

(Published in Part - III Section 4 of the Gazette of India, Extraordinary)

TARIFF AUTHORITY FOR MAJOR PORTS

G. No. 157

New Delhi, 8 October, 2003

NOTIFICATION

In exercise of the powers conferred under Section 48 of the Major Port Trust Act, 1963 (38 of 1963), the Tariff Authority for Major Ports hereby approves the proposal of the Paradip Port Trust for fixation of hire charges of pilot launches, oil reception barge and pollution control vessel as in the Order appended hereto.

(A.L. Bongirwar)
Chairman

Tariff Authority for Major Ports
Case No. TAMP/19/2003-PPT

The Paradip Port Trust

Applicant

ORDER

(Passed on this 10th day of September 2003)

This case relates to a proposal received from the Paradip Port Trust (PPT) for fixation of hire charges of pilot launches, oil reception barge and pollution control vessel.

2.1. The PPT has stated that recently pilot launches of 800 BHP, one pollution control vessel and one oil reception barge have been added to the Port's floating crafts. Hence rates for these crafts have been proposed.

2.2. (i). Initially, the PPT proposed hire charges for the new crafts as under:

Sl. No.	Name of the craft	Rate / hour or part thereof	
		Foreign-going (in US \$)	Coastal (in Rs.)
1.	Launch (more than 500 BHP)	106.5	3265.00
2.	Pollution control vessel	100	3435.00
3.	Oil reception barge	50	1730.00

Note: Minimum charges for 2 hours shall be payable for hire of any of the above crafts.

(ii). The Board of Trustees of the PPT has approved the proposed hire charges in its meeting held on 16 January 2003 and the port has started levying the charges with effect from 16 January 2003 pending approval of the Authority as per Notification No.TAMP/22/2002-JNPT dated 22 April 2002.

3. In accordance with the consultative procedure prescribed, the PPT proposal was forwarded to concerned user organisations for their comments.

4. A joint hearing in this case was held on 29 July 2003 at the PPT premises. At the joint hearing, the PPT and the concerned users have made their submissions.

5. 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 are also available at our website www.tariffauthority.org.

6. On a preliminary scrutiny of the proposal, the PPT was requested to furnish certain clarification / additional information. The PPT has furnished its reply to the various queries raised by us. It has also reviewed its proposal and furnished revised cost statements. The main points of the revised proposal and its reply to the various queries raised by us are summarised below:

(i). Break up of salary and wages cost is furnished

(ii). The repairs and maintenance cost of the floating craft has been taken on the basis of actual expenditure incurred for the three tugs sent for dry docking.

The average repairs and maintenance cost calculated comes to 19.10% of average capital cost.

- (iii). The management and general administration overhead is on the basis of actual cost for the last 2 years and apportioned on the basis of number of employees engaged in the operation of the tug.
- (iv). Rate for foreign going vessels is arrived at by taking a conversion rate of \$ 1 = Rs.48.
- (v). The concession for coastal vessel as per Government norms has also been considered.
- (vi). Availability of craft has been taken at 60% of the working hours based on the past experience, as there is no standard norm. Breakdown due to repair overhauling and dry docking have been taken into account to arrive at the availability rate and, therefore, there should not be any reduction in the ROCE.
- (vii). The revised rates proposed by the port are as follows:

Sl. No.	Description	Rate per hour or part thereof	
		Foreign-going vessels (In US \$)	Coastal Vessels (In Rs.)
1.	Craft above 500 BHP	87	3000
2.	Pollution Control Vessel	91	3100
3.	Oil Reception Barge	62	2200

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

- (i). In line with the requirement for prescription of hire charges with reference to the range of capacity of tugs / equipment instead of individual tug / equipment, the PPT has proposed hire charges for pilot launches in the capacity range of 500 BHP to 800 BHP since the existing Scale of Rates prescribes rates only upto 500 BHP. It has also proposed separate rates for pollution control vessel and oil reception barge.
- (ii). The port has considered depreciation based on the life of the crafts as per the norms fixed by the Government for floating crafts and equipment of all major ports. In the absence of life norm for oil boom the life indicated by the PPT is accepted. Depreciation has been worked out based on the original cost of acquisition on a straight line method.
- (iii). The PPT has furnished break up of salary and wages cost for operations of the crafts. A salary and wages cost at slightly higher level has been considered for oil reception barge as compared to the tugs and the pollution control vessel. The port has explained that the wage cost is as per the manning pattern. The salary and wages cost as furnished by the port has been considered without any modification in this analysis.
- (iv). The repairs and maintenance cost is estimated to be at 19.10% of the capital cost of the crafts. When compared to the position reported by some other ports, this estimate is on the higher side. The port has attempted to justify its estimate by explaining that actual expenditure incurred on the three launches recently for dry docking has been considered. In that case, the appropriateness of extending this base to pollution control vessel and oil reception barge which do not appear to have been dry docked is not understood. In any case, one time expenditure cannot be allowed to be perpetuated in tariff.

