

**No. 13011/1/2017-CBA2
Government of India
Ministry of Coal**

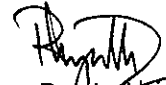
**Shastri Bhawan, New Delhi
Dated the 27th March, 2017**

NOTICE

Subject: Public Notice seeking comments on Discussion Paper on 'Auction of Coal Mines for Commercial Mining'.

Under the provisions of the Coal Mines (Special Provisions) Act, 2015 and Rules made thereunder, the Central Government is considering to auction coal mines for commercial mining. Accordingly, Discussion Paper containing eligibility criteria and auction methodology has been prepared and placed in the website of the Ministry of coal (www.coal.nic.in). The members of the public and stakeholders concerned are requested to submit their comments and suggestions, if any, on the email id: soca3.moc@nic.in upto 16:00 hours of 26.04.2017.

Encl.: Discussion Paper on 'Auction of Coal Mines for Commercial Mining'



(Rishan Rytathiang)

Under Secretary to the Government of India

Copy to: TD (NIC) - with the request to upload this Notice in the website of MoC.

Auction of Commercial Coal Mining Leases

Discussion Paper for Stakeholders

1. Background

Coal is the primary source of energy in India. While the country is not so well endowed in terms of oil and gas reserves based on the current status of exploration, it has the fourth largest reserves of coal in the world. Notwithstanding the recent focus on renewable and other cleaner sources of energy, coal will continue to remain the leading source of energy for India in the foreseeable future.

Coal India Limited (CIL), the largest miner of coal in the world is accountable for about 80% of the coal production in India, the balance being met from The Singareni Collieries Company Ltd and captive coal mines of end users. While CIL has set itself a target of doubling its production within 5 years (by FY2020) to 1 billion tonne which will be further enhanced by production from the captive coal blocks allocated by Government of India through a transparent process in the recent past, given the present demand supply situation and the projected economic growth of the country, it will be necessary to further augment the production through commercial mining.

Similar to the mechanism for allocation of captive coal, it is proposed to have a separate window for allotment of commercial coal mines to government companies. In addition, certain mines will be offered to all eligible companies in private as well as public sector through auction mode.

2. Features of Commercial Mining Leases allocated through Auction Process

Subject to the relevant Acts, Rules and Regulations, as applicable, it is felt that Commercial mining leases allocated through auction process should have the following characteristics:

1. There should be no restriction about the end use of commercially mined coal
2. Commercial Miner should have certain degree of flexibility to manage its production depending on the market scenario. It should be allowed to reduce its production below PRC. It may also be allowed to increase its production subject to a revision in Mining Plan.

3. Commercial Miner should have full flexibility to decide its pricing and selling strategy

Keeping in mind the above features, it is inferred that the policy of allocation of commercial mining leases through auction process should fulfil the following criteria:

1. The mines earmarked should be large enough to
 - (a) evince interest of serious domestic and foreign players
 - (b) allow highly efficient recovery of coal
 - (c) make a reasonable impact on the overall demand supply situation
2. It should encourage participation of large players with proven track record which should result in deployment of latest state-of-the-art technology of coal extraction resulting in maximum energy output to the country at the minimum cost to the environment
3. It should place strict emphasis on occupational safety, health, environment and social practices to ensure better work conditions for the personnel involved in mining along with a higher output per man shift

As a first step to initiate the proposed auction of commercial mining leases, it is proposed to auction two to three large mines having Peak Rated Capacity of around 30 MTPA and coal of G11-G13 grade range in the first phase. The present approach paper has been drafted accordingly. Depending on the outcome, future course of action and policies related to commercial mining can be streamlined. It is clarified that the Eligibility Conditions (as mentioned at Para no 3 below) may vary for different mines in accordance with the size of the mine.

3. Eligibility Conditions

- i. The tangible net worth of the Bidder should not be less than INR 1500 Crore. In the event of bidder being a JV Company, the net worth will be evaluated on a pro-rata basis of the shareholding. All the JV partners will be joint and severally responsible for all obligations of JV Company, in case the joint venture emerges as a Successful Bidder. In the event that the Bidder is a Special Purpose Vehicle Company floated by a parent company based on whose net worth criteria the Bidder becomes eligible, then the parent company shall be joint and severally responsible for the Bidder.

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- ii. The prospective bidder should have experience of excavating and handling at least 25 Million cubic metres per annum of broken rock strata in any coal/iron ore/limestone/bauxite and manganese mine in the last consecutive 3 financial years.
- iii. The prospective bidder must strictly be (i) a Mining Lease Holder (ML Holder) or (ii) a Mine Developer and Operator (MDO) or Prime Contractor (PC) appointed by a Mining Lease Holder and will need to provide the mine wise/ year wise breakup of mineral and overburden separately adding up to 25 Million cubic metres.
- iv. While making the application, the credit for the same mine should not be claimed by the Mining Lease holder as well as the MDO / PC. It is further clarified that only the actual operator of the mine who has conducted mining operations, whether ML Holder or MDO or PC, shall be eligible for claiming the experience of excavation and handling.

For the ML holder, the relevant document which needs to be submitted is

- a. ML document
- b. Approved Mining Plan for each of the mines
- c. Copy of returns filed to CCO/ IBM

In the event of MDO or Primary Contractor, in addition to the above three (3) documents, it also has to furnish a letter from the ML holder on their letter head signed by authorised signatory that they do not have any objection to MDO/Primary Contractor claiming the experience of this mine and that they are not applying or claiming credit for the same mine.

The sample table for presenting the credentials is as below:

Name of Mine	Status of Applicant (ML/MDO/PC)	Name of Mineral	Mineral extracted (in MT)			Overburden extracted (in Mcu.m)			Stripping ratio as per approved Mining Plan
			Y 1	Y 2	Y 3	Y 1	Y 2	Y 3	
Mine 1									
Mine 2									
...									

