Commercial Coal Mining Reforms

Why in news?

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Cabinet Committee on Economic Affairs approved a methodology to auction coal blocks for commercial mining.

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What is the reason behind this move?

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- The productivity of Indian coal sector has improved over the years.
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- But it remains below global standards.
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- This can be addressed if the assets auctioned are large, accessible, and ready for development.
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- The Government’s move to commercial coal mining is a recognition that developing coal blocks on end-use basis is inefficient.
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- There are challenges in design and handover.
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- But, mainly, the end-user industries lack expertise, scale and incentive to do anything more than source their own needs.
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- This changes entirely with commercial mining where real productivity gains can be achieved and passed on to consumers.
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What is the significance of this reform?

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- It is the most ambitious coal sector reform since the nationalisation of the sector.

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- It offers ample room for a competitive coal supply.
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- The move from “an era of monopoly to competition” holds many strategic implications for an entire set of industries and companies.
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- Already, large global and local mining majors have expressed interest in this landmark deregulation,
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- It will allow mining and sale of coal without curbs on quantity, end-use or pricing.
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What are the expected outcomes?

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- The expectation is that the mining majors will set new benchmarks in terms of mechanisation, automation, mining practices, etc, and drive up productivity.
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- Distressed assets, in particular, will use this option to draw up a plan for turnaround after the debt recast.
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- The opportunity will get larger as new commercial miners take full advantage of deregulation.
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- They can offer
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i. short-term contracts for seasonal needs (to serve utility demand or via the merchant market)
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ii. adopt more flexible pricing
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iii. supply higher quality blends to substitute imports
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- It is also expected that the current coal producers too will respond with innovation and customer orientation.
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- The immediate beneficiaries are power generators.
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- As, they can improve utilisation and margins by sourcing commercial coal selectively.
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- It makes it possible for new vertically integrated companies to own coal mining, to power generation, to distribution and retail supply.
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What are the concerns?

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- The downstream power utilities will gain from this, but are simultaneously faced with a major competitive threat.
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- As the output from commercial coal mines comes on line, it will have a sustained, moderating influence on energy prices.
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- The manufacturing sector is already diversifying its power procurement by buying from third-party sources and on the power exchange.
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- They will now have access to lower cost electricity with limited price volatility.
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- Similarly, as commercial miners target large energy users with captive power plants, discoms will lose the advantage of cross-subsidy.
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What are the measures to be taken?

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- Electricity regulators have to implement tariff reforms.
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- Cross-subsidy should also be rationalised to levels at which discoms can still hold on to large energy users.
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- This may not impact the smaller and lifeline consumers, as the State governments will channel the premium earned from auction of commercial coal to extend direct subsidy.
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- The success of this new policy will depend on incorporating lessons from the previous auctions, and deregulating it fully to allow efficiency and competition in the primary energy sector.
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- If this is ensured, there is good reason to expect the commercial coal auctions to become a success on sector reforms.
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Source: Business Line

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