TARIFF AUTHORITY FOR MAJOR PORTS

G. No. – 323 **New Delhi, 3 December 2001**

NOTIFICATION

In exercise of the powers conferred by Section 48 of the Major Port Trusts Act**,** 1963 (38 of 1963)**,** the Tariff Authority for Major Ports hereby disposes of the proposal of the Paradip Port Trust for fixation of tariff for handling coal through its Mechanised Coal Handling Plant as in the Order appended hereto**.**

(S. Sathyam)
Chairman

Tariff Authority for Major Ports

Case No.TAMP/5/2001-PPT

The Paradip Port Trust …….. **Applicant**

O R D E R

(Passed on this 5th day of November 2001)

This case relates to a proposal from the Paradip Port Trust (PPT) regarding fixation of tariff for handling coal through its Mechanised Coal Handling Plant (MCHP).

2.1. The Scale of Rates of the PPT in respect of both vessel-related and cargo-related charges was last revised by this Authority vide its Order dated 10 April 2000.

2.2. In the said Order this Authority had advised the PPT to come up with a separate tariff proposal giving details of costing exclusively for the ADB-assisted MCHP project when it was nearing completion so that a separate tariff for the coal handling could be prescribed.

It was also decided in that case that the Scale of Rates of the Port would be reviewed after a period of one year considering the financial position of the Port as a whole; and, the PPT was to submit the other proposals relating to the estate rentals including rentals for properties in operational area, equipment hire charges and charges for the PPL captive berth.

3.1. At the time of comprehensive revision of tariff for vessel-related and cargo-related charges, the PPT had proposed a rate of Rs.70/- per metric tonne (PMT) for unloading of coal wagons, Rs.110/- PMT for shipment of coal upto 3.5 metric tonne per annum (MTPA) and Rs.100/- PMT for shipment of coal above 3.5 MTPA through the MCHP.

3.2. The instant proposal has been formulated by the PPT in accordance with this Authority's Order dated 10 April 2000 keeping in view the Tamil Nadu Electricity Board (TNEB) as the single largest user of the facility. This proposal was endorsed by the Board of Trustees of the PPT in its meeting held on 22 December 2000. The PPT has furnished the following details in support of its proposal:

(i). The ADB assisted MCHP is set up at a project cost of Rs.865.71 crores and is likely to be completed and commissioned from 1 April 2001. (It is learnt that the date has now been shifted to October 2001)

(ii). The Installed Capacity of the Project is 20 million tonnes and the capacity utilisation for the first two years is envisaged at 60% i.e. 12 million tonnes.

(iii). The cost estimates for the MCHP, furnished only for the year 2001-02 indicate a handling cost of Rs. 210.92 per tonne.

3.3. In this backdrop, the PPT has requested to approve the following rates for handling of coal through its MCHP:

(i).	Unloading of Coal Wagons through Coal Unloading System	Rs.80/- PMT
(ii).	Shipment of Coal through Coal handling Plant	

Upto 7.5 MTPA	Rs.120/- PMT
7.5 – 10 MTPA	Rs.110/- PMT
10 – 12.5 MTPA	Rs.100/- PMT
12.5 – 15 MTPA	Rs.90/- PMT
Above 15 MTPA	Rs.70/- PMT

4. In accordance with the procedure prescribed, the proposal was initially forwarded to the Tamil Nadu Electricity Board and Utkal Chamber of Commerce Industry for comments. The comments received are summarised below:

A. Tamil Nadu Electricity Board (TNEB)

(i). The operational cost will reduce considerably once the bottom opening railway wagon system becomes operative at the MCHP; and, more coal will be handled through the plant increasing the revenue of the PPT.

(ii). It incurs an extra expenditure towards chartering of the Craned Hopper Self Unloading Vessel (CHSU) and Gearless Vessels for transporting coal in Paradip-Ennore Port sector; and, also, on the conveyor system between the Ennore Port and the North Chennai Thermal Power Station.

(iii). The exact loan amount, the rate of interest thereon and the repayment period including the initial moratorium period are not indicated in the calculation of the tariff. The ADB has funded a soft loan of US$ 134.85 millions at an interest rate of 6.34% only to the port; and hence, the tariff should be worked out based on this rate and not at 19.5%, which is very high considering the present PLR of 12% announced by the Nationalised Banks with effect from March 2001.

(iv). The capacity utilisation shall be as per the designed capacity of the MCHP, as this facility will be utilised by other agencies also; therefore, the tariff needs to be worked out based on the full capacity utilisation instead of 12 million tonnes, which is only 60% of the installed capacity.

(v). The working of depreciation needs to be modified to reflect depreciation at 90% of the value of the plant & machinery (i.e.@ 4.5% per annum) instead of 100% value as the balance 10% value is recovered on scrapping of the plant as scrap value.

(vi). An amount of Rs.7 crores provided towards salary and wages seems to be on the higher side considering the manpower requirements in view of the mechanisation and automation.

(vii). An amount of Rs.17.30 crores towards the O & M expenses appears to be on the higher side and may be restricted to the actuals or certain percentage of the capital cost. The actual percentage in these expenses in the modern ports abroad can be a guide for this.

(viii). A special discount must be allowed to the TNEB for effecting large volumes.

B. **The Utkal Chamber of Commerce and Industry (UCCI)** has not sent any written comments so far.

5.1. On a preliminary scrutiny of the proposal, the PPT was requested to furnish additional information/clarification on various points arising out of its proposal. Some of the important queries raised are summarised below:

(i). To indicate and consider the proportionate amount of working capital; and, management and general overheads allocable to the MCHP in the cost statements to avoid cross-subsidisation.

(ii). The Port could not submit proper cost statements for different activities at the time of last general revision of the tariff (April 2000); and, the Scale of Rates was to be reviewed after a period of one year. The PPT was also to submit the other proposals relating to estate rentals including rentals for properties in operational area, equipment hire charges and charges for the PPL captive berth. The reasons for the PPT not proposing any review of these rates so far.

