# Chapter 9 - Conclusion

In September 2014, the Hon'ble Supreme Court of India cancelled the allocation of 204 coal blocks made by Ministry of Coal (MOC) since 1993. A new framework for allocation of the cancelled coal mines was laid down by Promulgation of Coal Mines (Special Provisions) Ordinance 2014. This was followed by notification of Coal Mines (Special Provisions) Rules, 2014 to operationalise provisions of the said Ordinance and uploading Standard Tender Document (STD) in December 2014. The notification of the Coal Mines (Special Provisions) Act, 2015 was done in March 2015.

- The new mechanism for e-auction of coal mines was an improvement over the earlier system and attempted to incorporate the principles of objectivity, transparency and fairness in allocation of natural resources to private sector participants. However, Audit observed that there were some systemic and procedural issues which needed to be addressed for further improvement in the e-auction mechanism.

- Cabinet Committee on Economic Affairs (CCEA) approved a methodology for valuation of coal mines/blocks by calculating their intrinsic value and the floor/reserve price. Audit noticed inconsistencies and inaccuracies in following certain assumptions and various errors in computation of intrinsic values. Revised calculation of intrinsic value was carried out by incorporating revised elements of costs and revenue after considering all the deficiencies together in individual coal mines. There was under determination of upfront amounts in 15 coal mines by ₹381.83 crore, under determination of floor prices in six non-regulated sector coal mines and revised fixed rates in all nine power sector coal mines.

- After the Nominated Authority (NA) made the recommendations in respect of the preferred bidder for 32 coal mines, MOC returned the cases of eight coal mines to NA for re-examination. After submission of results of re-examination carried out on various parameters by NA, MOC examined these eight cases and thereafter, rejected the recommendation of the Nominated Authority for declaration of the 'preferred bidder' as 'Successful Bidder' in respect of three coal mines and preferred bidders were declared as successful bidders in the other five cases. Audit is of the view that there was a need for framing of broad guidelines including various parameters considered relevant by MOC for evaluation of final bid prices to enhance transparency of the bidding process and help in eliminating avoidable litigation.

- The ultimate objective of auction of coal mines for the power sector is to augment power production for benefit of the economy. Audit is of the view that in the light of vulnerabilities like stipulations regarding non-recovery of various charges from power consumers, weaknesses in the monitoring system and bank guarantee not being valid for the life of the mine, the risk of non-compliance with contractual obligations was high. These may adversely affect the sustainability of the model in the long run.

- The e-auction was planned to provide cheaper coal to power producers for the ultimate objective of providing cheaper power. In this context, the CCEA approved methodology for fixing floor/reserve price provided that the coal used for merchant power was to cost more than the coal used for generation of electricity to be sold at regulated rates. However, after introduction of reverse then forward bidding, the concept of additional premium was introduced. But this component of additional premium was excluded for the quantum of coal utilised for generation of power sold on merchant basis. This resulted in a scenario where the power producers would be paying lesser amount to the Government on utilisation of coal for producing power to be sold on merchant basis as compared to the coal utilised for production of power to be sold under the power purchase agreements (PPAs).

- The e-auction process was carried out on the online e-auction platform provided by MSTC Limited. It was noticed in audit that there was inadequate audit trail and non-linking of specified end use plants with the registration ids.

- Though various efforts were being made by the Government to start production from the successfully auctioned coal mines, only in 11 out of 26 coal mines, for which vesting orders were issued, production could be started/mine opening permissions were granted till May 2016. In respect of the remaining coal mines, production could not start as various statutory approvals were pending at the Central Government level, State Governments level and also at the level of allottees themselves. Delay in operationalisation of these coal mines had the potential to adversely affect an important objective of early auctioning of these coal mines, which was to ensure continuity in coal production thereby minimising adverse impact on core sectors such as steel, cement and power utilities.

- As per the terms and conditions of allocation of mines, which were also detailed in Coal Mine Development and Production Agreement (CMPDA), there were various requirements relating to extraction and utilisation of coal as well as payments to be made to the Government. Therefore, there was a need for strong and effective monitoring over extraction and utilisation of coal. However, it was noticed in Audit that the monitoring mechanism at Nominated Authority was under process of evolution. There was lack of clarity on the roles and responsibilities for various aspects of monitoring of the e-auctioned mines at the Coal Controller's Organisation (CCO), which was further accentuated by the weaknesses in the system, processes and resources at their disposal.

**Dated : 21 June 2016** **(MALA SINHA)**
**Place : New Delhi** **Director General of Audit**
**(Economic and Service Ministries)**

**Countersigned**

**Dated : 22 June 2016** **(SHASHI KANT SHARMA)**
**Place : New Delhi** **Comptroller and Auditor General of India**