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TARIFF AUTHORITY FOR MAJOR PORTS

G. No. 159 **New Delhi, 9 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 Chennai Port Trust for fixation of hire charges for its new tug 'Bharathiar' as in the Order appended hereto.

(A.L. Bongirwar)
Chairman

Tariff Authority for Major Ports

Case No. TAMP/29/2003-CHPT

The Chennai Port Trust - - - - **Applicant**

O R D E R

(Passed on this 10th day of September 2003)

This case relates to a proposal received from the Chennai Port Trust (CHPT) for fixation of hire charges for its new tug 'Bharathiar'.

2.1. The CHPT has stated the following in its proposal:

(i). A new tug 'Bharathiar' has been procured at a cost of Rs.20.20 crore as a replacement to tug 'Palani' and tug 'Mani', which were phased out on turning obsolete.

(ii). New tug of 45 Bollard Power is superior to the condemned tugs and will enhance the performance of port's floats and crafts.

(iii). Based on the operational and maintenance cost, hire charge per hour or part thereof has been proposed to be fixed at US$ 915.15 for foreign-going vessels and Rs.30,200/- for coastal vessels respectively.

2.2. In this backdrop, the CHPT has requested this Authority to approve the rate of US $ 915.15 per hour or part thereof for foreign-going vessels and Rs.30200/- per hour or part thereof for coastal vessels.

3. In accordance with the consultative procedure prescribed, the CHPT proposal was forwarded to concerned user organisations for their comments. The comments furnished by the users were sent to the CHPT as feedback information.

4. The CHPT has responded on the comments furnished by the port users. The points made by the CHPT are summarised below:

(i). On the comments of the Hindustan Chamber of Commerce

(a). The Chamber has concurred with the proposal made by the CHPT and requested the TAMP to approve the same.

(ii). On the comments of the Shipping Corporation of India Ltd., the Container Shipping Lines Association, the Tamil Chamber of Commerce and Indian Shipowners' Associations.

(a). The details of Operation cost are – cost of fuel – Rs.1,32,40,000 /-and cost of lubricants – Rs.6,15,219/- the total being Rs.1,38,55,219/-. The labour cost of Rs.1.03,95,504/- is as per the operational requirement.

(b). As regards the maintenance cost, the material cost of Rs.30,00,000/- is arrived on the basis of existing data on maintenance of 32T Bollard Pull Tugs and labour cost of Rs.18,11,208/- is estimated as per the operational requirements.

(c). Supervision charge has been calculated @ 40% on total operational and maintenance cost as per the Board Resolution No.214 dated 23.12.1981.

(d). Storage charge has also been calculated as per the Board Resolution No.214 dated 23.12.1981.

(e). Depreciation is charged on capital cost on straight line basis as per the existing accounting procedure.

(f). The return on capital employed charged @ 18.5% is as per TAMP's guidelines.

(g). The total number of shifts taken as 3032 is based on the actual no. of hours of operations of Tug Bharathiar during the period from 2.8.2001 to 31.7.2002.

(iii). On the comments of the Chennai & Ennore Port Steamer Agents Association

Extrapolation in charges is scaled down to a reasonable level in order to accommodate both the tariff distinguishing foreign-going and coastal vessels i.e. 100% and 70% respectively as well as to match the total cost. The total number of hours of tug proposed to be utilized comes to around 3032 and the same has been apportioned as 85% probable utilisation for foreign-going and 15% for costal vessels. The revised rate per hour or part thereof comes to US $ 672 for foreign-going vessels and Rs.22,165/- in respect of the coastal vessels.

5. A joint hearing in this case was held on 7 August 2003 at the CHPT premises. At the joint hearing, the CHPT and the concerned users have made their submissions.

6. After the joint hearing the Hindustan Chamber of Commerce (HCC) has given a written submission indicating its no objection to the port's proposal.

7.1. On a preliminary scrutiny of the proposal, the CHPT was requested to furnish additional information / clarification on certain points.

7.2. In response, the CHPT has made the following points:

(i). Chennai Port Trust has only one 45T Bollard Power Tug Bharathiar. Hence, there is no rate for 45T tug at present for comparison.

(ii). There are no utilization norms prescribed by the Government with regard to tugs.

(iii). The proposed hire charge does not include any insurance cost because the CHPT is maintaining a separate reserve called General insurance Fund to meet out the contingent liability of the equipments.