Incidentally, in the case of fixation of hire charge of wharf crane of the VPT, the port's estimated expenditure towards repairs and renewals at 3.33% of its capital cost has been approved by this Authority. More relevantly, in the case of fixation of hire charges of various newly acquired floating crafts at KPT, the port's estimate of 3.33% towards repairs and renewal has been considered for calculation. In another case relating to 45 T Bullard Pull Tug at CHPT, the port has furnished a maintenance cost estimate which works out to 2.4% of the capital cost. Based on the position obtaining at other ports, it is found necessary to moderate the estimate furnished by the PPT. Repair and maintenance cost is, therefore, taken at 3.33% of the capital cost in this analysis.

- (v). The general review of tariff at PPT has been done duly allocating all overhead expenses. Overhead expenses remaining constant for the port as a whole for a given period and if they are allocated to crafts in reference, then, to that extent there must be a reduction in some other activity. Since such reduction has not taken place anywhere, inclusion of overheads is an excess allocation and double counting. The PPT has also not certified any incremental overhead attributable to the floating crafts in reference. That being so, the allocable Management and General Administration expenses considered by the PPT in its calculation are excluded. It is noteworthy that this approach has been consistently adopted by us while fixing hire charges for equipment and floating crafts on a stand alone manner.
- (vi). Return on capital employed is claimed by the PPT as 17.5%. Considering the current interest rate of 11.5% on Government of India loans available to the port trusts and a 3% contribution to each of the two mandatory reserves, ROCE of 17.5% is being allowed by this Authority in all cases relating to fixation of tariff for major port trusts. This will equally apply to the PPT.

It is to be recognised that maximum level of return on capital employed can be sought only when the assets are utilised nearly to the capacity levels. A port cannot seek to maximise return when capacity created is not fully utilised. Recognising this fact, this Authority has already decided to link return with capacity utilisation. In line with this general principle adopted by this Authority, the return on capital employed in the instant proposal needs to be linked with the capacity utilisation.

The PPT has informed that there is no standard "availability norm" for floating crafts. It has only indicated that the normal working hours per annum is 60% of the total available working hours in a year. Incidentally, the guidelines issued by the Government in 1998 indicate availability norms only for cargo handling equipment. The lower level of the minimum range is 75% for such equipment. In the absence of any other information available, this level is considered to arrive at the capacity of the crafts. With reference to the assessed capacity, the actual utilisation is only 80%. Accordingly, the return on capital employed can be allowed only to the extent of 14%.

- (vii). The hire charges fixed for the crafts should enable the port to recover the total cost from all the vessels irrespective of its categorisation into foreign-going and coastal vessels. It is, therefore, appropriate, as has been done by the PPT, to adopt a weighted average method of allocation of the total cost bearing in mind the rate differential of 30% to be maintained between foreign-going vessels and coastal vessels.
- (viii). Subject to the above, the calculations of hire charges of pollution control vessel, oil reception barge and pilot launches having the capacity range of 500 – 800 BHP are revised. The revised calculation is attached as **Annex**.

- (ix). A comparison of the existing and revised rates (to be approved) of the pilot launches indicates lower rates for launches having higher BHP (500 – 800 BHP) and higher rates for lower BHP (upto 500 BHP). This is obviously an anomalous position. The costing basis adopted to arrive at the rates for launches upto 500 BHP is not known. It does not appear reasonable to hike the rate for launches above 500 BHP just for the sake of removing the anomaly. What is logical is to review the existing hire charges of floating craft following the costing basis followed in this case. The PPT is advised to come up with a proposal for a review of hire charges of all floating crafts.
- (x). The existing Scale of Rates of the PPT in respect of hire charges of floating crafts prescribes levy of a minimum charge for 2 hours. This existing provision is proposed to be applied to the new floating crafts in reference which may be allowed.
- (xi). As has been brought out earlier, the port has been recovering the hire charges with effect from 16 January 2003 drawing reference to an arrangement in this regard introduced by this Authority commonly for all the major ports. Wherever a specific tariff for a service is not available in the notified Scale of Rates the port trust can operate an adhoc rate in the interim period provided the adhoc rate is derived based on existing notified tariffs for comparable services and it must have been mutually agreed upon by the port trust and the concerned user. The PPT has not shown whether the conditions precedent set by this Authority to operate adhoc rates are satisfied in this case. Prima facie, it appears that the relevant Authority's Order is wrongly applied in this case by the PPT. Nevertheless, the floating crafts are already in use and their usage is to be billed as per approved rates. That being so, the hire charges in this case are approved with retrospective effect from 16 January 2003 treating the action of the port as fait accompli. It may be relevant here to note that the rates approved are lower than the proposed rates which have been adopted by the PPT since 16 January 2003. Since retrospective approval is accorded, the PPT should adjust its billing with reference to the approved rates and refund the excess collection already made.
- (xii). In line with the general decision already taken, the rates approved in this case will be ceiling rates.