(iii). To indicate the latest position of the issues dealt with in paragraph 18 (ix) of this Authority's Order dated 10 April 2000 relating to the details of the non-statutory expenses that the TNEB may not have to incur on commissioning of the MCHP; and, in paragraph 18(x) *ibid* relating to the issue of surplus labour.

(iv). The reasons for an upward revision in the estimated power expenses from Rs.1220 lakhs (earlier) to Rs.1620 lakhs now.

(v). To eliminate the effect of double counting of interest on loans reflected once as a separate item of cost and again as a part of the capital employed.

(vi). To clarify the reason for considering maintenance dredging expenditure (which is a vessel-related cost) for fixing cargo handling rate.

(vii). To furnish the cost estimates for the next two years following the year 2001-02.

(viii). To clarify the prorata computation of Railway earnings and expenses, as the figure of traffic adopted for computation for the year 1999-2000 is different from that adopted for Port and Dock Income.

(ix). To indicate reasons for continuance of separate rates for handling of coal at IOHP in terms of paragraph 16 (iii) of the TAMP order dated 10 April 2000.

(x). To assess and indicate the resultant savings to TNEB in the vessel-related port charges as well as the standing cost of the vessel; and, other savings on account of better wagon turnaround and shipment by handling coal through MCHP.

(xi). The basis of arriving at different slabs for fixing the proposed sliding slab rates.

(xii). To explore the possibility of linking the proposed rates with performance; and, formulate a suitable efficiency linked tariff scheme.

(xiii). The reasons for reduction in the traffic forecast of 20 million tonnes for the year 2001-02 at the time of general revision to a present estimate of 12 million tonnes.

5.2. The PPT after the joint hearing in this case, submitted detailed replies to the queries raised by us. The important points made by the PPT are summarised below:

(i). The working capital for the year 1999-2000 becomes a negative figure (because of overdue interest liabilities); and hence, it has been considered as nil. Excluding the figure of overdue interest from the Current Liabilities; and, considering a share of Thermal Coal being 44% in the total cargo, the working capital requirement for the MCHP works out to Rs.15.09 crores.

(ii). The power cost has been taken on the basis of present electricity tariff structure.

(iii). Mechanisation will not reduce the manpower immediately. It may take a long time to effect such reduction. Further, transfer of manpower from existing working areas to the mechanised coal project is not possible.

On the basis of the assessment made by the High Power Committee, 609 cargo handling workers and all the bulk handling (C&F) workers will be rendered surplus after mechanisation of the coal handling plant.

A Voluntary Retirement Scheme (VRS) has been introduced by the PPT as per the directives of the Government; and, a similar scheme has also been introduced by the Management Committee for the C&F workers. Only 32 cargo handling workers and 116 C&F workers have opted for the Scheme. The response of the workers is luke-warm on account of the amount of (inadequate) compensation offered under the present VRS. The port has to live with the labour redundancy for some more time.

(iv). Under the new system, the haulage operations will be handled by the Indian Railways; and, the port will get only terminal charges. The Railway (Terminal) revenue at existing rates is considered in the revised calculations.

(v). The coal handling operation may not be shifted to the MCHP and may have to be handled manually and at the IOHP till such time the following are achieved:

(a). Supply of 100% BOBR wagon by the Railway;

(b). Stabilisation of functioning of the mechanised coal plant; and,

(c). Removal of redundant labour.

(vi). The MCHP will improve the efficiency of the port significantly resulting in better wagon turnaround and ship turnaround which will result in lower cost for the MCHP users as well as the port. The initial assessment of volume of cargo to be handled through MCHP was made at 10 MT for TNEB and 1 MT each for APSEB and KPCL. It is, however, not possible to work out the resultant savings on account of increased efficiency at this stage, which shall be possible only after assessing the performance of the plant for about one to two years. Similarly, suitable efficiency linked tariff scheme can be worked out only after assessing the performance of the plant for some time and the volume of coal handled at the MCHP by different users.

(vii). The sliding slabs are proposed in accordance with this Authority's Order dated 10 April 2000; and, there are no financial parameters for arriving at these sliding rates.

(viii). The port has not been able to finalise so far the proposals for revision of tariff in estate rentals and plot rentals in operational areas and equipment hire charges; and, a composite proposal when finalised, will be submitted to the TAMP for approval.

(ix). The projection of 20 million tonnes no longer holds good at present as the TNEB has not entered into any agreement either with the Mahanadi Coal Fields Limited or the port with regard to the quantity of coal to be handled through PPT. The estimates at present stands at maximum of 12 million tonnes out of which 2 million tonnes will be on account of users other than TNEB.

6.1. A joint hearing in this case was held on 4 May 2001 in Paradip. At the joint hearing, the following submissions were made:

Paradip Port Trust (PPT)

(i). The MCHP project was not initiated by the PPT, but TNEB pushed it up in 1986; thereafter the (then) Ministry of Surface Transport pursued it.

(ii). The PPT cannot really be definite about the 'why' and 'hows' of the project.

(iii). We have given various options for 19.5% ROCE at different volumes of traffic; we have no flexibility.

(iv). The TNEB will actually save a lot on non-statutory payments. They need to charter only gearless vessels, there will be substantial savings in that also.

(v). Quicker turnaround results in all round savings on other payments like berth hire, etc.

(vi). The traffic projections are based mainly on the assurances given by the TNEB. These may not fully materialise; we expect to reach 20 MT only after 3 years.

(vii). The payback period is 8 years; and, moratorium period is not available. We can break even only at around 12 MT. Therefore, if the rate is not hiked, we will have a severe cash crunch.

