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Tariff Authority for Major Ports

GNo.81

New Delhi,

07April 2010

NOTIFICATION

In exercise of the powers conferred by Sections 48, 49 and 50 of the Major Port Trusts Act, 1963 (38 of 1963), the Tariff Authority for Major Ports hereby disposes of the proposal received from the Cochin Port Trust for revision of hire charges of Floating Crane (F.C.) Periyar & Dredger Nehru Shatabdi as in the Order appended hereto.

(Rani Jadhav)
Chairperson

Tariff Authority for Major Ports
Case No. TAMP/19/2008-COPT

Cochin Port Trust

- - -

Applicant

ORDER

(Passed on this 23rd day of February 2010)

This case deals with the proposals filed by the Cochin Port Trust (COPT) both dated 26 February 2008 for revision of hire charges of Dredger Nehru Shatabdi and Floating Crane Periyar.

2.1. The proposal filed by COPT in February 2008 was not accompanied with any cost statements to justify the increase proposed in the rates for F.C. Periyar. The gaps observed in the proposal were pointed out to the COPT vide our letter dated 19 March 2008.

2.2. The COPT has furnished the cost statements to justify increase proposed in the hire charge of F.C. Periyar and Dredger Nehru Shatabdi along with clarifications on the points raised vide its letter dated 9 April 2008.

2.3. On the issue of prescribing tariff based on the capacity range of the floating crane/dredger, the COPT has clarified that the activities performed by both the crafts are different and hence they can be identified only as individual equipment rather than by capacity range.

2.4. The gist of the proposals and the information / clarifications furnished by the COPT are summarised below:

Dredger Nehru Shatabdi

- (i). The dredger is a grab dredger used by the port for maintenance dredging at inner harbour channels and alongside berth. In addition, it is occasionally hired by outside agencies like Cochin Shipyard Ltd., Navy and Coast Guard for dredging work at their water front area.
- (ii). (a). In October 2006 the dredger collided with another vessel and incurred repairs to the tune of Rs.103.85 lakhs. Apart from that, survey work was also done incurring an expenditure of Rs.523.88 lakhs.
(b). In response to our query, the COPT has in the revised cost statement amortised the special repair expense reported in 2006-07 and special survey expenses reported in the year 2007-08 over a period of five years.
- (iii). The existing charge of Rs.25,000 per hour for the dredger does not adequately cover the cost. It has furnished cost statement indicating the actual cost incurred during the years 2004-05 to 2006-07 and the estimates for the years 2007-08 to 2008-09.
- (iv). The port has submitted that the rate per hour to meet the cost plus return ranges from Rs.40,000 to Rs.67,000 per hour for the last five years i.e. 2004-05 to 2008-09 (based on the cost statement filed along with the original proposal). The average cost for five years comes to Rs.52,600. It has, therefore, proposed to revise the hire charge of Dredger to Rs.52,000 per hour.
- (v). The revised cost statement filed by COPT vide letter dated 9 April 2008 reflects the following position for the years 2004-05 to 2006-07 (Actuals) and estimates for 2007-08 and 2008-09:

Sl. No.	Particulars	Actuals			Estimates	
		2004-05	2005-06	2006-07	2007-08	2008-09
(i).	Total Variable Cost	530.40	813.63	687.29	970.18	993.89
(ii).	Fixed Cost (Interest and Depreciation)	578.19	578.19	582.72	588.60	588.60

(Rs. in lakhs)

(iii).	ROI 6% on capital cost	208.54	208.54	210.65	210.65	210.65
(iv).	Total Cost + Return	1317.12	1600.36	1480.67	1769.43	1793.14
(v).	Working days	173	239	161	196	242
(vi).	Rate per day	7.61	6.70	9.20	9.03	7.41
(vii).	Rate per hour after rounding off (in Rs.)	48000	42000	58000	56500	46500

Floating Crane F.C. Periyar

- (vi). The floating crane is fixed on a floating platform and is basically used for lifting items which have fallen into the water, for lifting buoys, boats, anchors, etc. It is also used, amongst others, for shifting material from one boat to another boat, for carrying tools and crew members from one place to another.
- (vii). It is used by the port for own purpose and is also hired to outside agencies for their use in the port waters.
- (viii). The charges for this crane was levied on tonnage and hourly basis till 1999. These charges were revised to fixed booking charges per shift and lifting charges per ton. The charges for this floating crane have not been revised during the last two general revision exercise carried in 2004 and 2007. For compensating the past operating deficit, it proposes to revise the hire charges of floating crane.
- (ix). The port has furnished cost statement showing details of the actual cost for the year 2004-05 to 2006-07 and the estimates for the year 2007-08 and 2008-09. The cost statements filed by the COPT for the said floating crane reflect the following position:

(Rs. in lakhs)

Particulars	Actuals			Estimates	
	2004-05	2005-06	2006-07	2007-08	2008-09
Income from hiring	2.54	16.17	4.48	5.00	5.50
Total cost	57.90	74.18	72.82	118.07	223.52
Net deficit	-55.36	-58.01	-68.34	-113.07	-218.02

