

Shastri Bhavan,
New Delhi Dated the 24th June, 2015

OFFICE MEMORANDUM

Subject: Minutes of the fifth meeting of the Inter-Ministerial Committee for proposed auction of coal linkages/LoAs through competitive bidding held on 04.06.2015.

The undersigned is directed to forward herewith a minutes of the fifth meeting of the Inter-Ministerial Committee for proposed auction of coal linkages/LoAs through competitive bidding held on 04.06.2015, under the Chairmanship of Dr. A.K. Dubey, Additional Secretary (Coal), Ministry of Coal.

Encl: As above

Pillai Ravi Kumar
24.6.2015

(Pilli Ravi Kumar)
Under Secretary to the Govt. of India
Ph. No.23384285

1. Secretary, Department of Economic Affairs, Ministry of Finance, North Block, New Delhi.
2. Secretary, Ministry of Power, Shram Shakti Bhawan, New Delhi (Att. Shri. A.K. Singh, Joint Secretary)
3. Secretary, NITI Ayog, Yojana Bhawan, New Delhi (Att. Shri. Somit Dasgupta, Advisor)
4. Chairman, Railway Board, Rail Bhawan, New Delhi(Att. Shri. Manoj Akhauri, EDTT/F)
5. Secretary, Ministry of Steel, Udyog Bhawan, New Delhi(Att. Shri S. Abbasi, Joint Secretary)
6. Secretary, Department of Industrial Policy and Promotion, Udyog Bhawan, New Delhi(Att. Shri Mohan Chutani, Eco Advisor)
7. Secretary, Ministry of Law and Justice, Department of Legal Affairs, Shastri Bhawan, New Delhi (Att. Dr. R.S. Shrinet, ALA)
8. Secretary Department of Financial Services, Jeevan Deep Building New Delhi.
9. Chairman, Coal India Ltd. Kolkata(Att. Shri B.K. Saxena, Director (Marketing)), Coal Bhawan, New town,Razar Hat, Kolkata-700 0156
10. Chairman, SCCL, PB No. 18, Red Hills, Khairatabad, Hyderabad, AP(Att. Shri B. Nagya, ED/Coal Movement)
11. CMD, CMPDIL, Ranchi, Jharkhand(Att. Shri R.K. Chopra, Director T/PRD)
12. Chairman, Central Electricity Authority, Sewa Bhawan, R.K. Puram, New Delhi(Att. Shri P.D. Siwal, Chief Engineer/ Shri Alok Saxena, Consultant)

Copy for information to:

1. PS to MoS (I/C), Coal, Power and MN&RE.
2. OSD to MoS(I/C), Coal
3. Sr. PPS to Secretary, Ministry of Coal
4. PPS to Additional Secretary(Coal), Ministry of Coal
5. PPS to Joint Secretary (RPG), Ministry of Coal
6. PPS to JS(VB), Ministry of Coal
7. PPS to JS(RKS), Ministry of Coal
8. PS to JS & FA, Ministry of Coal
9. PS to Adviser (Projects), Ministry of Coal
10. PS to Director, CPD, Ministry of Coal

Pillai Ravi Kumar
24.6.2015

(Pilli Ravi Kumar)
Under Secretary to the Govt. of India

Copy to: Director, NIC with the request to place the same on the website of this Ministry.

Minutes of Fifth Meeting of Inter-Ministerial Committee constituted for proposed auction of coal linkage/LOAs through competitive bidding held on 4th June, 2015.

AS (Coal) welcomed all the participants.