9. In the result, and for the reasons given above, and based on a collective application of mind, this Authority approves the following to be inserted under Sr. No.5.0 (Hire charges for floating crafts) in the Scale of Rates of the PPT:

Sl. No.	Name of the craft		Ceiling rate / hour or part thereof / craft	
			Foreign	Coastal
1.	Launch	More than 500 BHP and upto 800 BHP	US \$ 71.16	Rs.2293.00
2.	Pollution control vessel	--	US \$ 65.15	Rs.2099.00
3.	Oil reception barge	--	US \$ 51.76	Rs.1668.00

Note: Minimum charges for 2 hours shall be payable for hire of any of the above crafts.

(A.L. Bongirwar)
Chairman

Paradip Port Trust								
Cost Statement for Pollution Control Vessel , Oil Reception Barge and Floating Crafts								
		Pollution Control Vessel		Oil Reception Barge	Floating Crafts			
					Jagannath	Balabhadra	Subhadra	
	Capacity (BHP)			280.00		650.00	650.00	800.00
	Capital Cost (Rs. in Lakhs)		Oil Vessel	122.96	91.36	248.00	118.40	126.00
	(Rs. in Lakhs)		Oil boom	140.00				
	Life (in years)		Oil Vessel	20	20	20	20	20
	Life (in years)		Oil boom	10				
	Available Working hour per annum (Hour)			8760	8760	8760	8760	8760
	(365 * 3 * 8)A							
	Capacity at 75 % of available working hour per annum				6570	6570	6570	6570
	Normal Working hour per annum (Hour)			5256	5256	5256	5256	5256
	Cost :		Rs.. In Lakhs	Rs.. In Lakhs	Rs.. In Lakhs	Rs.. In Lakhs	Rs.. In Lakhs	Rs.. In Lakhs
Sl. No.	Particulars		Amount	Amount	Amount	Amount	Amount	Amount
1	Depreciation		20.15	4.57	12.40	5.92	6.30	
2	Salary & Wages		53.02	61.25	53.02	53.02	53.02	
3	Repairs & Maintence		8.76	3.04	8.26	3.94	4.20	
4	Return on Capital employed at 17.5 % adjusted to capital utilisation of 80 %		36.81	12.79	34.72	16.58	17.64	
5	Total Cost (Excluding fuel cost)		118.74	81.65	108.40	79.46	81.16	
6	Cost per hour (excluding fuel cost) (in Rs.)		2,259.11	1,553.48	2,062.37	1,511.77	1,544.06	
7	Fuel consumption per hour (in Rs.)		200.00	400.00	1,000.00	740.00	1,200.00	
8	Total Cost per hour (in Rs.)		2,459.11	1,953.48	3,062.37	2,251.77	2,744.06	
	Average Cost per hour for floating craft between 500-800BHP						2,686.07	
	Weightage for Foreign-going vessels : Coastal vessels Foreign-going vessel vs coastal vessel rate disparity to be maintained							
	Foreign going vessels :							
	Rate per hour or part thereof (in USD)			51.76			71.16	
	Total cost per hour = .40 * X + .60 * .70 X							
	Total cost per hour = .82 X							
	X = 2999 , 2382 , 3276							
	where X is cost per hour for foreign going vessel (1 US \$ = Rs. 46.03)							
	Coastal Vessels :							
	Rate per hour or part thereof (in Rs.)		2,099	1,668			2,293	
	0.70 of X as calculated above							

SUMMARY OF THE COMMENTS RECEIVED FROM THE PORT USERS / DIFFERENT USER ORGANISATIONS AND ARGUMENTS MADE IN THIS CASE DURING THE JOINT HEARING BEFORE THE AUTHORITY

F. No. TAMP/19/2003-PPT - Proposal from the Paradip Port Trust for fixation of hire charges of floating crafts.

1. The comments received from the port users / representative bodies of port users are summarised below:

Kalinga Steamship Agents' Association (KSAA)

The rate proposed by the PPT appears to be normal.

Shipping Corporation of India Limited (SCI)

- (i). The existing tariff for hiring launch upto 500 BHP is \$ 78.75 per hour. An increase in hire charges are, therefore, justified to some extent for crafts of more than 500 BHP.
- (ii). The hire charges which are proposed are too high. There is scope for reducing the same. The assumed normal working hours for the floating crafts appear to be abnormally high. If this assumption is brought down to realistic figures then the hire charges will also reduce to that extent.

2. A copy of the comments received from the above users was forwarded to the PPT as feedback information.

3. A joint hearing in this case was held on 29 July 2003 at the PPT premises in Paradip. At the joint hearing the following submissions were made:

Paradip Port Trust (PPT)

- (i). Explained the proposal.
- (ii). We will furnish our reply to TAMP queries shortly.
- (iii). We will discuss with users and give reply within one week.

The Kalinga Steamer Agents' Association (KSAA)

- (i). For floating craft < 500 BHP rate is \$ 78. The rate for > 500 BHP should not be more than \$ 100.
- (ii). It will be useful if port discusses with users its tariff proposals before sending them to TAMP for approval.