

File No: 2/10/2020-PPP
Ministry of Finance
Department of Economic Affairs
Private Investment Unit

North Block, New Delhi
Dated 27th December, 2021

OFFICE MEMORANDUM

Subject: Record of Discussions of 106th Meeting of PPPAC to consider the project proposal of development of Sonnagar - Gomoh Section (261.3581 Km) of Eastern Dedicated Freight Corridor (EDFC) on Hybrid - Design, Build, Finance, Operate, Maintain and Transfer (Hybrid-DBFOT Model) on PPP mode– reg.

The undersigned is directed to enclose a copy of the minutes of the 106th Meeting of the PPPAC held on 13th December, 2021 under the Chairmanship of Secretary (EA) for information and necessary action.

2. This issues with the approval of competent authority.

Encl: As above



(Dr. Molishree)

Deputy Secretary to the Government of India

To

1. Chairman and CEO, Railway Board
2. Finance Secretary & Secretary, Department of Expenditure, North Block, New Delhi
3. CEO, NITI Aayog, Yojana Bhawan, New Delhi
4. Secretary, Department of Legal Affairs, Shastri Bhawan, New Delhi

Copy to:

1. Sr. PPS to Secretary (EA)
2. Sr. PPS to JS (ISD)

Record of Discussions of 106th Meeting of PPPAC to consider the project proposal of development of Sonnagar - Gomoh Section (261.3581 Km) of Eastern Dedicated Freight Corridor (EDFC) on Hybrid - Design, Build, Finance, Operate, Maintain and Transfer (Hybrid-DBFOT Model) on PPP mode.

The 106th Meeting of PPPAC chaired by Secretary, DEA was held on 13th December, 2021 at 4:00 PM to consider the project proposal of development of Sonnagar - Gomoh Section (261.3581 Km) of Eastern Dedicated Freight Corridor (EDFC) on Hybrid - Design, Build, Finance, Operate, Maintain and Transfer (Hybrid-DBFOT Model) on PPP mode. The list of attendees is annexed (**Annexure-I**).

Project: Development of Sonnagar - Gomoh Section (261.3581 Km) of Eastern Dedicated Freight Corridor (EDFC) on Hybrid - Design, Build, Finance, Operate, Maintain and Transfer (Hybrid-DBFOT Model) on PPP mode.

Estimated Project Cost (EPC): Rs. 9,751 Crore

Concession Period: 35 years (including 5 year construction period)

Fixed Grant: Rs.3,200 Crore

1. On behalf of the Chair, JS, ISD welcomed the attendees to the meeting. The PPPAC was informed that the project proposal for development of Sonnagar - Gomoh Section (263.705Km) of Eastern Dedicated Freight Corridor (EDFC) on Design, Finance, Built and Transfer - Annuity Model was considered by the Public Private Partnership Appraisal Committee (PPPAC) in its 101st Meeting held on 18th March, 2021 and it was opined that the proposed model and the concession agreement, as presently formulated, are more akin to an EPC contract with annuity payments - with only the construction obligation vesting with the private partner and various other provisions of concessionaire obligations etc. being analogous to risks and rights framework of an Engineering, Procurement and Construction contract rather than a PPP concession agreement. PPPAC, hence, directed DFCCIL to redesign, re-work and restructure this project on PPP Mode and then submit the revised proposal for consideration of the PPPAC. The present proposal is submitted by the Dedicated Freight Corridor Corporation of India Ltd. (DFCCIL)/ Ministry of Railways (MoR) accordingly.
2. PED, MoR explained that in this proposal there is no separate RFQ stage and the bidding is single stage two envelop bidding. He further said that the M/oR has submitted the RFP and DCA which has been examined by the members of the PPPAC and recommendations / suggestions received from various PPPAC members have been agreed to by M/o Railways except those which are flagged

in today's discussion. Therefore, the MoR requested that the PPPAC may give its "In-Principle and Final Approval" simultaneously.

