

# CAG Performance Audit Summary

## Allocation of Coal Blocks and Augmentation of Coal Production

- The Comptroller and Auditor General (CAG) released a performance audit of Allocation of Coal Blocks and Augmentation of Coal Production on August 17, 2012. The main findings and recommendations are highlighted below.
- In 2005, the Expert Committee on Road Map for Coal Sector Reforms recommending enhancing the drilling capacity of the Central Mine Planning and Design Institute to 15 lakh metre per annum. However, the drilling capacity was only 3.44 lakh metre in 2011-12.
- The rate of increase in production of coal by Coal India Limited (CIL) during the 11<sup>th</sup> Plan period remained below the target set by the Planning Commission. Capacity addition projects were delayed due to the lack of coordination of government agencies involved in statutory clearances and land acquisition. There were mismatches in excavation and transportation capacities of mines, and suboptimal use of Heavy Earth Moving Machinery.
- The Ministry of Coal (MOC) tried to increase production by de-reserved 48 coal blocks that were with CIL. Of the 36 blocks that were allocated to other players, production has not begun in nine blocks, even though the normative production date is over. The normative production schedules were beyond July 2011 for the other 27 blocks. The de-reservation policy thus did not yield desired results.
- The New Coal Distribution Policy 2007 envisaged better distribution of coal to small and medium consumers. However, no monitoring mechanism was put in place in CIL for verification of end use.
- Existing CIL washeries were unable to cater to washed coal requirements. This meant that consumers had to depend on private washeries.
- There were no criteria for allocating coal blocks for captive mining till 1993. The process of bringing in transparency and objectivity began in January 2004. However, it has experienced delays and had yet to materialise as of February 2012.
- In the intervening period, 194 coal blocks with geological reserves of 44,440 million tonnes were allocated to private and government parties until March 31, 2011. The report finds that the benefit to private allottees has been estimated at Rs 1.86 lakh crore for Opencast mines. The report states that the government could have tapped some of this financial benefit by expediting the decision on competitive bidding for allocation of coal blocks.
- There was a time overrun of 1-10 years from the normative production schedules in 10 out of 28 producing blocks (as of June 30, 2011). Of 68 non-producing blocks, the time overrun was between 1 and 5 years for 47 blocks, and more than 5-10 years for 4 blocks. There were abnormal delays in commencing production in captive coal blocks due to delays in obtaining leases and clearances.
- The Coal Controller's Organisation (CCO) did not conduct physical inspection of allotted coal blocks to check actual progress/production versus reported progress/production.
- The MOC introduced the system of bank guarantee (BG) in March 2005 to ensure timely production. The audit observed that there was a delay in introducing BG and linking it with milestones. This meant that BG could not be applied for 46 blocks allocated before 2005, and penalty for not meeting milestones could not be imposed for 118 blocks allotted before July 2007. In the absence of any accounting methodology, MOC could not cash BG amounting to Rs 13 crore against six blocks. As of November 2011, BGs amounting to Rs 312 crore in respect of 15 blocks had lapsed and were not renewed.
- The CAG recommends that MOC should work out modalities to implement the procedure of allocation of coal blocks for captive mining through competitive bidding.
- MOC should constitute an empowered group along the lines of Foreign Investment Promotion Board as a single window mechanism for granting clearances, with representatives from central nodal ministries and state governments.
- The MOC should evolve a system of giving incentives to encourage production performance from captive coal blocks and disincentives to discourage poor performance.
- CCO should conduct physical inspection of allotted blocks.
- CIL should fix its production targets in line with targets fixed by Planning Commission. It should also expedite setting up of coal washeries, and synchronise its excavation and transportation capacities.

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