(viii). (a). Mechanical handling of coal shall have same rate, whether handled at IOHP or MCHP. Similarly, the Mechanical handling of iron ore shall also have same rates, whether handled at IOHP or MCHP.

(b). For manual handling of coal and iron ore, there shall be separate rates.

(ix). The removal of coal from the IOHP will affect the earnings at IOHP further. As it is also, it is adverse to us. We will subsequently come up for a revision in the IOHP rate with respect to the overall economies of iron ore handling.

(x). The handling at MCHP will replace 80% of the total labour (employed by the clearing agents) and not, our 20% labour.

(xi). The MCHP will also need personnel to operate it. Our estimate is that it will be around 400. The wage increase is on account of this.

(xii). The IRR at the time of sanction of the project by the Public Investment Board (PIB) was 12.59%, assumed on an investment of Rs.597 crores and traffic of 20 MT; whereas, today the investment is Rs.830 crores and traffic is only 6 MT, IRR will, therefore, be very low.

There is a talk of the NTPC setting up 3 power plants to yield new traffic of 5 MT; but, all this is only a 'plan'; there is nothing concrete.

(xiii). Individual users will be benefited enormously; why can we not get some benefit by raising the tariff.

(xiv). We charge Rs.10/- PMT for local haulage. In the new arrangement the Railway will claim it and we will loose some revenue thereby.

(xv). Let the users pay Rs. 200/- at the MCHP; let them go to a manual handling or let them go to IOHP at MCHP rate.

Tamil Nadu Electricity Board (TNEB)

(i). The PPT tariff must be with reference to its costs and margins and not with reference to the benefits that we will get.

(ii). The IRR shall be worked out with reference to the internal resources only and not with reference to the 'loans'.

(iii). The PPT must distinguish between the debt and equity and give the cost of them separately.

(iv). On what basis the depreciation is calculated on a useful life of 20 years? Why depreciate 100% of the plant. The normal practice is to depreciate only 90% and recover the other 10% after 'scrapping'.

(v). The TNEB has committed for only 11 MT, the PPT has pitched it at 20 MT taking into account the other traffic also. The TNEB cannot be penalised if other customers (e.g. Videocon, Trishakti, NTPC) are not honouring their commitments.

(vi). (a). The TNEB has to pay more to the Mahanadi Coal Fields Limited for giving the coal, this extra cost must also be reckoned with.

(b). The cost of conveyer from Ennore to North Chennai Power Station must also be reckoned with.

(vii). (a). Electricity charges include the charges relating to the power sub-station, which has not yet come up; the costing is therefore, on a higher side.

(b). The assumptions made by the PPT (with respect to electricity consumption based on power requirements of 3KWH for handling 1 MT of coal @ Rs.4.50 per KWH) are on the higher side. Let the PPT revise with respect to the 'actuals' based on the trial runs.

(viii). The operation & maintenance cost (including salary & wages) is assumed at 2.86% of the project cost. The TNEB follows a norm of 2.50% for thermal stations. Why not follow that? 2.86% is very high for this project; even 1.50% should be sufficient. In a port situation, there are no consumables; therefore, 1.50% should suffice.

Utkal Chamber of Commerce and Industry (UCCI)

(i). There must be a win-win situation for all sides.

(ii). The tariff increase must not be based only on savings made by the TNEB. It must be with reference to the rated capacity.

(iii). An overlapping period of 6 months may be recognised as it will not be possible to wind up the old arrangements fully; therefore, there must be a transition time.

6.2. At the joint hearing, the PPT submitted the following documents:

(i). Details of calculation of the handling cost per tonne.

(ii). Details of vessel-related costs; and, the savings that would accrue to TNEB.

6.3. As decided at the joint hearing, the TNEB and the PPT were requested to furnish the following additional information and/or documents:

(i). The TNEB to submit a note about the norms available in the power sector for estimation of the operational and maintenance cost as a percentage of the project cost; and, a note on the savings (to TNEB) cited by the PPT.

(ii). The PPT to submit a note on the surplus labour; and, the steps taken to reduce the idle labour.

(iii). The TNEB and PPT to jointly analyse the results of the trial run for firming up the cost estimates on a realistic basis.

(iv). An agreed note on the transition period to be allowed in cases like this; and, the tariff arrangements for the transition period.

6.4. Also, as decided at the joint hearing, copies of the proposal was also forwarded for comments to the Mahanadi Coal Fields Ltd., the Andhra Pradesh Power Generation Corporation Ltd. and the Karnatka Power Corporation Ltd., being the other concerned users who were not consulted earlier.

7.1. The TNEB has, in addition to furnishing the requisite information and reiterating the points made by it at the joint hearing, stated as follows:

(i). As per clause 1.5(c) of the notification dated 30 March 1992 published by the Ministry of Power, the O&M expenditure in respect of Thermal Power Station including insurance for the full one year after commissioning of the plant are to be calculated on the basis of one of the following alternatives:

(a). at the rate of 2.5% of the actual expenditure of ceiling on capital expenditure provided in the power purchase agreement ;or,

(b). at 2% of the actual capital expenditure of ceiling on capital expenditure provided in the power purchase agreement together with actual expenditure on insurance.

Provided that total of 2% of the actual expenditure on ceiling on the capital expenditure provided in the power purchase agreement and the actual expenditure on insurance shall not exceed 3% on the capital expenditure.

(ii). Since the O&M expenditure for thermal plants includes cost of consumables like acid, chemicals, caustic soda, lubricants besides pay & allowances, and at the MCHP there are no such consumables except the expenditure on establishment which is the major expenditure, the reasonable estimate towards O&M charges will be 1.00% to 1.25% of the total capital cost.