2.5. A comparative table showing the existing charges vis-à-vis charges proposed is tabulated below:

Sr. No.	Equipment	Existing charges	Proposed charges
1.	Dredger Nehru Shatabdi	Rs.25000 per hour or part thereof	Rs.52000 per hour or part thereof
2.	Floating Crane F.C. Periyar:		
	(i). Fixed booking charges	Rs.5000 per shift or part thereof	Rs.2000 per hour or part thereof
	(ii).Lifting charges (Rate per tonne or part thereof)	Rs.210	Upto 30 ton - Rs.600 30 to 60 ton - Rs.800 60 to 90 ton - Rs.1200 Above 90 ton - Rs.1500

3. In accordance with the consultative procedure prescribed, the proposal filed by the COPT was forwarded to the concerned users / user organisations seeking their comments. The comments received from users / user organisations were forwarded to COPT as feedback information. The COPT has furnished its comments on the comments of the users / user organisations.

4. Based on a preliminary scrutiny of the proposal, the COPT was vide our letter dated 5 June 2009 advised to furnish additional information / clarifications. The COPT vide its letter dated 2 November 2009 has furnished its reply. A summary of the queries raised and the clarifications furnished by the COPT are brought out in subsequent paragraphs.

5.1. A joint hearing in this case was held on 20 June 2009 at the COPT premises.

5.2. At the joint hearing, the COPT was advised to furnish additional information / clarifications sought by us vide our letter dated 5 June 2009 for which the response was awaited. The COPT has furnished its response vide its letter dated 2 November 2009. A summary of the queries raised by us and the clarifications furnished by the COPT thereon are tabulated below:

Sl. No.	Queries raised by us	Reply received from COPT
A.	Common queries relating to cost calculation furnished for fixation of hire charge of F.C. Periyar and Nehru Shatabdi:	
(i).	(a). Furnish the designed capacity of the dredger in terms of working hours along with detailed calculation. (b). Indicate the designed capacity of the floating crane Periyar in terms of tonnage. If different cargo mix are handled by the said crane, then the rated capacity taking into consideration the varying handling rate for different cargo items to be furnished. Furnish detailed calculation in this regard.	(a). Capacity of the Dredger Nehru Shatabdi is 1500 Cu.M per trip and can perform two trips in 12 hours of working time. Effective volume of solid silt removed is 1150 Cu.M per trip. (b). The designed capacity of the Floating Crane F. C. Periyar is 100 Tonnes per lift. The crane is not handling different cargo mix.
(ii).	The cost statements may be drawn with reference to the capacity for both the equipment. The expenses may be estimated for the capacity based on the actual expense incurred by the port in year 2008-09.	The cost statement has been updated as per actuals of 2008-09. The actual traffic handled and income and expenditure of the equipment for the year 2007-08 and 2008-09 are updated in the revised cost statement which is Dredger - Rs.550 lakhs per annum F.C. Periyar - Rs. 12 lakhs per annum
(iii).	Furnish additional revenue likely to accrue at the proposed tariff giving detailed calculation of the income at the existing level and at the proposed tariff for the next three years 2009-10 to 2011-12.	The revenue likely to accrue at existing tariff for the years 2009-10 to 2011-12 is furnished in the cost statement.
B.	Queries relating to Dredger Nehru Shatabdi:	
(i).	Variable Cost: (a). Direct Cost: Furnish the basis of allocating the cost captured in the Cost Centre code 324 to this particular activity. (b). Overhead: The cost statement filed by the COPT for general revision proposal shows that the estimated management and general overheads constitutes around 33% of the total operating cost in the port and dock facility which includes this activity also. In the light of the above, justify the estimation of overhead at 50% of the operating cost for operation of the dredger.	(a). Necessary break up of direct cost has been given in the cost statement (b). Allocation of Overhead has been corrected and considered as per revised cost statement filed for the general tariff revision proposal.
(ii).	Dry Docking charges: The dry docking expense of Rs.54.15 lakhs considered in the cost statement during each of the years 2004-05 to 2007-08 do not match with the actual dry dock expense reported in the respective Annual Accounts at Rs.31.91 lakhs in 2005-06, Rs.9.74 lakhs in 2006-07 and Rs.46.26 lakhs in 2007-08.	Dry Docking charges: Dry docking expenses of Rs.472.09 lakhs incurred in the year 2007-08 has been amortized equally for 6 years upto 2012-13.