3. JS, ISD informed the PPPAC that earlier also in its 85th, 98th and 100th Meetings, PPPAC had given "In-Principle and Final Approval" simultaneously and recommended the projects for approval of competent authority. Representative of NITI Aayog said that the RFP and DCA required to be submitted for "Final Approval" of the PPPAC have already been submitted by the M/o Railways and examined by the members of the PPPAC and since the instant project proposal is on single stage two envelope bid mechanism, there will not be a separate RFQ stage. Upon request of the M/o Railways, the PPPAC decided, for the reasons explained above, to consider the proposal for "In-Principle and Final Approval" simultaneously. Thereafter, M/o Railways/DFCCIL was invited to make the presentation to the PPPAC.
4. DFCCIL informed that Indian Railways (IR) has one of the largest rail network system in the world. The quadrilateral linking 4 metros – Delhi, Mumbai, Chennai and Howrah (Kolkata) (the quadrilateral and 4 diagonal) consist of 16% of the total route kilometers of IR but carries 52% of passenger and 58% of freight traffic. This has led to saturation of railway system in terms of line capacity utilization on these corridors. With the dedicated freight corridors, IR aims to bring about a paradigm shift in freight operation with prime objective of reduction in unit cost of transportation with higher speed of freight trains, better turnaround of wagons and thereby much improved ton-km per wagon day, increased pay load to tare ratio by introduction of higher axle load wagons on rail network, improved locomotive utilization and improved specific fuel consumption.
5. DFCCIL informed that the existing capacity utilization of Kolkata – Delhi corridor varies between 115% to 150% and upward economic growth is adding more traffic to the system and creating further congestion. Traffic on Eastern Corridor is slated to up from 52 MT in 2005-2006 to 144 MT in 2021-2022. Necessary infrastructure needs to be urgently created to facilitate movement of a much higher level of freight to support nation's growing economy.
6. DFCCIL informed that this burgeoning demand led to the conception of the DFC's along the eastern and western routes. The approved phase of DFC plan covering a length of 3,360 km comprises construction of DFC spanning from Mumbai to Dadri (NCR) (Western DFC) and from Ludhiana to Dankuni (near Kolkata) (Eastern DFC).
7. The Sonnagar - Gomoh section of EDFC is planned to be implemented through PPP mode as contemplated by Ministry of Railways. Sonnagar - Gomoh section (261.358 Km) (Phase-I) of Dankuni- Sonnagar section (536 Km) is proposed to be undertaken on PPP basis as per the Budget Announcements for 2021-22.

The Dankuni- Sonnagar section is part of larger EDFC from Dankuni to Ludhiana and Khurja - Dadri section.

8. DFCCIL further informed that funding towards construction costs is to be done by Concessionaire, except for Land, Utility Shifting, Survey expenses, Mechanical Engineering and other such costs which are to be borne by the Authority. The grant component was fixed as a percentage of the Estimated Project Cost as estimated by the Authority and was to be disbursed as per a discounting formula. Total Construction Cost of the project at FY 2028 level (including Grant, IDC & Financing fee) is Rs.9,369 Crore. (including Fixed Grant). Further, funding towards Mechanical Engineering, Cost of Independent Engineer as PMC, cost of Electrical Engineering Works and Contingency will be financed through Extra Budgetary Resource by Authority (including IDC) at FY 2028 level is estimated to be Rs. 914.58 Cr. Thus, total Estimated Project Cost (cumulative for concessionaire and Authority) was around Rs.10,283 Crore. However, as per the suggestions of the PPPAC Members, now the grant component shall be stated in absolute terms in the Concession Agreement to the tune of Rs.3,200 Crore and disbursed in five equal instalments during construction period based on milestones. This has resulted in reduction in overall project cost due to reduction in IDC component to the tune of approx. Rs.532 Crore. Thus, the overall project cost is now Rs.9,751 Crore with Concessionaire share of Rs.5,637 Crore and Authority share of Rs.4,114 Crore.
9. DFCCIL also informed that the appraisal of PPPAC members has been received and all comments have been duly answered.
10. The Chair then invited PPPAC Members for any further comments and with the permission of the Chair, the following issues were then raised: -
 - i. DEA observed that the Availability Payments to the Concessionaire are based on no. of hours per day availability of rail system and also on the minimum average speed of each freight train operated on the project (Schedule H). Since responsibility of running of trains on the tracks is that of the IR, it may be clarified as to how the average speed of the freight trains will be maintained by the Concessionaire.
 - ii. DEA further stated that in the present formulation, there appears to be no upper cap prescribed for the Availability Payment. In case the Annual Availability Payment as determined through bid (summation of Availability Payment per day for 365 days) exceeds the total revenue share of the Authority, then the Authority may end up paying more to the Concessionaire than it actually earns resulting in net negative cost to the Authority. Hence, it may be clarified whether the Authority will accept such a bid also.

- iii. NITI Aayog observed that once PPPAC recommends the project proposal to the competent authority, Ministry of Railways can start with the RFP process while the CCEA approval can be taken in parallel.
- iv. NITI Aayog also raised the issue that construction time for the project has been considered as 5 years which may be reviewed in the context of private sector efficiencies. Further, since in the instant case more than 95% of land required is already in possession of the Authority, hence, there may not be any delays on that account. It may, therefore, be considered to reduce the construction timeline so as to pass on the benefit of efficiency in construction to the concessionaire in the form of longer concession period.
- v. NITI Aayog also stated that the Availability Payment to the Concessionaire is dependent on the availability of the rail system. Therefore, it needs to be carefully examined and established how the non-availability of any one particular block section while others being available will be accounted for in calculating the Availability of the Rail System.