(iii). (a). As regards accrued savings (to TNEB) indicated by the PPT, the TNEB has to incur additional expenditure towards payments to be made to M/s. Mahanadi Coal Fields Ltd., for crushing of the coal to suit the specifications of its plant; and also, there will be loss of coal during the transportation and handling due to its small size, etc. Hence, an expenditure of Rs.21.50 per tonne to be incurred by the TNEB for crushing of coal shall be absorbed in the tariff, as this is mainly to accommodate the specification of the plant rather than the need of the TNEB.

(b). The savings in the railway haulage as pointed out by the PPT may not accrue, as the same amount has to be paid to the Railways. Besides, the Railway may charge a higher tariff for allocating bottom opening wagons.

(c). The other savings indicted are due to the factors beyond the control of the PPT viz. engaging higher capacity vessels, self loading vessels and gearless vessels.

(d). The TNEB has to incur an additional expenditure of Rs.20/- per MT by switching over to the MCHP, if the port charges of Rs.200/- & Rs.160/- as proposed by the PPT and the Ennore Port towards handling of coal are accepted; and hence, there will not be any savings to TNEB by switching over to the MCHP.

(iv). As suggested by the representative of the UCCI at the joint hearing, an overlapping (transition) period of six months may also be considered to accommodate the change from manual to mechanical loading as full utilisation of the MCHP will depend on the other agencies viz. Railways to supply the bottom opening wagons, TNEB to charter high capacity gearless vessels and PPT to complete the balance work in the handling system.

7.2. The PPT has reiterated the points made by it earlier while responding to the queries raised by this Authority; and, at the joint hearing.

8.1. The Karnataka Power Corporation Limited has informed that it has no comments to offer.

8.2. The comments made by the Andhra Pradesh Power Generation Corporation Limited (APPPGCL) are summarised below:

(i). Usually for any estimate the available plant capacity (considered at 60% by the PPT) has to be assumed as 85%; and therefore, it is requested to reckon the plant capacity at 75%, which will result in more attractive handling charge of Rs.168.75 per tonne (as against Rs.210.92 per tonne) for the Thermal Power Stations.

(ii). The Mahanadi Coalfields Limited (MCL) has intended to supply the coal ex-Paradip at Rs.910.92 per tonne i.e. apart from the cost of coal and the transportation charges, it is charging Rs.267.34 per tonne towards handling charge at the PPT as against the handling charge of Rs.200 per tonne levied by the port authorities. Thus the benefit extended to the Thermal Power Stations is limited to Rs.23.52 per tonne only as against the earnings of Rs.67.34 per tonne to the MCL.

The rate charged for handling of coal be restricted to Rs.210.92 per tonne or lesser if the higher plant load capacity is assumed.

8.3. Despite several reminders, Mahanadi Coal Fields Limited has not responded.

9. In the meanwhile, the PPT pleaded for another opportunity of hearing to present various associated issues relevant to the MCHP project. The request made by the PPT was agreed to.

10. A team of PPT officials headed by the Chairman (PPT) met the Chairman of this Authority on 22 October 2001 and presented its case. It also made a written submission

immediately thereafter covering all the points argued by it at the hearing. The written submissions made by the PPT are summarised below:

(i). This is not a tariff fixation case of an ordinary type but one which involves huge investment comprising a substantial loan component and utilisation of savings of the port built over a period of years. The interest amount alone would be around Rs.62 crores per annum.

(ii). Since the result of this tariff fixation is crucial to the financial backbone of the port, it is essential to appreciate the operations of this MCHP closely both from the point of view of principles and realities.

(iii). The installed capacity was envisaged at 20 million tonnes in the proposal submitted to this Authority; however, it is expected that the capacity will not reach 20 million tonnes during the next two years. Significantly, this will not be because of any wilful under-utilisation of capacity by the PPT but, because of absence of supportive infrastructural facilities essential for optimum utilisation of the installed capacity of the MCHP. Though the plant, inaugurated on 11 September 2001 has started operating, the existing capacity installed is substantially less than 20 million tonnes due to the following reasons:

(a). The capacity of 20 million tonnes requires movement of coal of at least 20 rakes a day which is possible only if complete signaling system is in operation. Owing to delay in according approval to the plans/drawings by the Railways, the signaling system has not yet been installed. Installation of signaling system may take about two years, which restricts the movement of trains per day to 12, and hence limiting the installed capacity to 12 million tonnes during the first two years.

(b). The installed capacity of 20 million tonnes is also dependent upon a similar matching capacity for crushing of coal available with the Mahanadi Coalfields Ltd. (MCL); and, the capacity of the rail engines to operate air compression system for in-motion unloading of wagons. Both the MCL and the Railways will take time to introduce such facilities.

(iv). The capacity utilisation projected at 12 million tonnes cannot also materialise as envisaged since the coal linkage to the port continues to be at a level of 8 million tonnes per annum. The diversion of coal, when it does take place, from the VPT will also increase the utilisation to 10 million tonnes only.

(v). In view of these factors, the tariff calculations may be based on the installed capacity of 12 million tonnes and capacity utilisation of 10 million tonnes for the first two years.

(vi). All the users (including the TNEB) are presently spending around Rs.250/- to Rs.270/- per tonne for manual operations besides paying Rs.70/- towards wharfage, which adds up to an expenditure of above Rs.300/- per tonne. The users will still be benefited if they have to pay Rs.200/- per tonne for using the MCHP.

The tariff need be so fixed that both users and the port are benefited.

(vii). The *pro-rata* reduction of the rate of return from 19.5% to 11.7% (by linking return to the capacity utilisation of 60%) will drag the port into heavy losses from the very beginning because the interest payable on loans itself is 13.5% to 14% at the normal rates.

(viii). The decision of the Authority that a separate rate for coal being handled at the Iron Ore Handling Plant (IOHP) may be reconsidered in light of the reasons stated above and the fact that the switchover from conventional wagon to BOBR is actually going to take more than a year. The time limit of two years may accordingly be allowed.

