

**GOVERNMENT OF INDIA  
COAL  
LOK SABHA**

STARRED QUESTION NO:330

ANSWERED ON:31.07.2014

AUCTION OF COAL BLOCKS

Adsul Shri Anandrao ;Yadav Shri Dharmendra

**Will the Minister of COAL be pleased to state:**

- (a) whether his Ministry proposes to allocate coal blocks for specified end use through auction by the competitive bidding route;
- (b) if so, the details thereof including the financial parameters fixed for the purpose;
- (c) whether the Ministry of Power has urged that the reserve price of coal blocks to be offered through the competitive bidding route be set at ninety per cent discount on the intrinsic value of the coal block;
- (d) if so, the details thereof and the response of his Ministry; and
- (e) the steps taken/being taken by the Government to auction coal blocks through objective and transparent process?

**Answer**

MINISTER OF STATE (I/C) FOR COAL, POWER AND NEW & RENEWABLE ENERGY (SHRI PIYUSH GOYAL)

(a) to (e) : A statement is laid on the Table of the House.

10th Position

Statement referred to in reply to parts (a) to (e) in respect of Lok Sabha Starred Question No.330 for reply on 31.07.2014 asked by Shri Anandrao Adsul and Shri Dharmendra Yadav regarding Auction of Coal Blocks.

(a) to (e) : To make the process of allocation of Coal blocks demonstrably transparent and objective, the Mines and Minerals (Development and Regulation) Act, 1957 (67 of 1957) was amended to authorize Central Government, to select through auction by competitive bidding, on such terms and conditions as may be prescribed, a company engaged in specified end use as notified by the Government. The State Government shall grant such reconnaissance permit, prospecting licence or mining lease in respect of coal or lignite to such company as selected through auction by competitive bidding. This, would however, not be applicable in the following cases:-

# where such area is considered for allocation to a Government company or corporation for mining or such other specified end use;

# where such area is considered for allocation to a company or corporation that has been awarded a power project on the basis of competitive bids for tariff (including Ultra Mega Power Projects).

A minimum price (floor price) is fixed by the Government for the block to be auctioned. To determine the floor price, first the intrinsic value of the block is obtained by computing its Net Present Value (NPV), based on Discounted Cash Flow (DCF) approach and then any discounts to be given are factored in (as fixed by Government) by reducing the NPV accordingly. The final NPV (after discount and after subtracting the basic upfront payment received from the bidder) is then annuitized to become equal to a Rs./tonne number. The bidding methodology to be followed is based on Production linked payment and the Rs./ tonne bidding method as the criteria of selection.

Since the high reserve price will increase power tariffs, the Ministry of Coal agreed to the suggestion of Ministry of Power that the reserve price of coal blocks to be offered be limited to 10% of the intrinsic value of the block so as to ensure that power generation costs are kept low and therefore maintaining the larger national interest of keeping power tariffs low.