(iii).	<p>(a). Amortisation of the Special survey expenses: It is understood that the expense of Rs.523.88 lakhs reported during the year 2006-07 towards special survey is for 15 years period. In this context, explain why the special survey expense is proposed to be amortised over a period 5 years and not 15 years.</p> <p>(b). Indicate the date of commissioning the Dredger Nehru Shatabdi. Also, indicate the balance life of this asset as on 31 March 2009.</p>	<p>The dredger Nehru Shatabdi was purchased and commissioned on 28 August 1993. The life time of the asset is 20 years. The remaining life of the asset is only 4 years. Hence it has been amortized for the same years.</p>																												
(iv).	<p>(a). As per clause 2.7.1. of the tariff guidelines, depreciation need to be considered on the written down value of assets based on the life norms prescribed in the Companies Act 1956. Confirm that the depreciation computed in the cost statement is in line with the tariff guidelines.</p> <p>(b). It is not clear whether Rs.3475.65 lakhs considered in the cost statement is original cost or the written down value of the said asset. Please furnish the value of the asset reported in the gross block and the net block of the fixed assets reported in the Annual Accounts for the years 2007-08 and 2008-09 (provisional figure). The estimated gross / net value of the asset for the years 2009-10 to 2011-12 may be furnished.</p>	<p>(a). Depreciation is calculated by straight line method as per Government guidelines to reduce the cost of operation of the equipment.</p> <p>(b). Required details are furnished below: (Rs. in lakhs)</p> <table border="1" data-bbox="895 835 1473 1043"> <thead> <tr> <th></th> <th>Gross Block</th> <th>Depreciation</th> <th>Net Block</th> </tr> </thead> <tbody> <tr> <td>2006-07</td> <td>3510.89</td> <td>178.97</td> <td>1078.24</td> </tr> <tr> <td>2007-08</td> <td>3510.89</td> <td>178.97</td> <td>899.27</td> </tr> <tr> <td>2008-09</td> <td>3510.89</td> <td>178.97</td> <td>720.30</td> </tr> <tr> <td>2009-10</td> <td>3510.89</td> <td>178.97</td> <td>541.33</td> </tr> <tr> <td>2010-11</td> <td>3510.89</td> <td>178.97</td> <td>362.36</td> </tr> <tr> <td>2011-12</td> <td>3510.89</td> <td>178.97</td> <td>183.39</td> </tr> </tbody> </table>		Gross Block	Depreciation	Net Block	2006-07	3510.89	178.97	1078.24	2007-08	3510.89	178.97	899.27	2008-09	3510.89	178.97	720.30	2009-10	3510.89	178.97	541.33	2010-11	3510.89	178.97	362.36	2011-12	3510.89	178.97	183.39
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(v).	<p>As per the tariff guidelines, both the major port trusts / private terminals are entitled to claim return on capital employed which is presently allowed @ 16%. In this context, explain why return is computed at 6% in the cost calculation.</p> <p>Since the return percentage of 16% takes into account cost of debt, interest on investment need to be excluded from the computation.</p>	<p>The ROI @ 16% has been considered in the revised cost statement and interest on investment has been excluded.</p>																												
(vi).	<p>Entire expenses relating to special survey, special repairs, etc. are considered in the cost statement relating to dredger. The point that the dredger is partly used by the port and partly given to outsiders on hire does not appear to have been recognised while drawing the cost statement. As stated earlier, the cost statement may be drawn with reference to the capacity of dredger assessed in the terms of working hours irrespective of usage.</p>	<p>Cost per hour has been computed on the basis of total cost incurred plus ROI approach. The expected revenue requirements of operating the equipment per hour is considered.</p>																												
<p>C. Queries relating to Floating Crane Periyar:</p>																														
(i).	<p>(a). Explain the basis of apportionment of salary, fuel & stores and repairs & maintenance cost to this activity.</p> <p>(b). Furnish the break up of salary cost indicating the composition of manpower and the average employee cost for each of the years</p>	<p>(a). Actual cost incurred for operating the crane for the period 2007-08 and 2008-09 are furnished below: (Rs. in lakhs)</p> <table border="1" data-bbox="895 1800 1473 1995"> <thead> <tr> <th>Particulars</th> <th>2007-08</th> <th>2008-09</th> </tr> </thead> <tbody> <tr> <td>Salary</td> <td>40.80</td> <td>47.31</td> </tr> <tr> <td>Stores and fuels</td> <td>7.81</td> <td>5.79</td> </tr> <tr> <td>R & M</td> <td>12.71</td> <td>18.99</td> </tr> <tr> <td>Dry docking</td> <td>0</td> <td>9.18</td> </tr> <tr> <td>TOTAL</td> <td>61.32</td> <td>81.27</td> </tr> </tbody> </table> <p>(b). The present manpower for operating the equipment is 19 and the average per employee cost per year is Rs.2.15 lakhs and Rs.2.49 lakhs</p>	Particulars	2007-08	2008-09	Salary	40.80	47.31	Stores and fuels	7.81	5.79	R & M	12.71	18.99	Dry docking	0	9.18	TOTAL	61.32	81.27										
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	<p>2009-10 to 2011-12. Confirm that impact of the likely wage revision is considered in the cost estimation of salary cost and also furnish the basis of such estimation.</p> <p>(c). The National Industrial Tribunal Award of 2006 on manning scales has already been notified. Clause 2.6.2. of the revised tariff guidelines also require the port to regularly review the manning scale. Please confirm that the manning scale considered in the cost statement for estimating the salary cost is in line with the revised manning scale.</p>	<p>for the year 2007-08 and 2008-09 respectively. The employee cost will be estimated @ 23% more on the existing level of salary for the year 2010-11 and 2011-12.</p> <p>(c). The National Industrial Tribunal Award of 2006 on manning scale is not fully implemented. The present manning scale is not in conformity with National Industrial Tribunal Award.</p>
(ii).	<p>Furnish the detailed basis of estimating the fuel and stores cost indicating the average consumption of fuel per hour and the average unit rate of fuel adopted for estimating the cost for the years 2009-10 to 2011-12. Also, furnish the said details with reference to the actual fuel cost for the years 2006-07 to 2008-09.</p>	<p>Average fuel consumption per hour is sixty litres for sailing and twenty litres for crane operation. The same rate of consumption is estimated for the year 2009-10 to 2011-12.</p>
(iii).	<p>The basis of estimating the repair and maintenance cost for the years 2009-10 to 2011-12 may be indicated along with calculation details.</p>	<p>It is a part of routine maintenance and dry docking once in two years for steel body floating crafts.</p>
(iv).	<p>(a). The amount of dry docking expense of Rs.931207/- considered in the cost statement for the year 2006-07 does not match with the actual dry docking expense for the year 2006-07 reported in the Annual Accounts. The reasons for such variation may be reconciled.</p> <p>(b). The Annual Accounts show that dry dock expense is a regular revenue expenditure. In this context, explain the basis and reasons for apportioning of the dry docking expense of Rs.931207/- incurred in the year 2006-07 over a period of 5 years.</p> <p>(c). Clarify whether the dry dock expense of Rs.500 lakhs estimated to be incurred in the year 2008-09 is of capital or revenue in nature. Since the year 2008-09 is already over, update the cost statement with the actual position.</p>	<p>(a). The cost statement has been revised and enclosed.</p> <p>(b). The asset F.C. Periyar has been commissioned in 1966; the life of the asset is 25 years and the life expired on 1991. The Port is operating it for a period of more than 43 years and it is difficult to estimate the working condition of the asset in future. Hence the amortization of dry docking expenses has been considered for 5 years.</p> <p>(c). No dry docking has been done in 2008-09 due to poor financial position of the Port.</p>
(v).	<p>The cost statement filed by the COPT for general revision proposal shows that the estimated management and general overheads constitutes around 25% of the total operating cost in the cargo related activity which includes this activity also. In the light of the above, justify the estimation of overhead at 50% of the operating cost for hire of this asset.</p>	<p>The management and general overheads has been proportionately allocated on par with cost allocation considered in the general tariff revision proposal.</p>
(vi).	<p>Furnish the value of this asset reported in the gross block and the net block of the fixed assets.</p>	<p>Since the asset life has been already expired on 1991 the net block of the asset is zero.</p> <p>Depreciation of the asset and Return on investment are not taken into account since the life of the asset is already expired in 1991.</p>
(vii).	<p>(a). Furnish the basis of arriving at the proposed lifting charge in four slabs with increasing rate as against the existing single rate.</p>	<p>(a). The fuel consumption is proportionately more for lifting heavy lifts hence the slab rates are proposed.</p>