1. List of the participants is at the Annexure-III
2. Based on inputs of SBI Capital Ltd. and earlier discussions held in IMC regarding proposed auction of linkages/LoAs to unregulated sector through competitive bidding, an Approach Paper was circulated to the Members of IMC (Annexure-I).
3. The representative of the Ministry of Steel suggested that sub-sectorwise earmarking of quantities for auction would be appropriate. However, there should be a separate earmarking for Govt./PSU sectors. This was done in the auction of coal blocks in the recent past.
4. The Members of SBI Capital Ltd pointed out that it might distort the competition as private sector shall have to bid for linkages whereas Govt. companies shall be allotted linkages without any competition. Moreover, RINL/NMDC etc. are competing for iron ore at the same price as private sector.
5. Representative of Ministry of Railways said that Railway transportation network was a key variable for successful implementation of auction of linkages. He suggested that a matrix of supply centers and demand centers be worked out, indicating feasibility of movement of coal by rail. He also raised his concern that the existing railway network and the planned augmentation thereof is based on the linkages as they exist at present. Any major shake-up will result in either some railway capacity lying idle or some coal not being able to be moved by the Railways. He further pointed out that successful bidders would have to look at the feasibility of transportation by rail before-hand. Otherwise, they may have to move coal by other means of transport.
6. Representative of Dept. of Legal Affairs pointed out that the whole idea of e-auction has been declared unconstitutional in the judgement of Supreme Court in the case of Ashoka Smokeless. It was clarified to him that only the process prevalent at that point of time regarding charging e-auction price from all non-core consumers was quashed. In fact, the new system of e-auction was devised in the NCDP keeping in view observations of the Supreme Court.
7. Representative of CIL suggested that the existing linkages should be allowed to complete their tenures as per the agreement as premature termination of existing linkages was not advisable. Enmasse termination would result in legal complications. However, FSAs maturing after 01.07.2015 should not be renewed further.

8. Regarding proposed methodology for grant of future linkages/LoAs to regulated sector, a preliminary Discussion Paper based on inputs from SBI Capital Ltd. was circulated to IMC Members (Annexure II). MoP was requested to expeditiously send their comments on the proposed methodology which had not been received so far. Representative of Ministry of Power assured that their detailed comments on the issue would be communicated within next week.

9. As there was broad agreement amongst the Members of IMC regarding auction methodology for non regulated sector, it was decided that Approach Paper circulated in the meeting be uploaded on the website of MoC for inviting comments of the general public and stakeholders within next 7 days.

10. All the Ministries/Members of IMC were also requested to expedite finalization of their respective final comments on non regulated sector within next 7 days.

The Meeting ended with a vote of thanks to the Chair.

No.23011/51/2015-CPD
Government of India
Ministry of Coal

Subject: Proposed auction of coal linkages/LoAs to non-regulated sector through competitive bidding.

1. Coal India Limited (CIL) has been supplying indigenous coal to Regulated, Strategic, and Non-Regulated sectors. Regulated Sector covers non-captive coal based power generation units. Strategic Sectors are Rail and Defence. Non-Regulated Sectors cover Cement, Steel, Captive Power and Others. About 90% of the supplies are made through long-term Fuel Supply Agreements (FSAs) with end-users and the rest through electronic auctions (e-auctions).
2. Hon'ble Supreme Court of India vide its judgements in August and September, 2014, had declared 204 coal mines/blocks allocated to the various Government and Private Companies since 1993 as illegal on the grounds that the procedure followed was arbitrary and no objective criterion was used to determine the selection of companies. Pursuant to this judgment, e-auction of Schedule II and Schedule III Coal Mines was conducted. It is logical to interpret that the same philosophy of non-discretionary allocation could be extended for the CIL linkages as well. This would require CIL to allocate linkages through a market-based mechanism.
3. Key questions to be considered while allocating such linkages are as follows:-
 - (a) Who should be given these linkages and the methodology thereof?
 - (b) At what price should such linkages be given?
4. The coal linkages are presently granted to various entities on the basis of decisions of a Standing Linkage Committee. In the non-regulated sector, there is no justification of providing coal at a price less than the market price because the market is not regulated and the price of the final product is determined by the market forces. This also provides a non-level playing field within the non-regulated sector in favour of those having linkages vis-a-vis those not having such linkages.
5. An Inter-Ministerial Committee (IMC) was constituted to consider and examine various structures and implementation models for implementing the competitive bidding for auction of coal linkages/LoAs and to recommend the

optimal structure that would meet the requirement of all the stakeholders. Some options for market based allocation of linkages were discussed by the IMC.