11. With reference to the totality of information collected during the processing of this case, and based on a collective application of mind, the following position emerges:

(i). The PPT had in 1999 proposed a comprehensive tariff revision along with the proposed tariff for handling of coal at its upcoming facility of Mechanised Coal Handling Plant (MCHP). This Authority, while deciding the case in April 2000, advised the PPT to de-link the general revision of tariffs from fixation of rate for handling coal at the new MCHP involving a massive outlay of about Rs.900 crores. At that time, while the PPT could separate the cost figures relating to this project, it could not prepare cost statements for various other activities / sub-activities. The general revision of tariff was, therefore, decided on over-all considerations with break-up between two major groups of tariffs viz., cargo-related charges and vessel-related charges. The Port had also not proposed a revision of Estate Rentals, particularly for properties in operational area, Equipment Hire, and charges for the Paradip Phosphates Limited (PPL) captive berth. The Scale of Rates approved vide this Authority's Order dated 10 April 2000 was to be reviewed after one year considering the financial position of the Port as a whole in the light of these proposals to be submitted by the Port and on the basis of cost statements for various activities / sub-activities.

The PPT has, however, not submitted proposals for general revision of charges based on appropriate cost of rendering services as also proposals for fixing rates for estate rentals, equipment hire, etc. even though the prescribed one-year validity period is over. Recognition of this fact shall not be taken to mean that this Authority has ratified or approved or acquiesced continuance of the approved tariff beyond the validity period.

(ii). The MCHP project which was originally estimated to cost Rs.587.41 crores is now estimated to cost Rs.831.11 crores as per the approved revised cost estimates and the completion cost is expected to be Rs.865.71 crores. The project is partly financed from the ADB loan assistance and partly from port's own resources. The project was commissioned on 11 September 2001. Though the trial runs have already taken place, it is understood that the project shall take some time to become fully operational.

As admitted by the PPT, this project is a 'new project for old cargo'. The PPT indirectly expressed its inability to explain the economics of the project. Apparently, this project does not immediately result in additional cargo or reduction in operating expenditure. Distressingly, this project is going to compound the problems of labour redundancy already faced by the PPT.

This Authority has no jurisdiction over the investment decisions of the major port trusts. Ironically, it has to reckon with such investments while approving tariff for such newly created facilities. In the instant case, the traffic projections considered at the time of project planning and approval appear to be very optimistic and far from the reality. Since the traffic projections are not going to materialise at least in the near future, the huge project cost will cast a heavy burden on the existing cargo which will be shifted to the newly created facility.

(iii). The MCHP project envisages creation of a capacity of 20 million tonnes for handling thermal coal. The PPT has, however, argued that this capacity is only theoretical, since synchronisation of integrated developments in the railways, MCL, etc., have not been achieved. The PPT has clearly brought out the handicap faced by the MCHP due to non-availability of railway signaling system, non-introduction of required capacity engines to operate air compression system and a mismatch of crushing capacity available at the coal fields. It is true that the PPT has already invested in facilities to create a capacity of 20 million tonnes. Tariff to be fixed has to reckon with the investments made. At the same time, it is also equally true that the MCHP in a stand-alone mode cannot reach its maximum capacity. The feeder system also requires to gear up to handling coal to the capacity of the PPT's plant. As has been pointed out by the PPT, the capacity under utilisation of the MCHP is not a wilful decision of the Port; but, is a situation forced on it. Further, the PPT has not requested for reckoning with the capacity of the plant at 12 million tonnes forever. It has indicated certain time limits for development of the associated facilities. Till such facilities are developed, the PPT's request is to consider the capacity of the plant at 12 million tonnes only for the first two years. We find this request of the PPT to be reasonable; and, accordingly, we accept it.

(iv). Right from the beginning of processing of the PPT's proposal for general revision of tariff, this Authority has always expressed doubts over the estimate of capacity utilisation of the MCHP. The PIB Note (for revised cost estimates) shows a traffic projection of 7.5. million tonnes for 2000-01; 13.5 million tonnes for 2001-02, 14.35 million tonnes for 2002-03 and 20 million tonnes thereafter. The minutes of the pre-PIB meeting held in September 1999 show that the (then) Ministry of Surface Transport had clarified that the Ministry of Coal had assured that there would be adequate demand for coal and, therefore, facilities created would be utilised.

The PPT had earlier assumed traffic at a level of 12 million tonnes for the year 2001-02 to 2003-04 which it has subsequently revised downwards to 10 MT per annum. The major user of the facility, the TNEB has indicated that its commitment is only for 11 million tonnes in the overall 20 million tonnes and 7 million tonnes in the initial phase. Considering the contribution of TNEB of 7 million tonnes in the initial phase, even the revised traffic projection of 10 million tonnes made by the PPT appears unrealistic. Since this is a new facility, we do not have the opportunity of analysing the past trend of traffic handled; also, significantly, as the project envisages diversion of traffic from some other ports.

The entire costing (except capital cost) for this project is based on estimates. In the absence of any other data for cross-verification, the estimates provided by the Port Trust are inevitably to be relied upon. Accepting the estimates provided by the port, if results in any undue advantage to it, a suitable adjustment in tariff will be made in future accruals. In the light of this position emerging, there seems to be no reason for not accepting the revised estimates of reduced traffic (which only appears to be on the higher side), furnished by the PPT.

As has already been mentioned, the revised traffic projection of 10 million tonnes appears to be very optimistic. In view of the commitment of TNEB in the initial phase and possible diversion of traffic from the VPT, it may perhaps be realistic to consider an estimated traffic of around 8 million tonnes only in the initial phase. If the capacity of the MCHP is taken at 12 million tonnes and the traffic projection at 8 million tonnes, the resultant tariff will be at a higher level. Even though in this situation the return on capital employed gets reduced due to lower utilisation factor, the fixed cost gets distributed over the traffic of only 8 million tonnes thereby pushing the unit cost to a higher level. As has already been explained, we are inclined to accept the traffic estimates provided by the PPT at 10 million tonnes.