<p>(b). The increase proposed in fixed booking charges is 220% from the existing tariff. The increase proposed in lifting charges slab-wise is in the range of 185% for the first slab (upto 30 tonnes) to 614% for the last slab (above 90 tonnes). Justify such steep hike proposed in the tariff with reference to increase in additional cost as well as cost of additional services, if any, provided by the port and also with reference to the overall surplus of 2% for the years 2009-10 to 2011-12 in the cargo handling activity in the recent general revision proposal filed by the port.</p>	<p>(b). The crane is operating mainly for Port purposes. The service of the asset will be provided / extended to outsiders on demand basis only. The income generated from outside use is meagre.</p>
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5.3. A summary of the revised cost statement filed by the port for the year 2008-09 (actuals) and estimates for 2009-10 to 2011-12 is as follows:

(i). **Dredger Nehru Shatabdi**

(Rs. in lakhs)

Sl. No.	Particulars	Estimates			
		Actuals 2008-09	2009-10	2010-11	2011-12
(i).	Income	1010.88	550.00	550.00	550.00
(ii).	Total Cost	1156.15	1618.26	1258.34	1278.60
(iii).	ROI @ 16% on Net Block	115.25	86.61	57.98	29.34
(iv).	Net Surplus	-409.53	-1432.53	-980.80	-981.67
(v).	Working Days	275.00	275.00	275.00	275.00
(vi).	Rate per day (Rs. in lakhs)	4.08	5.19	4.01	3.94
(vii).	Rate per hour (converted in Rs.)		32438	25063	24625

(ii). **Floating Crane Periyar**

Sl. No.	Particulars	Estimates			
		Actuals 2008-09	2009-10	2010-11	2011-12
(i).	Income from hiring	8.37	12.00	12.00	12.00
(ii).	Total cost	81.27	214.72	105.90	127.08
(iii).	Net Deficit	-72.89	-202.72	-93.90	-115.08

6. The proceedings relating to consultation in this case are available on records at the office of this Authority. An excerpt of the comments received and arguments made by the concerned parties will be sent separately to the relevant parties. These details will also be made available at our website <http://tariffauthority.gov.in>.