6. Any framework for this purpose that is based on approach to the auction of coal linkages should have the following features:
 - (a) It should be transparent, minimize discretion and should create a level playing field.
 - (b) It should encourage market based pricing structure.
 - (c) It should have differentiation for regulated and non-regulated sectors.
 - (d) It should ensure that all market participants have a fair chance to secure the coal linkage, irrespective of their size.
 - (e) It should attempt to ensure an optimal allocation of coal across user industries and geographies.

Moreover, revenue maximization should not be the sole objective and should not take precedence over the need to make available coal, a scarce and essential commodity, in a fair manner to the end-users.

7. At present RoM prices of CIL are different for Regulated and Non-regulated sectors. This is a fair principle and especially in the non-regulated sectors, the various end-use sub-sectors have their own distinctive economics and a methodology. If the sectors are pitted against each other, it would lead to some sectors losing out on linkages. Therefore, separate quantities may have to be earmarked for Regulated and Non-Regulated sectors on the one hand, and furthermore, within the Non-Regulated sub-sectors, Cement, Iron & Steel including Sponge Iron, Aluminium, Fertilizer, and Others would have separate quanta in the auction process.
8. Keeping in view the aforementioned objectives, the **broad approach** for Non-Regulated Sector may be that:

- (a) The non-regulated sectors may bid for linkages earmarked for given sub-sectors. Bidders would bid above the CIL price for the relevant grade. The sub-sectors are enumerated as Cement, Iron & Steel including Sponge Iron, Aluminium, Fertilizer, and Others.
- (b) CIL will allocate coal from any such small unit which is suitable in terms of administration and optimization. For this, sub-zones within a subsidiary may be envisaged, so as to minimize grade variations and reduce transport distance. Railways Plan would go hand-in-hand with incremental CIL production.
- (c) The tenure of linkage may be five years. Different quanta of coal linkage may be earmarked for particular user industries as described previously and which would be continuously reviewed at periodical intervals.

(d) A balance between the objectives of transparency, market discovery of price of coal where demand and supply match, and, the interests of end-users would need to be struck.

9. The methodology for auction of linkages that achieves this balance is Supplier Controlled Ascending Market Clearing Auction where the prices are increased till demand-supply equilibrium is established. The initial floor price is set at the relevant CIL ROM Price and for a particular link quantity. If bids are received for quantity greater than link quantity, then the floor price is increased in steps. Auction stops when bids are received for exact quantity i.e. link quantity offered. Maximum bid quantity would be lesser of 65% of end-use plant requirement or 15% of quantity auctioned. The method is illustrated in the table below:

Link Quantity Offered	10 MT
Bidding Round 1	
Floor Price	Rs. 3000 / T
Bids Received for	30 MT
Bidding Round 2	
Floor Price	Rs. 3500 / T
Bids Received for	15 MT
Bidding Round 3	
Floor Price	Rs. 4000 / T
Bids Received for	10 MT
Result: 10 MT quantity awarded @ Rs. 4000 / T	

In this methodology:

- Single price avoids wide variations and speculation.
- Prices are directed by the auctioneer through algorithmic iteration. Clearing price reflects an overall market equilibrium where demand matches supply at a single price.
- Single price is acceptable to all bidders.
- Price discovery is attained while avoiding unviable prices.
- Balances the considerations of judgments of the Hon'ble Supreme Court in the case of Coal Block Auctions in 2014, and the case of Ashoka Smokeless in 2006.

10. For auction of linkages, CIL will chalk out an auction calendar to minimise speculation so that realistic prices are obtained. CIL Production Plan and tentative Auction Calendar can be made available on a quarterly / semi-annual basis. Viable minimum service level of 4200 Tonnes Per Annum (TPA) would be considered. Smaller geographical area, like a coalfield, for

coal evacuation may be required to minimise uncertainties in transportation. To assure the end users of price stability for some period, the prices may be fixed for the first 5 years.