(v). This Authority is presently allowing an ROCE of 19.5% in the case of major port trusts. It is to be recognised that the ROCE of 19.5% is for assets, which are utilised nearly to their capacity level. A port cannot seek to maximise return on investment when capacity created is under-utilised. In the instant case, the (revised) capacity is 12 million tonnes and estimated utilisation is around 10 million tonnes. This means a capacity utilisation of around 83%. That being so, the return on capital employed can be allowed only *pro rata* with reference to the capacity utilisation.

(vi). The estimated Income from Port & Dock Charges for the years 2001-02, 2002-03, and 2003-04 is computed by the PPT on the basis of actuals for 1999-2000 and does not take into account the additional income (arising from dollar-denominated tariff) on account of likely fluctuation in foreign exchange rates. This increase needs to be taken into account at 3% for 2000-01, 6% for 2001-02, and 9% for 2002-03.

(vii). The Port has stated that Railway Income under the new system will be only from Terminal Charges as haulage will be done by the Indian Railways. In view of this, railway cost to be apportioned to this sub-activity shall also exclude the cost incurred for haulage, viz., operation & maintenance and depreciation of locomotives and wagons.

(viii). With regard to the observations about cost of power, the PPT has clarified that they have computed it on the basis of prevailing electricity tariffs. Since results of the trial runs are not available the assumptions made by the Port regarding power requirements have been accepted for this exercise.

(ix). The Tamil Nadu Electricity Board (TNEB) has commented about higher Repairs and Maintenance cost and Salaries & Wages. They have suggested that the norms prescribed for the Thermal Power Projects be adopted with suitable modifications. The PPT has computed cost at 1% of capital cost for civil work, 7% of capital cost for mechanical works and marine craft as is normally done by the Ports. Since assets used in a Thermal Power Plant and in a Port Project are of different nature, the practice followed by the PPT is being accepted for this exercise in the absence of any indication about the actual cost.

(x). The PPT has computed depreciation taking average life of civil structures as 40 years and mechanical equipment / structures as 20 years. Depreciation of capital assets in tariff calculation in the case of major ports is considered on a straight-line method following the life norms prescribed by the Government. There is no provision for recovery of scrap value at the end of the life of the assets. This practice is followed uniformly by all major ports including the PPT. That being so, the objection made by the TNEB in this regard cannot be accepted to make a deviation only for the PPT and in the case of only one of its facilities.

(xi). The TNEB has suggested to distinguish between debt and equity for the purpose of allowing return on investment. The suggestion is to decide the quantum of return on the basis of sources of funds. This Authority adopts this method of allowing return on investment in the case of private terminal operators at the major ports. In the case of the major ports, a fixed rate of return is allowed on the capital employed without distinguishing the sources of fund. This Authority has already decided to review the existing system of allowing return on capital employed in the case of major port trusts. It is needless to mention that the existing system has to continue till such a review is completed and an alternative methodology is prescribed, if found necessary. Since it is not possible to adopt a different rate of return only in respect of the PPT, the suggestion of the TNEB cannot be accepted in the instant case.

(xii). As has already been mentioned, the MCHP project is partly financed from ADB loan assistance. The ADB loan assistance is passed on to the PPT in the form of Govt. of India loan which carries an interest rate of 13% / 14%. That being so, the position reported by the TNEB that the PPT gets a soft loan from the ADB is not correct.

Double counting of interest on the loan, considered once in the expenditure to arrive at the net surplus and again as a part of the return on capital employed, has been eliminated.

The PPT's apprehension about cash flow problems on account of interest payable on loans because of a reduction in the capital employed figure allowed is, perhaps, due to an incorrect appreciation of the costing method followed by us. In the pricing methodlogy adopted the entire estimated interest payment is allowed as a cost element. The reduction in return on capital employed may not, therefore, pose any cash flow problems. Because of a reduction in the total return on capital employed which includes debt and own sources of capital, the return to be received on own sources of capital may be less than (even) the reduced level allowed due to the fact that the cost of debt capital has been allowed without any reduction.

(xiii). The Working Capital (i.e., Current Assets minus Current Liabilities) is a negative figure for the year 1999-2000. The PPT has taken the Working Capital at Rs.15 crores on a *pro rata* basis after excluding overdue interest liabilities from the Current Liabilities. If the accrued interest figure is also likewise excluded from the Current Assets, the Working Capital will be a negative figure. The Working Capital to be included in the Capital Employed for computing 'return' has, therefore, been taken as 'nil'.

(xiv). The PPT has indicated that the TNEB will save some non-statutory expenses incurred at present while handling coal either manually or at the IOHP; and, therefore, the tariff proposed for MCHP will not really push up TNEB costs. The details thereof furnished by the PPT have been disputed by the TNEB. The TNEB has furnished its own figures of comparative cost of movement of coal to their Power Plant (i) with the existing facilities at the PPT through the Chennai Port and (ii) with the new MCHP at the PPT through the Ennore Port assuming, *inter alia,* the proposed rate of Rs.200/- PMT at the PPT and Rs.160/- PMT at the Ennore Port. The TNEB may be correct in its own way to consider the saving in the total cost to it; however, these are not new factors and were envisaged when the project was taken up. From the PPT's point of view the emphasis is on savings in cost incurred by the TNEB at the PPT.

This Authority has no jurisdiction over the rate for coal handling that may be finally fixed at the Ennore Port; however, on the basis of the rate for the MCHP at the PPT now being considered reasonable, there will be some saving to the TNEB in its total cost on the basis of their own calculations furnished.