7. With reference to the totality of the information collected during the processing of this case, the following position emerges:

- (i). The proposal filed by the Cochin Port Trust (COPT) is for revision of the existing hire charges prescribed for two items viz. Dredger 'Nehru Shatabdi' and Floating Crane (F.C.) 'Periyar'. The port has filed revised cost statement based on actuals of the year 2008-09 vide its letter dated 2 November 2009 which is taken into consideration in this analysis along with the submissions made during processing of this case.
- (ii). One of the main reasons seeking hike in the existing hire charges of these two floating cranes/equipment is to partly compensate the huge revenue deficit in these activities at the operating level. The revised cost statement dated 2 November 2009 filed by the port based on the actuals of 2008-09 brings out this position clearly. The cost statement for the dredger filed by the port reflect a revenue deficit before return of Rs.32.21 crores for the three years 2009-10 to 2011-12 as against total income of Rs.16.50 crores expected to be earned from hire of the dredger at the proposed tariff. The cost statement for floating crane

services reflect a revenue deficit before return of Rs.411.70 lakhs as against income of Rs.36 lakhs for the corresponding period.

- (iii). It may be relevant to mention that the hire charge of Harbour Mobile cranes recently fixed in some of the ports like Paradip and Tuticorin was based on the optimal capacity of the equipment determined by this Authority adopting normative approach. The tariff to be fixed in the instant case is, however, for isolated service for which no norms are prescribed in the 2008 guidelines. Hence the analysis is done following usual cost plus method and assessing reasonableness of the estimates with reference to actuals furnished for the previous year for 2008-09. It is relevant to state here that Floating Crane Periyar has outlived its useful life and the asset value is fully depreciated and the dredger is almost on the verge of completing its useful life by 2012-13. Both these equipment are predominantly used for port's own purposes and given on hire on limited occasions on demand made by the users. For reasons explained above, the usual cost plus method, is followed for determining the tariff of these equipment instead of fixing the tariff for the standard capacity as adopted in other cases. By way of abundant caution, it is stated that the approach followed in the tariff fixation of these equipment should not be quoted as precedence for fixation of hire charge of equipment in other cases. Given the overall financial position of the port and the huge cost of maintaining the dredger and floating crane, the port should immediately attempt to reduce cost by implementing the National Tribunal Award on manning scales. In order to improve better commercial utilization, not only reduction in cost but also reliability of service is a pre requisite and towards this end, the port must assess the need and replace the existing ones with modern and efficient facility. If proved financially advantageous, the port must scrap these equipment which have already outlived their useful economic lives and explore the possibilities of outsourcing the required services to meet its own requirement.
- (iv). Hire charges on equipment is generally prescribed based on capacity range of equipment instead of individual equipment. In the instant case, the dredger Nehru Shatabdi and Floating crane Periyar are single individual equipment in their respective categories as reported by the port. It may, therefore, not serve any purpose prescribing the rate based on capacity range.
- (v). The estimated income from dredger is down from Rs.1011 lakhs earned in the year 2008-09 to Rs.550 lakhs in each of the subsequent years 2009-10 to 2011-12. When sought clarification, the port vide its email dated 17 December 2009 has clarified that the income projection for the years 2009-10 to 2011-12 is based on the proposed rate of Rs.52000 per tonne which is already implemented on ad-hoc basis w.e.f. 26th February 2008 subject to approval of this Authority. The port anticipates reduction in utilisation due to increase proposed in tariff.
- (vi). The dredger is mainly used for the own purposes of the port and occasionally hired to outside agencies on demand. The cost statement prepared by the port, however, does not recognize this position. Whilst the income estimation is confined only to the revenue from hire of this equipment, the cost estimation obviously covers the entire expenses for operating the dredger without segregating it for port side operations and that by outside agencies. On being pointed out, the port has revised the unit rate of operating the dredger based on expected number of days / hours of operations for different purposes i.e. own use & hire during each of these years. It has not furnished similar working for floating crane which is also mainly deployed for port's own use and occasionally hired to outside agencies.
- (vii). The cost position of COPT was analysed in detail recently as a part of the general revision of tariff and the principles followed therein are, to the extent relevant, applied in this case also. The following are the main modifications done in the cost statement furnished by the COPT:
 - (a). The estimation of salary and wage cost for F.C. Periyar does not include impact of wage revision for the year 2009-10. The relevant cost statement

is, therefore, modified to provide a cushion of 15% towards wage revision and 5.8% annual escalation allowed in the cost estimation.

- (b). As regards dredger Nehru Shatabdi, the port has distributed the major dry dock expense of Rs.472.09 lakhs incurred in the year 2007-08 over 6 years period assuming that the asset will be available for use till 2012-13. Amortization of dry dock expense incurred in the year 2007-08 over 6 years period is considered as proposed by the port. Like wise, the dry dock expense estimated for the year 2009-10 is amortised over 4 years.