(iv). The hire charge has been revised by maintaining the correct differential in rates for foreign-going vessels and coastal vessels. The hire charge has been reviewed and revised taking into consideration of Return on Capital Employed at 17.5%.

(v). Total number of shifts taken as 3032 is based on the actual no. of hours of operations of Tug Bharathiar during the period from 2.8.2001 to 31.7.2002.

(vi). Break up of operational cost is as follows:

(a).	material cost		
	- Cost of Fuel	-	Rs.1,32,40,000/-
	- Cost of Lubaricants	-	Rs.6,15,219/-
(b).	labour cost	-	Rs.1,03,95,504/-

The material cost (maintenance) of Rs.30,00,000/- is arrived at on the basis of the expenditure of Maintenance of 32T Bollard pull power tugs and labour cost of Rs.18,11,208/-, which is estimated as per the operational requirements.

(vii). Based on the actuals, the supervision charge and storage charge are fixed from time to time and approved by the Board. The prevailing supervision charge as approved by the Board is taken for calculation of hire charge.

(viii). The hire charges has been reviewed and revised taking into consideration of Return on Capital Employed at 17.5% which comes to Rs.21,680/- per hour or part thereof for coastal vessels and 672 US $ per hour or part thereof for foreign vessels. The revised cost sheets and working furnished.

8. 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.

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

(i). The CHPT has acquired a new tug “Bharathiar” of 45 Bollard Power which is in use since 2 August 2001. The existing composite pilotage fee includes supply of adequate number of tugs for the operation. As has been explained by the CHPT, the proposed hire charge for this tug is leviable only when it is hired for those activities that are not included in the composite pilotage. This Authority has already advised the CHPT to prescribe hire charges with reference to the range of capacity of tugs / equipment instead of individual tug / equipment. At the time of the last general revision of tariffs, the CHPT conceded that it would propose hire charges for a group of tugs on the basis of average cost of operation after new tugs being acquired in replacement of the existing tugs were commissioned. Notwithstanding this position accepted by the CHPT, it has now sought approval for hire charges on individual tug basis. To make a beginning, the rate approved in this case will be applicable for tugs of 45 BP capacity and not for tug ‘Bharathiar’ by name.

(ii). The CHPT was requested to furnish detailed break-up and basis of calculation of the cost of fuel, lubricant, stores, spares, etc., considered in the material cost under operations and maintenance cost. No elaborate analysis has been made by the port to justify each of the cost elements. In the absence of any other data available to the contrary, the operations and maintenance costs have been taken as furnished by the port without any modification.

(iii). The SCI and INSA have suggested that residual value of the asset should also be reckoned before arriving at depreciation on straight line method. As has been correctly indicated by the CHPT, the present accounting practice followed at the major port trusts does not recognise residual value at the end of the economic life of an asset. The CHPT has correctly adopted the life norm prescribed by the Government for the tugs and worked out depreciation accordingly. That being so, there is no reason for modifying the figure of depreciation considered by the CHPT in its calculation.

(iv). In October 2002, general revision of the Scale of Rates of the CHPT was made by adopting “cost plus” model. All admissible overhead expenses have been duly accounted for in the pricing model adopted. Significantly, the tug has been in use since August 2001. Overhead expenses remaining constant for the port as a whole for a given period, if they are allocated to this tug in reference, then, to that extent there must be a reduction in some other activity. Since such reduction has not taken place elsewhere, inclusion of separate overheads in the case of tug alone will result in double counting. It is noteworthy that no incremental expenditure on supervision has been reported by the CHPT. That being so, the supervision charges considered by the CHPT in its calculation of hire charge are excluded. It is noteworthy that a similar approach was adopted by this Authority while fixing hire charge for 20 tonne gantry crane of the CHPT (Ref.: No.TAMP/111/2001-CHPT dated 28 June 2002). Storage charges as a percentage of the material cost is, however, allowed considering the higher Bollard Power of the tug in comparison to the condemned tugs and no other tug of this capacity is available at the CHPT.

(v). Return on capital employed is claimed by the CHPT at 17.5% in the subsequent calculation furnished by it. Considering the current interest rate of 11.5% on Government of India loan 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 CHPT. In this backdrop, there is no case for adopting a different ROCE for CHPT and that too in the case of only one tug. When this issue is reviewed commonly for all the port trusts, the revised position will automatically apply at the CHPT. Till such time, the existing method of allowing ROCE will continue.

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 maximize 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 is linked with the capacity utilisation.

