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Topic 1

Coal mining in India started some 230 years ago i.e., in 1774. Initially for more than a century nothing significant happened in terms of demand for coal. Coal demand picked up from 1853, after introduction of steam locomotives. The production got further boost during the First World War. After many structural changes in the company structure, CIL and its subsidiaries are finally incorporated under the Companies Act, 1956 and are wholly owned by the Central government. The coal supply throughout the country is controlled mainly by CIL and its subsidiary companies.

By virtue of Colliery Control Order 1944 the prices of coal were being administered by the Govt. of India since inception of the Company. The notified prices of coal were based on overall cost of production for CIL as a whole. As a result certain unintended advantages/dis-advantages in notified price accrued to the Company where cost of production was lower/higher than average cost of production of CIL as a whole. To avoid such anomalies some experiments were made and finally it was decided to deregulate the price control mechanism and vest it with the respective subsidiary. The process started with effect from April 1996 and completed in Dec 1999 i.e. from 1st January, 2000, pricing of all grades of coking and non-coking coal has been deregulated.

The cost of production is expressed in terms of Useful Heat Value (UHV) based on an empirical formula derived by CFRI as below:

$$\text{UHV in kcal/kg} = (8900 - 138 \times [\% \text{ ash content} + \% \text{ moisture content}])$$

In the case of coal having moisture less than 2% and volatile content less than 19%, the UHV shall be the value arrived as above, reduced by 150 kcal/kg for each 1% reduction in volatile content below 19% fraction pro-rata. Both moisture and ash shall be determined after equilibrating at 60% relative humidity and 40°C temperature as per relevant clauses of the Indian Standard Specification No. IS:1350-1959.

The coal is a form of commercial energy. The rates of coal are notified earlier by CIL/GoI now by respective coal companies in terms of UHV grading. In the commercial market, the customer is better satisfied, if rate is expressed in the same units as notified by the Government or its assignee. Thus GCV or NCV are generally not used as the basis to express the heat content of the coal.

In the international market, the price of coal is expressed in terms of Gross Calorific Value (GCV). In this system of grading of non-coking coal, it is possible to determine the exact value of non-coking coal grades supplied to consumers whereas in the UHV system, the heat value cannot be determined directly but computed by using an empirical formula. The band variation in GCV grades of non-coking coal is narrower than the existing variation of heat value in the UHV system.

Under the GCV system, the consumer has the benefit of paying for the specific quality of non-coking coal received by him and the producer has an incentive to improve the quality of his production.

Various committees were appointed in the past to determine the cost of production of coal. Ultimately, Bureau of Industrial Costs and Prices (BICP), Govt. of India determined the normative cost of production of coal and devised escalation formula in 1986-87 for determination of cost to fix up the prices of coal. They also recommended that the prices of coal should be based on Gross Calorific Value (GCV) contained in various grades of coal in place of Useful Heat Value (UHV) being adopted by CIL/Govt for fixation of price.

In the international market, the price of coal is governed by the demand supply situation, whereas in India, the price is a monopoly price. Further there is no autonomous regulatory mechanism to control the norms of pricing. Due to this, when the price in the international market has been declining due to industrial recession, the price in India has been increasing due to monopolistic increases in price caused by cost- push inflation. This can be remedied only by introducing a competitive free market for coal in India. A pre requisite for it is to change the coal price declaration system from UHV to GCV base. The demand for changing the system has also been raised by concerned utilities at appropriate forum.

Although with effect from 1st January, 2000, pricing of all grades of coking and non-coking coal has been deregulated. However, the powers of grading of coal are still with the Government. It is understood that proposal for changing the existing system of grading of non-coking coal on the basis of Useful Heat Value (UHV) to Gross Calorific Value (GCV) is also under consideration of the Ministry of Coal.