In respect of FC Periyar, the port has estimated dry docking expense of Rs.130 lakhs in the year 2009-10. Recognising that the dry dock expense for this equipment is incurred once in every three years based on the position obtained for the past period, it is appropriate to spread the cost estimated in the year 2009-10 over the next three years period, as the benefit of the expenditure is expected to be derived over that period.

- (c). Annual escalation in all the cost items is restricted to 5.8% per annum while estimating the operating cost for the years 2009-10 to 2011-12.
- (d). The port has not considered allocated share of management and general overheads for the years 2010-11 and 2011-12 in the cost statement relating to the dredger though it has considered the same for the year 2009-10. The share of estimated management and general overheads is considered for the years 2010-11 and 2011-12 by allowing the permissible annual escalation of 5.8% over the estimates of respective previous years.
- (e). While appraising the cost position for the port as a whole as the part of the general revision of tariff, the estimates of Finance and Miscellaneous Expense (FME) were adjusted mainly with reference to estimation of pension payments. Allocation of net Finance and Miscellaneous expenses to the cost of dredger is also accordingly revised. It is observed that the port has not allocated any net Finance and Miscellaneous expenses in the cost statement relating the FC Periyar. In the cost statement prepared by us, the net Finance and Miscellaneous expenses is allocated to the F.C. Periyar. In the absence of any other basis available, the average share of Finance and Miscellaneous expenses to the total cost of operating the dredger is considered for allocating the net Finance and Miscellaneous expense to the floating crane activity.
- (f). The port has rightly not considered depreciation and return on floating crane as its economical life was already over. Return on Dredger Nehru Shatabdi is computed at 16% on net fixed value of the asset. Full return on this asset is allowed as computation of cost is made for the utilisation of the dredger of 275 days which is more than 70% of the available number of days in a year. Return is also allowed on the unamortised portion of dry dock expenses for both dredger as well as F.C. Periyar.

A copy of the revised cost statement is attached as **Annex - I**.

- (viii). Since the year 2009-10 is almost drawing to a close shortly, the effect of the cost position for the years 2010-11 and 2011-12 is considered to decide on the tariff review.
- (a). Subject to modification explained above, the cost statement for dredger reflects an aggregate deficit of Rs.2465 lakhs after cost plus return for the years 2010-11 and 2011-12 as against income of Rs.1100 lakhs at the proposed tariff estimated by the port during the corresponding period. In terms of percentage, the average deficit works out to 224% of the operating income. But as pointed out earlier, as the expenses are not segregated between port's own use and hire purposes, it may not be appropriate to purely go by the deficit figure for determining the tariff

increase. On being pointed out, the port has derived per hour rate of Rs.32438 for the year 2009-10, Rs.25063 for the year 2010-11 and Rs.24625 for the year 2011-12 to recover the estimated annual revenue requirements i.e. cost plus return over the total annual operating hours of the crane for 275 days x 16 hours.

The modified estimated revenue requirement as per our estimates is Rs.1777 lakhs for 2010-11 and Rs.1377 lakhs for the year 2011-2012. The average per hour rate to recover the total cost plus return estimated for the years 2010-11 and 2011-12 works out to Rs.35843 per hour as against the average of Rs.24844 per hour based on estimates by the port. As stated earlier, the rate estimated by the port is without allocation of management and general overheads and contained some arithmetical error also. The hire charge for dredger is approved at Rs.35843 per hour. The increase at the rate approved works out to 43.3% from the existing tariff which is incidentally closer to the upward revision of 40% allowed in the vessel related activity in the recently concluded general review of COPT.

- (b). With the modification explained in earlier analysis, the cost statement for FC Periyar reflects an aggregate operating deficit of Rs.318.74 lakhs for the two years 2010-11 to 2011-12 as against income of Rs.24 lakhs estimated by the port at the existing tariff during the corresponding period. The deficit in terms of percentage is 1328%. Recognising that port does not even recover major part of the operating cost at the existing tariff level, and in view of huge deficit reflected in the cost statement, there is a prima facie case for accepting the upward revision of rates proposed by COPT.

The craft is deployed mainly for port operations for lifting buoys, carrying tools and crew members and occasionally used by trade on demand to lift items which have fallen into the water, etc. The port has not furnished computation of rate with reference to number of days / hours of operations as done for the dredger. A rough calculation following the approach adopted for dredger, gives an hourly rate in the range of Rs.3859 to Rs.3930.

The rates prescribed in existing SOR is Rs.5000 per shift as fixed booking charge and uniform lifting charge of Rs.210 per tonne. The proposal of the port is to levy fixed charges of Rs.2000 per hour with variable slab-wise lifting charge based on weight. Fixed charge now proposed on hourly basis will lead to 220% increase in the existing rate but recognizing that it will provide some relief to users as they will not be required to pay for the full shift if the usage is not for less than a shift, the proposed fixed charge is approved. As regards the lifting charge, the rate proposed for first slab at Rs.600 per tonne upto 30 tonnes lead to 185% increase and the increase for load beyond 90 tonnes is 614%. The port has explained that the slab-wise incremental rates are proposed because the fuel consumption increases proportionately more for lifting heavy lifts. The explanation furnished by the port seems to be reasonable, but, no working is furnished to substantiate the increased slab wise rate proposed.