The CHPT has informed that utilisation norms for tugs have not been prescribed by the Government. It has only indicated the actual utilisation hours of the tug. 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 tug. With reference to the assessed capacity, the actual utilisation is only 46.15%. Accordingly, the return on capital employed can be allowed only to the extent of 8.07%.

(vi). The original proposal of the CHPT did not maintain the rate differential between foreign-going and coastal vessels by considering the correct cost position. Subsequently, it has modified its calculations. The argument of the CEPSAA that the actual costs should be for foreign-going vessels and coastal vessels should get a 30% discount on that rate is not correct. The total cost is to be recovered by the port from all the vessels irrespective of its categorisation. It is, therefore, appropriate, as has been done by the CHPT, 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. This means the foreign-going vessels will cross-subsidise coastal vessels. This is inevitable since this position emerges out of a Government policy.

(vii). Subject to the above, the calculation of the hire charge for the 45T Bollard Power tug has been revised. The revised calculation sheet is attached as **Annex**. The revised working indicates a hire charge of Rs.14,217/- per hour or part thereof for coastal vessel and US $ 441.46 per hour or part thereof for foreign-going vessels.

(viii). As has been mentioned earlier, the CHPT has used the tug only once in the past for non-pilotage use and billing has not yet been made for want of approved rate. The port wants to regularise the billing based on the rates to be approved now. While this Authority has no objection to this proposal, the CHPT is advised to submit its proposal well in time so that approved rates will be known to the user before he avails service/ facility from the port.

(ix). In line with the general decision already taken, the rates approved will be ceiling level.

9. In the result, and for the reasons given above, and based on a collective application of mind, this Authority approves the following addition in the Scale of Rates of the CHPT under Category-I in Scale-6 charges for floating craft, appliances, etc., in Chapter-VI - Miscellaneous charges:

Sl. No.	Description	Ceiling rate of hire	Period of hire/unit	Minimum	Remarks
7 (a).	Tugs of 45 BP capacity (for towing charges and lighters and for services other than berthing and unberthing of vessels)	Rs.14,217/- for Coastal vessels/ US $ 441.46 for foreign-going vessels	Per hour or part thereof	--	--

(A. L. Bongirwar)
Chairman

Annex

Statement showing calculation of hire charges for 45T Bollard Power tug (Bharthiar) of the Chennai Port Trust

Capital Cost of the tug		Rs. 20.20 Crores
Life (in years)		20
Available working hours per annum (365*8*3)		8760 hours
Capacity at 75% of the available working hours		6570 hours
Normal working hours per annum		3032 hours
Description	**Amount (in Rs.)**	
Operations Cost		
- Material	13855219	
- Labour	10395504	24250723
Maintenance Cost		
- Material	3000000	
- Labour	1811208	4811208
Storage charges (20% of the material cost of the O&M cost)		3371044
Depreciation		10100000
ROCE at 17.5% adjusted to capacity utilisation of 46.15%		16301400
Total Cost		58834375
Weightage for Foreign-going vessels:Coastal vessels	85 : 15	
Foreign-going vessel vs coastal vessel rate disparity to be maintained	100 : 70	
Total weightage	8500 : 1050	
Total hours of utilisation		3032
Foreign Vessels - No. of hours		2577
Coastal Vessels - No. of hours		455
Foreign-going Vessels		
Total cost		52365674
Rate per hour (considering US$ at Rs.46.03) or part thereof		**$441.46**
Coastal Vessels		
Total cost		6468701
Rate per hour or part thereof		**14216.93**

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/29/2003-CHPT - Proposal from the Chennai Port Trust for fixation of hire charges for new tug 'Bharathiar'.

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

Hindustan Chamber of Commerce (HCC)

Tariff proposed by the CHPT is fair and just based on the cost sheet annexed with the proposal.

The Chennai & Ennore Steamer Agents' Association (CEPSAA)

(i). Based on operational and Maintenance cost including 18.5% ROCE, the hire charge of Rs.30200 with exchange parity of one USD= INR 47 comes to around USD 642.55 for foreign-going vessels; and the coastal tariff thus works out to USD 642.55 x 47x 70% = Rs.21139.89, whereas, the CHPT has taken cost of Rs.30200/- for coastal vessels and extrapolated to 100% for foreign-going vessel, which is notionally wrong.

(ii). As per CHPT calculations even after charging 18.5% towards ROCE, there is an unjustified over charging of Rs.12800/- per hour. The CHPT calculations need to be corrected as the costing will be used in future during the general tariff revision also.