11. Future linkages to the non-regulated sector shall be given through e-auction through Supplier Controlled Ascending Market Clearing Approach as detailed in para 8 to 10 above. All allocations after 01.07.16 shall be auction based.
12. Linkage quantities corresponding to existing FSAs, if any, maturing prior to 01.07.16 will also be offered for allocation through above methodology, as and when they expire. There will be no renewal of FSAs of non-regulated sectors.
13. Those entities that have existing linkages that are expiring after 01.07.16, shall be given a termination notice of one year w.e.f 01.07.15. This will also be given wide publicity. The terms and conditions of existing FSA permit such termination of linkages. As per of FSA, *"In the event of any material change in the Coal distribution system of Seller due to a Government directive/notification, at any time after the execution of this Agreement, the Seller may terminate this Agreement without any obligation/liability after providing the Purchaser with prior written notice to the Purchaser of not less than thirty (30) days."* Thus, instead of 30 days, a notice period of one year for termination of linkages will be given so that existing linkage holders will get reasonable time to plan for adaptation to new system or make alternative arrangements. If this is not done, it would create an uneven field to the advantage of existing FSA holders.
14. Any additional quantity allocated to non-regulated sector on account of incremental production of coal shall also be allocated through above linkage auction process.
15. Auctions as per above methodology shall be conducted by CIL.

No.23011/52/2015-CPD

Government of India

Ministry of Coal

Subject: Proposed methodology for grant of future coal linkages/LoAs to regulated sector.

1. Regulated Sector covers non-captive coal based power generation units. Domestic coal based plants get coal either by way of domestic coal linkage from Coal India Limited (CIL) / Singareni Collieries Company Ltd (SCCL) or by mining from their own captive coal blocks. Many of them also use imported coal, in addition to the domestic coal, to meet their fuel requirements. The coal linkages are presently granted to various entities on the basis of decisions of an Inter-Ministerial Standing Linkage Committee (Long Term) {SLC(LT)} headed by the Additional Secretary (Coal) which meets periodically. Based on recommendations of the SLC(LT), decisions with regard to linkages are taken by Government. However, due to poor availability position of coal, no new long-term linkages have been granted since 2010.
2. Hon'ble Supreme Court of India vide its judgements in August and September, 2014, had declared 204 coal mines/blocks allocated to the various Government and Private Companies since 1993 as illegal on the grounds that the procedure followed was arbitrary and no objective criterion was used to determine the selection of companies. Pursuant to this judgment, e-auction of Schedule II and Schedule III Coal Mines was conducted. The prices discovered in this e-auction of coal mines are on an average, significantly higher compared to the ROM prices of CIL for equivalent grade. Further, analysis of the spot and forward e-auction (usually capped at 10 % of CIL production) in the last five years indicates that prices are 50% to 60% above the ROM price. Given the evidence of higher market price discovery of coal and the scope of this judgment, it is logical to interpret that the same philosophy of non-discretionary allocation could be extended for the CIL linkages as well.
3. Key questions to be considered while allocating such linkages are as follows:-

- (a) Who should be given these linkages and the methodology thereof?
- (b) At what price should such linkages be given?

4. An Inter-Ministerial Committee (IMC) was constituted to consider and examine various structures and implementation models for implementing the competitive bidding for auction of coal linkages/LoAs and to recommend the optimal structure that would meet the requirement of all the stakeholders. Further, SBI Capital Markets Ltd. was engaged by CIL for providing consultancy services for this purpose.
5. For the regulated sector, future coal linkages, after meeting existing commitments, could be granted through earmarking of coal linkages to States/DISCOMS which may be assigned to successful bidders in tariff based bidding by these DISCOMS.
6. Thus, future linkages of coal to the power sector be auctioned in a similar manner as is done in Case 2 bidding for coal blocks to the power entities. This will enable transfer of value to the DISCOMS or consumers. In such a dispensation coal linkages shall be allocated to state entities who in turn will auction these linkages for lowest tariff. This will also ensure that the concerned state entity offers a back to back PPA. However, while taking a final view, following needs to be considered:
 - (a) The benefit of cheaper coal should be passed to the consumers and not retained by power utilities many of which are private entities.
 - (b) All similarly placed entities are given equal opportunity of accessing coal and selection is made in a transparent manner.

7. Proposed Methodology:

- (a) Linkages for power projects shall be earmarked through various DISCOMS only. The quantity of linkages allocated for various DISCOMS shall depend on demand-supply situation of the specific State, availability of transportation and transmission network, etc.
- (b) The linkages would be for 7 years upto 25 years with strong preference for a 20-25 years linkages in order to have long term mine planning, rail infrastructure and power planning.