Nevertheless, recognising that there is huge operating deficit in this activity, and keeping in mind that this equipment is rarely deployed for purposes other than port's own use, this Authority accepts the proposal for incremental slab wise charge as proposed by the port. The port does not expect any additional the income at the proposed tariff. It is relevant to state that Cochin Steamer Agents Association has also admitted that the floating is rarely utilised by users. In any case the revenue impact, if any, will not be significant as the position furnished for the past period shows that the income earned from this item is negligible in the range of Rs.4 lakhs to Rs.8 lakhs per annum.

(c). While examining the general tariff revision proposal, the port had vide its email dated 17 December 2009 submitted that it has already started collecting the proposed tariff for Nehru Shatabdi on adhoc basis w.e.f. 26 February 2008 subject to approval of the TAMP. As per the tariff guidelines whenever a specific tariff for services / cargo is not available in the notified Scale of Rates, the port can submit the proposal and levy the rate on an adhoc basis till the rate is finally notified. For this purpose, the adhoc rate must be derived based on the existing notified tariffs for comparable services / cargo and it must be mutually agreed upon by the port and the concerned users. The port has not furnished concurrence from the users for levy of the proposed rate. It is, however, notable that there has been no objection from any users/ user associations about the proposed rate reportedly levied by the port on adhoc basis. Clause 2.17.4. of the tariff guidelines of 2005 enables this Authority to recognize the interim rate adopted in an ad-hoc manner retrospectively. Considering the huge revenue deficit faced by the Port and recognising the fact that hiring out of the dredger is not a regular service, the measure of COPT implementing the proposed rate of Rs.52000/- per hour on adhoc basis is ratified as such.

(ix). The tariff guidelines stipulate a tariff validity cycle of 3 years. The cost position considered in this analysis is till March 2012. Further, it is found appropriate to review this tariff item along with the review of other tariff items prescribed in its Scale of Rates. That being so, the validity of the hire charge for the said two equipment is prescribed till 31 March 2012 to make it co-terminus with the validity of its revised Scale of Rates.

(x). The revised hire charge for Dredger Nehru Shatabdi and FC Periyar are incorporated in the revised Scale of Rates of the COPT in the relevant schedule under Chapter - II and IV respectively. Accordingly, the revised rates shall come into force from the effective date of implementation of the revised Scale of Rates of the COPT.

8. In the result, and for the reasons given above, and based on collective application of mind, this Authority approves the following rates to be incorporated in the relevant schedule under Chapter II and IV of revised Scale of Rates of the COPT:

“Chapter II

2.2.4 Charges for hire of Floating Craft

Sl. No.	Category	Unit	Rate (Rs.)
4.	Dredger GHD Nehru shatabdi	Per hour or part thereof	35843

Chapter IV

4.3. Charges for Floating crane & Oil Skimmer

Sl. No.	Category	Unit	Rate (Rs.)
1.	Floating Crane F.C. Periyar :		
	Fixed charges	Per hour or part thereof	2000
	Lifting charges :	Per tonne or part thereof	
	Up to 30 ton		600.00
	30 - 60		800.00
60 - 90		1200.00	
Above 90		1500.00	

”

(Rani Jadhav)
Chairperson

Cost Statement for revision of hire charge of Dredger

ANNEX - I

Rs. in lakhs

Sr. No.	Particulars	Actuals a furnished by COPT	Estimates furnished by COPT at the proposed rate levied on adhoc basis			Estimates modified by TAMP		
			2008-09	2009-10	2010-11	2011-12	2009-10	2010-11
I	INCOME	1011	550	550	550	550	550	550
II	DIRECT COST							
1	Salary	271.14	324.16	405.20	425.46	324.16	342.96	362.85
2	Stores & Fuel	263.80	415.00	435.75	435.75	279.10	295.29	312.41
3	Repairs & Maintenance	8.48	25.24	26.50	26.50	8.97	9.49	10.04
4	Insurance	7.50	7.00	7.35	7.35	7.00	7.00	7.00
5	Dry Docking (Rs. 472.09 lakhs / 6 years) and (Rs. 500 lakhs / 4 years)	78.68	78.68	78.68	78.68	78.68	78.68	78.68
			125.00	125.00	125.00	125.00	125.00	125.00
	Sub Total	629.59	975.08	1078.48	1098.74	822.91	858.42	895.99
6	Depreciation	179.85	179.85	179.85	179.85	179.85	179.85	179.85
7	General overhead & Mgmt. Administration	346.71	463.32	0.00	0.00	366.82	388.09	410.60
	Total (II)	1156.16	1618.26	1258.34	1278.60	1369.59	1426.38	1075.84
III	Operating Surplus/ Deficit	-145.27	-1068.25	-708.34	-728.60	-819.59	-876.38	-936.46
IV	Deficit as % of operating income		-194%	-129%	-132%	-149%	-159%	-170%
V	Allocated share of (FME-FMI)	149.01	277.66	214.49	223.73	292.14	227.54	239.30
VI	Surplus / deficit	-294.28	-1345.92	-922.83	-952.33	-1111.74	-1103.92	-1175.76
VII	Surplus / deficit as % of operating income	-29%	-245%	-168%	-173%	-202%	-201%	-214%
VIII	Average surplus / deficit for the year 2010-11 and 2011-12						-207%	
IX	16%	115.25	86.61	57.98	29.34	184.38	123.16	61.93
X	Net Deficit after ROCE	-409.53	-1432.53	-980.81	-981.67	-1296.12	-1227.08	-1237.69
XI	Deficit as % of operating	-41%	-260%	-178%	-178%	-236%	-223%	-225%
XII	Average Deficit as % of operating income						-224%	
XIII	Total Cost Plus Return		1983	1531	1532	1846	1777	1377
XIV	Working days		275	275	275	275.00	275.00	275.00
XV	Rate per day (Rs. in lakhs)		5.19	4.01	3.94	6.71	6.46	5.01
XVI	Rate Per hour (in Rs.)		32438	25063	24625	41957	40388	31297
XVII	Average Rate to be approved (in Rs. per hour)			24844			35843	