Shipping Corporation of India (SCI)

(i). Basis of arriving at material and labour cost (with reference to the operations and Maintenance cost) have not been explained in detail.

(ii). Nature of supervision charges, calculated at 40%, has not been explained and, the same are deemed to have been included in the labour cost. Even if treated as an indirect cost, 40% is very high. A reasonable and accepted percentage of tariff should be levied after studying the existing practice followed in other Indian Ports. Reasons for calculating supervision charges on material are also not clear.

(iii). Nature and, reason for including storage charges has not been mentioned. The port users cannot pay for inventory carrying costs but it should be absorbed by CHPT from out of its profit element. If go unchecked, huge value of inventory could be piled up and also, it cannot be calculated on the basis of percentage of material but only on cost to cost basis.

(iv). Technical feasibility of economic life expectancy of the tug has to be examined as to whether it can function beyond 20 years also. While calculating depreciation, the estimated salvage value should have been deducted from the initial investment.

(v). It is imaginary to ask for a return on capital at 18.5% for a public trust. Interest and ROC of Rs.3.73 crore is very much on the higher side considering the prevalent borrowing costs and ROC.

(vi). Basis of total hours of utilization calculated at 3032 hours (presumably per annum) is not explained. This reveals that tug will be used for only 8.45 hours per day. It is not mentioned whether idle time for Maintenance of tug has been taken into account while calculating the actual utilization period of the tug during the year.

(vii). The tariff approved by TAMP mentions the pilotage charges to be inclusive of tug used for Inward/Outward pilotage tug charges and one movement inside breakwater of the harbour area from one berth to another at the users request. The charges for additional movements have been mentioned as per rates prescribed. The recommended rate is increased by 24.13% in case of coastal vessels and 28.17% for foreign-going vessels (item 7 of page 101 of Tariff) and, the percentage increase may go up if compared to item 6 of page 101 of tariff.

Container Shipping Lines Association (CSLA)

(i). The high guaranteed return of 18.5% on capital to port trust is unreasonable. If a guarantee must be given as per the requirement of current policy, then it must be set at a much lower, reasonable level.

The Tamil Chamber of Commerce (TCC)

(i). Operations cost is calculated on a very high side; and also, the warranty given by the supplier is not being considered.

(ii). Supervision charges will also be reduced based on the operations cost.

(iii). Hire charge of Rs.30200/- are fixed for the coastal vessels, whereas, the charge for the foreign-going vessels have been increased by 30%. This needs consideration.

Indian National Shipowners' Association (INSA)

(i). Detail/breakup of the material and labour cost for operations and Maintenance is not given, which seems to be very high.

(ii). There should not be any supervision charge on the cost of material. Also, no details of supervision charges of 40% of labour cost is given, which is very much on the higher side.

(iii). Basis of consideration of 20% storage charges is not given. To avoid extra storage charges, the inventory of material should be kept to bare minimum.

(iv). While calculating depreciation, sales value at the end of economic life should be deducted from the initial investment, whereas the CHPT has calculated the depreciation on total cost.

(v). Considering the present day scenario of privatization and low interest rates, the interest and ROC of Rs.3.73 crores is very much on the higher side.

(vi). It is assumed that this tug will be used not only for non-port use but also for port use; and as such, basic hours of utilization of 8.45 hour/day is very much on the lower side.

Also, it is not known whether operation and Maintenance cost has been calculated on the basis of single shift or full day.

(vii). Since such type of tugs are available privately at very much less rates these days, the port should try to cut down its expenses in order to keep the cost to customer at lower level.

2. A copy each of the above comments from the port users was forwarded to the CHPT for information/comments.

3. A joint hearing in this case was held on 7 August 2003 at the Chennai Port Trust premises in Chennai. At the joint hearing the following submissions were made:

Chennai Port Trust (CHPT)

(i). Supply of tugs is included in the composite Pilotage charges. The proposed rate is only for non-pilotage activities.

(ii). We have already revised the rate to maintain the accepted disparity between foreign vessel and costal vessel.

(iii). We are using this tug since 2 August 2001. In the last 2 years, this tug has been used only once for non-pilotage use. In this case also, billing has not yet been made for want of approved rate.

Chennai & Ennore Ports Steamer Agents' Association (CEPSAA)

(i). Concession to costal vessel should be given as per the Government policy.

(ii). Because of this increase, Pilotage rate should not go up.

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