

Policy Challenges in Coal Mining

What is the issue?

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- Many policy changes were introduced in the past 3 years including the introduction of e-auctions for captive coal blocks in early 2015.

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- But the coal sector continues to remain under stress - which calls for a design overhaul to ensure viable allotments.

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What is the present scenario?

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- Of the 5 rounds of auctions held till date, response to 3 has been lukewarm, and the last one (Tranche V) got cancelled.

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- Of the 72 coal blocks auctioned and allotted so far, only a handful have started operations - which has resulted in severe coal shortage.

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- Even for the mines allotted to government undertakings, many are yet to finalise mining plans and appoint operators.

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- Also, several cases have been filed regarding various aspects of the auction.

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- So far, policy focus has been to get the allotted blocks on stream at the earliest and increase production by allotting more blocks.

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Is shortage affecting the power industry?

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- Coal India's production grew just 3% to 554 million tonnes last fiscal,

compared with 7% and 9% in 2015 and 2016, respectively.

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- The company was recently asked to increase supplies to overcome the alarming shortage at thermal plants.

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- Notably, the plant load factors (PLFs) at thermal plants plunged to 60% last fiscal from 77% in 2010.

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- Any increase in PLF or capacity enhancement by addition of newer plants will put pressure on currently poor coal supplies.

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- Significantly, a number of variables like in “increase in renewable & increased electrification” are shaping demand for thermal power.

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What are the present challenges?

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- **Commercial Mining** - The current design of coal-block auctions for the non-power sector is an ascending system and the government sets a floor price.

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- The bids then escalate in line with the wholesale price index - which was noticed in the exorbitant bids of the first 2 auctions.

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- Subsequently, as the price of imported coal plunged it rendered these mines unviable and disincentivised production.

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- **Power sector Mining** - In captive power sector mining, a reverse auction method was followed, where sealing prices for output coal is set.

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- The block allocation went to any miner who offers the most discounted price from CIL’s coal output prices - thereby facilitating a negative bidding.

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- Here, the allottee power generation company bears the mining cost and a forward premium, which can’t be reflected in its output pricing to the discoms.

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- Blended under-recoveries on that account are 50-80 paise per kWh and this increases as mining costs and forward premiums rise.

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- Also, the lack of power purchase agreements has been an impediment.

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- **Failing Targets** - If Coal India were to increase production by 10% annually, it could producing ~ 700 mtpa & Singareni Collieries can add about 100 mtpa.
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- This means that the huge chunk of the 1.5 btpa goal by 2020, will have to come from captive and commercial mining through private entities.
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- This would require significant policy, pricing and institutional reforms.
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What is the way forward?

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- Under the Mines and Mineral (development & regulation) Act, the premium for mineral auctions is a percentage of the prices notified by 'Bureau of Mines'.
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- **Pricing Reforms** - On similar lines, an overall 'Coal Price Index' could be created by harmonising the currently available benchmarks like Coal India prices, spot e-auctions & imported coal.
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- The Government can then link the auction premium for captive coal blocks for non-power sector and commercial blocks using that index.
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- Such a mechanism would ensure the bidder pays as per market conditions — i.e. a higher premium if the index price is high, and lower when it is low.
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- The logic is that this will ensure demand and prices reach market parity and will consequently ensure the health of the mining sector.
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- **Streamlining Procedures** - Clear guidelines are needed regarding preparation of coal blocks before bidding.
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- Fully explored ones with clear demarcation of boundaries and all approvals in place will go a long way in attracting bidder interest.
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- Also, a nodal agency at the State level, with representation from all stakeholders, could be set up to facilitate land acquisition.
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- It must complete identification of land for compensatory afforestation, enumeration of trees and cost-benefit analysis before auctions begin.
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Quick Facts

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Captive Mining

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- It is a concept where blocks are allocated dedicatedly for a specific industry.
- Any excess production arising out of such blocks needs to be sold to 'Coal India Ltd' at pre-determined prices.
- This is practiced to secure supplies for critical sectors like thermal power plants.

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Commerical Mining

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- Such mines aren't restricted in their sale of output and the miner is free to sell their produce to the most profitable buyer.

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Source: Businessline

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