Cost Statement for revision of hire Charge of Floating Crane Periyar

Sr. No.	PARTICULARS	Actuals a furnished by COPT	Estimates furnished by COPT			Estimates modified by TAMP		
			2008-09	2009-10	2010-11	2011-12	2009-10	2010-11
I	Income from hiring	8.37	12	12	12	12	12	12
II	Direct Cost							
1	Salary	50.18	45.79	57.24	68.69	61.06	64.60	68.35
2	Fuel and stores	5.79	15.38	19.23	23.07	6.13	6.48	6.86
3	Repairs & Maintenance	16.12	23.55	29.44	35.33	17.05	21.31	25.58
4	Others	9.18						
5	Dry Docking Exp		130.00			43.33	43.33	43.33
	Subtotal (II)	81.27	214.72	105.90	127.08	127.57	135.73	144.11
III	Allocated net Finance and Miscellaneous Expense		0	0	0	25.51	27.15	28.82
IV	Net Operating Deficit	-72.89	-202.72	-93.90	-115.08	-141.08	-150.87	-160.94
V	Return @16% on unammortised portion of dry dock exp		0.00	0.00	0.00	13.87	6.93	0.00
VI	Net Deficit after Return		-202.72	-93.90	-115.08	-154.95	-157.81	-160.94
VII	Net Deficit as % of operating income		-1689%	-783%	-959%	-1291%	-1315%	-1341%

VIII	Average surplus / deficit for the year 2010-11 and 2011-12	-1144%	-1328%
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**SUMMARY OF THE COMMENTS RECEIVED FROM THE PORT USERS /
DIFFERENT USER ORGANISATIONS**

F.No.TAMP/19/2008-COPT - Proposal from Cochin Port Trust for approval of revision of hire charges of F.C. Periyar and Nehru Shatabdi.

A summary of the comments received from users / user organisations and comments of Cochin Port Trust (COPT) thereon are tabulated below:

Sl. No.	Comments of users / user organisations	Comments of COPT
1.	Cochin Steamer Agents' Association	
(i).	<u>F.C. Periyar:</u> This equipment has outlived its life, which we understand was purchased in 1966. The port themselves has declared that the life of the asset is 25 years. With the existing approved rate, the crane has hardly any utilisation. Therefore, increasing the rate at this stage would only increase its idle time. Furthermore, at the proposed rate a parcel of 90 tonne would cost the hirer Rs.1,51,000/-. There could be situations where the saddle costs more than the horse. It is, therefore, requested that the existing rates be maintained.	Floating crane F.C. Periyar was purchased and commissioned in 1966. Even though the life of the asset was only 25 years, it is being used to cater to port's own purposes and it is being hired to outside parties in the port waters for the last 40 years. Since the asset has expired its life time, while computing the hire cost, only the variable costs like labour cost, repairs and maintenance etc. have been considered and not the fixed costs like depreciation and interest. The high dry docking costs i.e. Rs.93.12 lakhs incurred during the year 2006-07 and Rs.500 lakhs expected to be incurred during the year 2008-09 has compelled COPT to go for a hike in the hire charges.
(ii).	As per the port's proposal, Dredger Nehru Shatabdi is only occasionally hired by outside agencies like Cochin Shipyard Limited, Navy which are Central Government undertakings. Therefore, there is no reason why the existing charges should be enhanced.	High dry docking expenses incurred during 2006 and the expenditure of Rs.523.88 lakhs incurred for special survey work done (once in 15 years) during the middle of 2007 have necessitated a hike in the hire charges of dredger.
2.	Coimbatore Custom House and Steamer Agents' Association	
	It endorses the views of Cochin Steamer Agents' Association in this regard.	No comments.
3.	Indian Chamber of Commerce and Industry	
	No specific comments to offer.	No comments.

2. A joint hearing in this case was held on 20 June 2009 at the COPT premises.
