

No. 13016/26/2004- CA-I (Pt.IV)
GOVERNMENT OF INDIA
MINISTRY OF COAL

....
New Delhi, the 22nd November, 2013

OFFICE MEMORANDUM

Subject: Auction of Coal Blocks - bidding methodology, criteria for selection and methodology for fixing floor/reserve price – reg.

The Mines and Minerals (Development and Regulation) Act was amended to provide for auction of coal blocks by Competitive Bidding and it was notified on 9th September, 2010. An Inter-Ministerial Committee (IMC) was formed to consider and examine various structures and implementation models for implementing the competitive bidding for auction of coal/lignite blocks and to suggest the optimal structure for competitive bidding as selection process.

Based on the recommendations of the IMC the draft rules were prepared and approved on 28.12.2011 and 'the Auction by Competitive Bidding of Coal Mines Rules, 2012' were notified on 02.02.2012 regarding allocation of coal blocks through auction, to the Government companies and to companies awarded power projects on basis of competitive bids for tariff.

The IMC also recommended and advised CMPDIL to prepare the bidding documents/agreement etc. after obtaining necessary professional inputs. The preparation of bidding documents especially took into account the following :-

- i. Preparation of methodology(s) for calculation of floor price/reserve price tag for the captive coal blocks offered to end users;
- ii. Preparation of model tender document for selection of successful coal block allocatee, for the offered coal blocks;
- iii. Preparation of model agreement to be signed between the Ministry of Coal and the successful coal block allocatees for the offered coal blocks.

Accordingly, a report with a suggestive framework was prepared. After detailed deliberation and discussions on the report by the Inter-Ministerial Committee as well as after consulting various stake holders including Ministry of Power, Ministry of Steel, Ministry of Finance etc., the Government is pleased to approve the bidding methodology, selection criteria and methodology for fixing floor /reserve price for auction of coal blocks as mentioned below :

1. BIDDING METHODOLOGY TO BE FOLLOWED:

1.1 **Production linked payment** : Under this method, the bids are invited on the basis of a production linked multiple. The bidder that quotes the highest multiple will become the preferred bidder. The floor price in this case will be a floor multiple that is set prior to the bidding and the bidder is required to quote a multiple above the floor multiple. The same auction methodology would be applicable for explored as well as upgraded regionally explored blocks. A basic upfront payment would be prescribed to ensure that the winning bidder has some minimum commitment to develop the block right from the start. This amount would be kept equal to 10% of the intrinsic value of the coal block.

.../-

2. **CRITERIA OF SELECTION TO BE FOLLOWED:**

2.1 Rs/tonne bidding [with yearly escalation linked to (Weighted Price Index)] would be the criteria for auction of both explored blocks as well as regionally explored blocks (where data and analysis has been upgraded by CMPDIL).

3. **METHODOLOGY FOR FIXING FLOOR/RESERVE PRICE**

3.1 The 'Floor Price' will be set as follows:-

First the intrinsic value of the block is obtained by computing its Net Present Value (NPV), based on Discounted Cash Flow (DCF) approach. 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 proposed to be annuitized to become equal to a Rs/ tonne number.

3.2 As far as setting up of reserve price for allotment of blocks to the Government companies is concerned, the reserve price in Rs./tonne would be determined by using the DCF valuation methodology once the detailed exploration has been carried out by the coal block allocatee. When the mine plan is approved by the Government, the Reserve Rs/ tonne multiple can be determined as per the same methods explained above in para 3.1 for estimating the Floor Rs/tonne multiple.

3.3 For setting the reserve price for coal blocks to be allotted through the tariff based bidding, the reserve price (Rs./tonne) to be paid per annum may be determined once the detailed exploration has been carried out or the block data has been upgraded by CMPDIL. The Reserve Price multiple may be determined by using the DCF valuation methodology (as described above in para 3.1) and factoring any discounts that the Government of India may prescribe. The reserve price in such cases should be limited to 10% of the intrinsic value arrived at, to ensure that power generation costs are kept low.

4. This issues with the approval of competent authority.

H. Jain
(Hemant Jain)
Director to the Govt. of India
Tel. No.2338 8043

To

All Ministries/Departments of Govt. of India.

Copy for information to :

1. Prime Minister's Office, South Block, New Delhi-01.
2. Cabinet Secretariat, Rashtrapati Bhawan, New Delhi.

Copy to :

1. The Chairman, Coal India Ltd., 10, Netaji Subhas Road, Kolkata-700 001.
2. The CMD, CMPDI, Ranchi.
3. The Coal Controller, Office of the Coal Controller, Kolkata.

.../-

Copy also for information to :

- i) P.S. to Minister(Coal) ii) P.S. to MOS(Coal) iii) Sr. PPS to Secy(C)
- iv) PS to AS(C) v) PS to JS(C) vi) PS to JS(LA) vii) PS to JS&FA
- viii) PS to Adv(P)

Copy to : *TD, NIC, Ministry of Coal with the request to publish the same on the website of this Ministry.*