It is relevant here to mention that tariff determination is with reference to the cost incurred by the Port in providing services. It cannot be only dependent on the savings accrued to the users. At the same time, the argument of the users that savings accruing to them shall have no relevance while fixing tariff for the Port project is not tenable, as it is due to this project only that savings will accrue to them. In any case, this proposal of the PPT is based on its costs of operating the MCHP. Its observations about the savings to the TNEB are only to be taken as incidental observations.

(xv). Subject to the analysis given above, the cost statement has been modified. The modified cost statement is annexed. The cost statement discloses the following position at different levels of tariff:

TARIFF (Rs / tonnes)	**2001-02 (Rs. in lakhs)**	**2002-03 (Rs. in lakhs)**
	Surplus (+) / Deficit (-)	Surplus (+) / Deficit (-)
190	-1924.13	-1880.19
200	-924.13	-880.19
210	+75.87	+119.81

(xvi). While considering the proposal for general revision of tariffs at the PPT in April 2000, it was noticed that the port had 1426 cargo handling workers administered under the 'Cargo Handling Scheme of 1979'. The average employment of these workers was reported at 8 days per month in 1999-2000 and that it would further reduce to 2-3 days per month after commissioning of the MCHP. The PPT had also clarified that the service conditions of these workers were formulated separately; but, like regular employees these workers were being paid monthly wages irrespective of the number of days of engagement and were also eligible to other service and retirement benefits. As reported by the PPT, the High Power Committee appointed by the Supreme Court of India had ascertained (in 1993) a surplus of 403 workers prior to commissioning of MCHP and estimated a surplus of another 609 workers after commissioning of the MCHP. While the PPT is persuading more workers to opt for VRS, it will inevitably have to live with the labour redundancy for some more time. This issue calls for serious attention of all concerned for urgent remedial action. Nevertheless, it will not be reasonable for this Authority to interminably load the labour redundancy cost on to the tariffs.

Strictly speaking, the cost of labour, which is actually deployed only for coal handling must be considered for fixing the tariff thereof. The ground reality of idle labour cannot, however, altogether be wished away. The issues of surplus labour and allocation of cost thereon were examined more pointedly by this Authority in a case relating to handling of Manganese ore at the Visakhapatnam Port. In that case, it was found that it would be appropriate to spread the cost of surplus labour over the entire cargo traffic. The same position holds good in the case of PPT also.

(xvii). The PPT has considered salaries and wages expenditure of Rs.12.20 crores for a manpower strength of 678 for this project as assessed by its consultants. After mechanisation of coal handling, the requirement of labour can reasonably be expected to come down drastically, which will result in a reduction in the salaries and wages expenditure. The PPT has indicated that 80% C&F labour will only be rendered surplus and the port labour constituting 20% will remain. The cost of surplus labour has not been furnished by the Port. It is relevant here to mention that the PIB Note considered at the revised cost estimate stage has indicated a requirement of 307 posts for project implementation. Against this, only 80 posts have been sanctioned by the Government. At the joint hearing, the PPT has given an estimated requirement of 400 personnel to operate the MCHP. This indicates that the manpower requirement for the MCHP is not yet firmed up and there is still uncertainty over the requirement of manpower. This means the estimate of employee cost given in the cost projection for this project is not fully realistic.

(xviii). Considering the available cushion in the manpower cost estimates as indicated in para (xvii) above, and the fact that the entire analysis is based on estimates, it is found reasonable to consider a tariff of Rs.200 per tonne as proposed by the PPT evengthough cost analysis indicates a deficit at this tariff level. The breakup of tariff between unloding of coal wagon and shipment of coal as well as the volume discount scheme as proposed by the PPT is also found to be reasonable and approved. The volume discount will, however, apply if the volume handled by a single user in a year falls within the limits prescribed.

(xix). The TNEB has demanded a special discount for its cargo considering it as the single largest user of the facility. The volume discount scheme built in the tariff structure will provide the necessary incentive to users depending on the annual throughput achieved by them.

(xx). Normally, this Authority allows a tariff validity cycle of 2 years. In the instance case, however, the tariff fixed is based on estimates of costs and not backed by any actuals. Although the PPT was advised to firm up the estimates on the basis of results of trial runs, it has not been able to do so. Under these circumstances, the rates for the MCHP now approved are allowed to remain valid only for one year. The position will be reviewed in the light of actuals for the year 2001-02.

(xxi). This is a case of 'new project for existing cargo' justified on better performance. It is, therefore, necessary to link the tariff to the performance. The PPT has stated that unless the new facility becomes fully operational, it will be difficult for it to assess the savings and, propose an efficiency-linked tariff scheme at this stage. One of the items of savings to the TNEB indicated by the Port is, however, in vessel-related charges on account of size/frequency of vessels handled. That being so, it is reasonable to consider an efficiency linked tariff arrangement with the vessel's turnaround time as the performance parameter. The PPT is advised to come up with a well-refined efficiency linked tariff scheme, in the light of the experience gained, within a period of six months after commissioning of the MCHP. The ELT Scheme in operation at the Mechanical Ore Handling Plant of the Mormugao Port Trust may serve as a guide in this regard.

(xxii). At the Iron Ore Handling Plant, at present, there is one rate for (mechanical) handling of iron ore and another rate for (mechanical) handling of coal. Though this arrangement was untenable, this was allowed to be continued on the following considerations:

(a). This was the existing practice.

(b). The only user concerned viz., the TNEB, was agreeable to continue with this practice.

(c). The PPT assured to do away with this anomaly as soon as the new MCHP was commissioned.