- (c) Periodic review of the utilisation of linkages already granted shall be conducted and fresh linkages may be issued to the DISCOMs based on the same.
- (d) Single DISCOM or a group of DISCOMs shall invite competitive bid and will transfer the linkage to the Successful Bidders.
- (e) In order to avoid disputes and stranding of projects, it may be prudent that the DISCOMs arrange all the clearances and invite the bid on a 'plug and play' basis.
- (f) CIL may earmark a coalfield/mine area and Indian Railway would ensure coal evacuation infrastructure so as to have more bid certainty and lower tariff.
- (g) Bidder should have right to 3rd party sales to other DISCOMs in the event of non payment / non offtake of power and for future auction of linkages, such DISCOMs could be penalised.
- (h) The competitive bid can be conducted as Modified Case 1 bid wherein power plants can be located anywhere. Therefore, competing bidders may have different transportation, transmission and washing (if applicable) cost. Therefore, the Bidder is required to quote a separate figure for variable charge (escalable and non-escalable) and fixed charge (escalable and non-escalable) at the delivery points mentioned by the DISCOMs. The change in fuel costs would be a pass-through as per escalations and there could be indices for even rail transportation and transmission charges besides coal.
- (i) Based on above, a levelised tariff would be used to select bidders with L1 bidder getting priority over L2 and so on. The bidder wise list would be different for each DISCOM.
- (j) Thus, Power Tariff shall be sole determinant for awarding linkage through a transparent auction process. Any escalations of cost of coal, rail tariff or any other cost shall be a pass-through.

LIST OF PARTICIPANTS WHO ATTENDED THE FIFTH MEETING OF INTER-MINISTERIAL COMMITTEE (IMC) CONSTITUTED FOR PROPOSED AUCTION OF COAL LINKAGES/LOAs THROUGH COMPETITIVE BIDDING HELD ON 4TH JUNE, 2015 UNDER THE CHAIRMANSHIP OF DR. A.K. DUBEY, ADDITIONAL SECRETARY (COAL), MINISTRY OF COAL.

	<u>Ministry of Coal, Shastri Bhawan, New Delhi</u>
1.	Dr. A.K. Dubey, Additional Secretary (Coal), Ministry of Coal
2.	Sh. R.P. Gupta Joint Secretary(RPG)
3.	Sh. R.K. Sinha, Joint Secretary (RKS)
4.	Sh. J.S. Bindra, Director(CPD)
	<u>Ministry of Power, Shram Shakti Bhawan, New Delhi</u>
5.	Sh. A.K. Singh, Joint Secretary
6.	Sh. Harpreet Singh Pruthi, Director
	<u>Central Electricity Authority, Sewa Bhawan, R.K. Puram, New Delhi</u>
7.	Sh. P.D. Siwal, Chief Engineer
8.	Sh. Alok Saxena, Consultant
	<u>Ministry of Law and Justice, Department of Legal Affairs, Shastri Bhawan, New Delhi</u>
9.	Dr. R.S. Shrinet, ALA
	<u>NITI Ayog, Yojana Bhawan, New Delhi.</u>
10.	Sh. Harendera Kumar, J.A.
	<u>Deptt of Industrial Policy and Promotion, Udyog Bhawan, New Delhi</u>
11.	Sh. Nand Lal, Consultant
12.	Sh. K. Srinivasu, Under Secretary
	<u>Ministry of Railways</u>
13.	Sh. H.S.Bajwa, Director (T)
	<u>SB KAPS</u>
14.	Shri S.V. Prasad, VP
15.	Sh. Supriyo Gupta
	<u>Coal India Limited, Kolkata</u>
16.	Sh. B.K. Saxena, Director (Marketing), CIL, Kolkata
	<u>CMPDIL, Ranchi, Jharkhand</u>
17.	Sh. Shekhar Saran, Director(Tech), CMPDIL, Ranchi, Jharkhand

18.	Sh. J.S. Phaugat, Under Secretary