 30 August 2006 after clarifying rationale for earlier opinion, finally opined that the administrative ministry may initiate measures for amendment in the MMDR Act. Pending amendment in the Act, it proceeded to allocate coal blocks on the advice of the ECC of July 2006. Finally with the amendment in the MMDR Act, rules for auctions by competitive bidding of coal mines were notified on 2 February 2012 after inter ministerial consultations. **(Para 4.2)**

- Most importantly, the contention of MOC in 2004-2006 when it was making attempts to introduce transparency/ competition in allocation of coal blocks was exactly along the lines of the conclusions of audit. The Hon'ble Supreme Court, in the judgement on 2G spectrum, has also directed to introduce transparency/competition in allocation of scarce natural resources. **(Para 4.3)**
- Delay in introduction of the process of competitive bidding has rendered the existing process beneficial to the private companies. Audit has estimated financial gains to the tune of ₹ 1.86 lakh crore likely to accrue to private coal block allottees (based on average cost of production and average sale price of Opencast mines of CIL in the year 2010-11). A part of this financial gain could have accrued to the national exchequer by operationalising the decision taken years earlier to introduce competitive bidding for allocation of coal blocks. Therefore, audit is of strong opinion that there is a need for strict regulatory and monitoring mechanism to ensure that benefit of cheaper coal is passed on to the consumers. **(Para 4.3)**
- Captive coal mining is a mechanism envisaged to encourage private sector participation in coal mining. CIL has not been able to increase production to meet the growing demand for coal for core infrastructure sectors like Power, Steel and Cement etc. With the declared objective for "Power to all by 2012", the Government allocated 194 (net) coal blocks with aggregate geological reserves of 44,440 million tonne to Government and private parties as of 31 March 2011. The procedure followed for allocation of coal blocks to captive consumers lacked transparency as the allotments of coal blocks to prospective captive consumers were made merely on the basis of recommendation from State Governments and other administrative ministries without ensuring transparency and objectivity. **(Para 4.1 and 5.1 read with Para 1.1 and 1.6)**
- Production of coal from captive mining was not encouraging. Out of 86 such coal blocks which were to produce 73.00 million tonne of coal during 2010-11, only 28 blocks which included 15 blocks allocated to private sector, could start production by 31 March 2011 and produce only 34.64 million tonne of coal during 2010-11. **(Para 5.2)**
- Coordinated and planned approach by the State Governments and the Central Government towards commissioning of end-use projects based on coal and the commencement of production from the captive coal blocks is called for. The abnormal time taken for obtaining mining leases, surface rights and the subsequent land acquisition, resettlement/ rehabilitation issues as also enormous delays in obtaining forest and

environmental clearances from the Central and State Governments have severely hindered the commencement of production from captive coal blocks. There is a need of a High Powered Committee as a single window mechanism to expedite actions towards granting of various approvals. **(Para 5.5)**

- Mines and Minerals (Development and Regulation) Act, 1957 (MMDR) provides that the Coal Controller's Organisation (CCO) may enter and inspect any colliery with a view to securing compliance of rules. However, CCO has not conducted any physical inspection of allocated coal blocks to ascertain the actual progress/production vis-à-vis the progress/production reported by the allottees. The correctness of the data furnished by the allottees, therefore, could not be vouched. The Monitoring Committee of MOC was to review the progress of allocated coal blocks which met quarterly instead of every month. **(Para 5.6)**
- MOC introduced (March 2005) the system of bank guarantee (BG) to ensure timely production from the coal blocks. MOC de-allocated 24 blocks upto June 2011 for lack of initiative for development of coal blocks by the allottees. The Monitoring Committee also recommended (January and February 2011) for deduction of BG from 15 allottees for delay in development of coal blocks. However, MOC could not encash the BG, wherever applicable, from these allottees as the modalities for such encashment were still to be worked out (November 2011). The Expert Committee also recommended for encashment of BG in full in such cases. As of November 2011, amount of lapsed BG worked out by audit was ₹ 311.81 crore against 15 blocks which needed to be renewed. **(Para 5.7)**

Recommendations:

MOC should

- With the declared objective of “Power to all by 2012”, Government has taken many steps inter-alia allocating coal blocks for captive mining for power and other sectors in a big way. It would be worthwhile to make an assessment of the level of success of this declared objectives so as to make mid course corrections. The need for power in the economic development of the country will continue to be paramount. Hence, the criticality of such an assessment and further road map to advance the objective of “Power to all”. There is a need to constitute an empowered group along the lines of Foreign Investment Promotion Board (FIPB) as a single window mechanism with representatives of Central nodal ministries and State Governments to grant the necessary clearances such as mining lease, mining plan, forest clearance, environment management plan and land acquisition for accelerating the procedures for commencement of production.
- In order to bring ‘objectivity’ and ‘transparency’ in the allocation and for tapping of a part of benefit accruing to the allottees of captive coal blocks, MOC should urgently work out the modalities to implement the procedure of allocation of coal blocks for captive mining through competitive bidding.
- MOC should evolve a system of giving ‘incentives’ to encourage production performance from captive coal blocks and ‘disincentives’ to discourage non/poor performance.

CCO should

- Conduct physical inspection of allotted blocks on regular basis.

CIL should

- Fix its production targets in line with the targets fixed by the Planning Commission.
- Expedite setting up of coal washeries as washing capacities of coal are grossly inadequate in CIL subsidiaries in view of the fact that Indian coal contains higher percentage of ash and washing of coal is of utmost significance, both for the efficiencies in the user plants and from the point of view of environmental concerns besides fetching higher returns.
- Synchronise its excavation and transportation capacities.