Since the new MCHP has been commissioned and a separate rate has been proposed for handling coal at this Plant, the separate rate for (mechanical) handling of coal at the Iron Ore Handling Plant (IOHP) needs to be deleted. However, both the PPT and the TNEB have stated that traffic cannot be fully diverted to the MCHP immediately and coal is required to be handled (mechanically) at the IOHP also during a transition period. An agreed note on the transition period, as decided at the joint hearing, was to have been presented. Unfortunately, it has not been received so far. The UCCI and the TNEB have suggested a transition period of six months. The PPT has, however, for stated reasons, requested to allow a transition period of two years. As the reasons given by the PPT appears genuine and recognising the fact that users will pay less at the IOHP than at the MCHP (at the proposed tariff level), this Authority is willing to approve the proposal of the PPT to allow a transition period of two years. If the PPT considers it fit to revise the rates for the IOHP (particularly, in view of shift of thermal coal to the MCHP) it may come up with an appropriate proposal.

12. In the result, and for the reasons given above, and based on a collective application of mind, this Authority approves the following:-

(i). The rates for handling of coal through the MCHP at the PPT shall be as under:

Sl. No.	**Item**		**Rate Per Metric Tonne**
1.	Unloading of coal wagon through the coal handling system		Rs.80/-
2.	Shipment of coal, through coal handling plant -		
	(a).	Upto 7.5 million tonnes	Rs.120/-
	(b).	From 7.5 million tonnes – 10 million tonnes	Rs.110/-
	(c).	Beyond 10 million tonnes	Rs.100/-

Note: The rates at 2 (b) & 2 (c) above will apply if traffic of a single user in a year exceeds the slab limits.

(ii). These rates shall be valid for a period of one year; they will be reviewed in the light of actuals for the year 2001-02

(iii). The existing practice of applying different rates for (mechanical) handling of iron ore and coal at the IOHP during the transition period of two years from the date of commissioning of the MCHP is allowed to be continued.

(iv). The PPT is advised to formulate within six months an efficiency linked tariff scheme for the MCHP.

13. The PPT is directed to amend its Scale of rates accordingly.

14. This Order will come into effect on expiry of 15 days from the date of its notification in the Gazette of India.

(S. Sathyam)
Chairman

Annex

Cost statement for the Coal Handling Project

(Amount -Rs.in Lakhs)

Sl. No.	Description	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03
(I).	Installed Capacity	**12**	**12**	**12**	**12**	**12**	**12**
(II).	Traffic (Million Tonnes)	**10**	**10**	**10**	**10**	**10**	**10**
(III).	**Capacity utilisation**	**83%**	**83%**	**83%**	**83%**	**83%**	**83%**
(IV).	Tariff (Rs./Tonne)	**190**	**190**	**200**	**200**	**210**	**210**
(V).	**Operating Income**						
	(i). Cargo Handling Storage	18,750.00	18,750.00	19,750.00	19,750.00	20,750.00	20,750.00
	(ii). Port & Dock Charges	3,710.00	3,821.30	3,710.00	3,821.30	3,710.00	3,821.30
	(iii). Railway Earnings	1,215.00	1,215.00	1,215.00	1,215.00	1,215.00	1,215.00
	(iv). Estate Rentals	0.00	0.00	0.00	0.00	0.00	0.00
	Total (V)	**23,675.00**	**23,786.30**	**24,675.00**	**24,786.30**	**25,675.00**	**25,786.30**
(VI).	**Operating cost**						
	(i). Salaries & Wages	1,220.00	1,342.00	1,220.00	1,342.00	1,220.00	1,342.00
	(ii). R & M	2,594.50	2,724.23	2,594.50	2,724.23	2,594.50	2,724.23
	(iii). Power	1,350.00	1,390.50	1,350.00	1,390.50	1,350.00	1,390.50
	(iv). Port & Dock Charges	1,962.11	2,060.21	1,962.11	2,060.21	1,962.11	2,060.21
	(v). Railway	498.75	523.69	498.75	523.69	498.75	523.69
	Subtotal	7,625.36	8,040.62	7,625.36	8,040.62	7,625.36	8,040.62
	(vi). Depreciation	3,257.00	3,257.00	3,257.00	3,257.00	3,257.00	3,257.00
	(vi). F & M Expenditure - Ret.benefits/Ex-gratia/PLB	156.40	172.04	156.40	172.04	156.40	172.04
	Total (VI)	**11,038.76**	**11,469.66**	**11,038.76**	**11,469.66**	**11,038.76**	**11,469.66**
(VII).	**Surplus (V-VI)**	**12,636.24**	**12,316.64**	**13,636.24**	**13,316.64**	**14,636.24**	**14,316.64**
(VIII).	Management & Gen. Overheads	1,636.00	1,799.60	1,636.00	1,799.60	1,636.00	1,799.60
(IX).	**Net Surplus**	**11,000.24**	**10,517.04**	**12,000.24**	**11,517.04**	**13,000.24**	**12,517.04**
(X)	Interest on loans	6,916.00	6,116.00	6,916.00	6,116.00	6,916.00	6,116.00
(XI)	**Net Surplus after interest**	**4,084.24**	**4,401.04**	**5,084.24**	**5,401.04**	**6,084.24**	**6,401.04**
(XII)	Capital Employed	79,854.00	76,597.00	79,854.00	76,597.00	79,854.00	76,597.00
	(a). Return on Capital Employed (83% of 19.5%)	12,924.37	12,397.22	12,924.37	12,397.22	12,924.37	12,397.22
	(b). Less interest	6,916.00	6,116.00	6,916.00	6,116.00	6,916.00	6,116.00
(XIII)	**Net Return allowed (XIIa-XIIb)**	**6,008.37**	**6,281.22**	**6,008.37**	**6,281.22**	**6,008.37**	**6,281.22**
(XIV).	**Net Surplus after intt. & return (XI-XIII)**	**-1,924.13**	**-1,880.19**	**-924.13**	**-880.19**	**75.87**	**119.81**
(XV).	**Net surplus as a % of Cargo Handling & Storage Income**	**-10.26**	**-10.03**	**-4.68**	**-4.46**	**0.37**	**0.58**

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