

Policy Challenges in Coal Mining

What is the issue?

\n\n

\n

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

\n

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

\n

\n\n

What is the present scenario?

\n\n

\n

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

\n

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

\n

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

\n

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

\n

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

\n

\n\n

Is shortage affecting the power industry?

\n\n

\n

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

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

\n

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

\n

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

\n

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

\n

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

\n

\n\n

What are the present challenges?

\n\n

\n

- **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.

\n

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

\n

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

\n

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

\n

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

\n

- 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.

\n

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

\n

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

\n

- **Failing Targets** - If Coal India were to increase production by 10% annually, it could producing ~ 700 mtpa & Singareni Collieries can add about 100 mtpa.
\n
- 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.
\n
- This would require significant policy, pricing and institutional reforms.
\n

\n\n

What is the way forward?

\n\n

- Under the Mines and Mineral (development & regulation) Act, the premium for mineral auctions is a percentage of the prices notified by 'Bureau of Mines'.
\n
- **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.
\n
- The Government can then link the auction premium for captive coal blocks for non-power sector and commercial blocks using that index.
\n
- 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.
\n
- The logic is that this will ensure demand and prices reach market parity and will consequently ensure the health of the mining sector.
\n
- **Streamlining Procedures** - Clear guidelines are needed regarding preparation of coal blocks before bidding.
\n
- Fully explored ones with clear demarcation of boundaries and all approvals in place will go a long way in attracting bidder interest.
\n
- Also, a nodal agency at the State level, with representation from all stakeholders, could be set up to facilitate land acquisition.
\n
- It must complete identification of land for compensatory afforestation, enumeration of trees and cost-benefit analysis before auctions begin.
\n

\n\n

Quick Facts

\n\n

Captive Mining

\n\n

\n

- 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.

\n

\n\n

Commerical Mining

\n\n

\n

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

\n

\n\n

\n\n

Source: Businessline

\n