Total									
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- *The specific gravity of that will be considered for computing the volume of mineral irrespective of the actual characteristics will be: Coal-1.5, Manganese-4.4, Iron Ore-5.2, Limestone-2.6, Bauxite-3.3*
- *Overburden extracted will be calculated as per the Stripping Ratio of the approved Mining Plan and will not include material re-handling*

For overseas mining experience of both domestic and international players, an affidavit has to be submitted by the Bidder along with a certificate from the statutory auditor of the Company.

The prospective Bidder and any of its directors should not have any record of criminal conviction under the applicable laws. The Bidder will furnish a self-certification in this regard as part of his bid.

The prospective bidders may form a Joint Venture company to aggregate their credentials in order to meet the eligibility criteria and the JV should have an aggregate material handling experience of 25 Mcu.m.

In case of a Bidder, bidding either on its own or as JV, operating more than one mine through different Special Purpose Vehicle companies where it may not have 100% shareholding, the Bidder may claim the experience of those SPVs. However, the experience will be calculated on the pro rata basis of the shareholding in such SPVs.

4. Auction Methodology

Following the principles of auction for non-regulated sector in the coal mines auction, an ascending forward auction is proposed for commercial mining since here also there is freedom of pricing the end product as per the market scenario.

However, keeping in mind the proposed flexibility to scale down production in case of low demand or economic downturn, together with a possibility of the potential upside to the commercial miner in case of a significantly superior business cycle resulting in "windfall gains", a revenue sharing model is proposed whereby the bid parameter will be a

percentage (%) quote of the revenue, which will be shared with the respective State Government.

The auction will be a two-stage online electronic auction process: i) Technical Bid and ii) Financial Bid comprising of Initial Price Offer and Final Price Offer. The prospective bidder shall submit the Technical Bid and an Initial Price Offer above the reserve revenue share percentage stipulated in the tender process in the first round. On being technically qualified by the TEC, the IPOs of the technically qualified bidders shall be ranked on the basis of descending IPOs. The technically qualified bidders holding the top 50% of the ranks (with any fraction rounded off to higher integer) or 5 technically qualified bidders, whichever is higher, will become eligible to submit the Final Price Offer in the second round. However, in the event that the number of technically qualified bidders is less than 3, then the auction process of the mine may be annulled. The applicable floor price for the second round shall be the highest Initial Price Offer received from the technically qualified bidders.

The bids in both the rounds will be accepted in multiples of 0.05% of the revenue share above the reserve price. The highest bidder in the electronic auction will be designated as the Preferred Bidder, and, subsequent to receipt of approval from the Government of India and submission of required documents including performance security, it shall be awarded the mining lease as the Successful Bidder.

5. Other Points

- i. While the Successful Bidder shall be free to decide its marketing and pricing strategy, the revenue sharing will be calculated on the basis of actual revenue or actual production multiplied by 1.2 times the CIL ROM price for the average grade of coal for the specific mine, whichever is higher.
- ii. While the Successful Bidder shall be allowed to manage his production quantity (subject to the cap as per the Mining Plan) in the event of any economic downturn or other such event, a drop in the actual production is allowed, not below 50% of the production as per the Mining Plan. However, in any five year block, the Successful Bidder will have to mine out at least 70% of the production as per the Mining Plan.

- iii. In the event that State Pollution Control Board approves the mining operations with a downward revision in Peak rated Capacity, then the minimum production criteria as explained above will be applicable on this modified PRC.
- iv. In practice, the Successful Bidder shall submit a monthly report (audited / unaudited) of its production and sales and revenue sharing will be calculated based on the same. The Company will have to report the estimated revenue on the basis of monthly production return multiplied by actual selling price or 1.2 times the CIL ROM price of the applicable grade, whichever is higher. In the event CIL ROM price undergoes change during the month, the calculation will be done on a pro rata basis. At the end of every financial year, as per the audited accounts, payments will be made and the adjustments may spill over in the next financial year.
- v. The Successful Bidder has to sell washed coal considering the large size of mine and the corresponding severe environmental impact. The coal washing and transport will have to abide by the extant MoEF guidelines.
- vi. The Bid Security for the auction process is proposed to be 2.5% of the annual turnover value of coal, obtained by multiplying the Peak Rated Capacity with 1.2 times of the CIL ROM price of the corresponding grade of coal. Appropriate Performance Security will also be applicable. While the bid security will be calculated on the PRC estimated as given in the tender document, the bidder will have the option to change it by submitting a fresh Mining Plan. In case the PRC is higher in the fresh Mining Plan, the Performance Security will be modified upwards accordingly.
- vii. The Successful Bidder shall pay Upfront Amount equivalent to 10% of annual turnover value of coal (obtained by multiplying the Peak Rated Capacity with 1.2 times of the CIL ROM price of the corresponding grade of coal) in 3 instalments: a) 50% of the Upfront Amount to be paid upon execution of the CMDPA, b) 25% of the Upfront Amount shall be paid upon execution of Mining Lease; and c) the remaining 25% of the Upfront Amount shall be paid upon grant of mine opening permission.
- viii. The mining lease period shall be in accordance with the provisions of The Mines and Minerals (Development and Regulation) Act, 1957 (as amended), which presently is 30 years.

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- ix. The Successful Bidder shall comply with all applicable laws (including labour laws) and observe good industry practice for the protection of the general health, safety, welfare, social security and minimum wages of employees engaged at the coal mine.
- x. Government of India is considering the setting up of an online platform for capturing all the coal trade/sales transactions in the country. As and when such a platform is implemented, the Successful Bidder will compulsorily report all its transactions on this platform.