11. The Chair then raised the following issues: -

- i. Are there any intermediate connections between existing IR track and new track of DFC being constructed on PPP mode? What is the capacity utilization of existing parallel Indian Railways (IR) track and whether 100% of freight trains will move on the PPP section of EDFC? It was also observed that part commissioning of the project, even when the entire PPP project section is not ready for O&M, should not lead to further congestion.
- ii. A longer period of 8 months is being considered from the date for floating of RFP till the date of issuance of LOA. However, the standard timeline for the same is 60 days – 90 days. Further, as per the project documents, Stage I forest approval is available while Stage II clearance may take a year. Therefore, with Stage I, can Authority go for undertaking the RFP process, further expediting the process.
- iii. Whether the Concessionaire requires Authority approval of project designs? If so, specific timelines for the Authority approval of the drawings and design should be provided to avoid unnecessary delays. Also, how the independent engineer for the project will be appointed and whether the decision of Independent Engineer is binding on both the parties or they can still go for arbitration?
- iv. Who will pay for the traction power? Also, availability payment of Rs.1,200 – Rs.1,300 Cr per annum considering the Concessionaire will receive Rs.3,200 Cr as Grant from the Authority and first year O&M expense being Rs.150 Cr may be reassessed. Equity Return of 16% may be reconsidered in the light that the interest rates in the past 5 years have been decreasing.

- v. In the project, a minimum of 20-hour availability of the track is being considered. This gives Concessionaire 4 hours of maintenance period. Also, KPI of 80% of booked speed is also a relaxed KPI. These may be reassessed for reducing the maintenance block.

12. MoR/ DFCCIL submitted the following responses in this regard: -

- i. The Concessionaire is responsible for maintenance of all assets, signaling etc. and it may not be possible for trains to operate at the booked speed if the Concessionaire is not doing the needful. Hence, the KPIs for the computation of the Availability Payment being paid to the Concessionaire is based on the availability of the section and average booked speed.
- ii. While estimating the Project Returns for the Concessionaire and Authority, due care has been taken while projecting traffic and financial assumptions. In addition, this is the first project of Dedicated Freight Corridor with first such large scale foray of MoR in PPP mode and the prospective bidders may have different stipulations regarding the financial assumptions. Therefore, no upper cap is needed to be provided for the Availability Payment. The MoR will take appropriate decision in case of bids with unreasonable Availability Payment requirement.
- iii. The CCEA approval would be required before the RFP process as the project is not sanctioned separately.
- iv. The construction period of 5 year has been assessed based on various factors and stakeholder consultation and has been found reasonable. However, it will be reassessed by DFCCIL.
- v. The availability of the rail system will be considered separate for UP and Down Line. In case of any failure on any of the lines, the system would not be considered as available, and the Availability Payment will be estimated accordingly. The same has been clearly defined and illustrated in the DCA.
- vi. The connection between the EDFC PPP section and parallel Indian Railway Track will be provided through the 4 junction stations. The capacity utilization of existing Indian Railways Track running parallel to the EDFC PPP section is in the range of 150%. Indian Railways will transfer the 100% of the freight traffic due on the Freight Corridor. This 100% of the due freight traffic will comprise of rakes which are moving based on two junction principles. Part Commissioning for the PPP section is being provided only for Sonnagar-Koderma and Koderma-Gomoh section. This will benefit both Concessionaire and Authority since Koderma is the major junction station for movement of coal rakes.
- vii. After getting Stage-I clearance, working permission may be granted by the State Govt. as per guidelines issued by MoEF & CC vide letter No. 11-306/2014-FC dated 28.08.2015. Hence, timeline of floating of RFP would be

reassessed accordingly. The longer period of 8 months considered from the date for floating of RFP till the date of issuance of LOA will be relooked and will be revised suitably.

- viii. The Concessionaire is required to take approval of the Authority for designs of bridges, RFOs, viaduct, tunnels etc. The Concessionaire may also use the approved drawings of DFC and standard drawings of RDSO to further reduce the approval timelines of such drawings. Timelines for the Authority approval would be clearly specified. The Independent Engineer for the project will be selected based on the conditions as provided in the Draft Concession Agreement. The cost of Independent Engineer will be borne by both Authority and Concessionaire. Suitable mechanism is available in the DCA in case decision of Independent Engineer is not acceptable to any parties.
- ix. The provision of traction power is in the scope of Authority. It will be supplied to Concessionaire's system at TSS. The cost of the same has been taken in the reserved services.
- x. Availability payment is the primary source of revenue for the concessionaire to meet out not only the O&M but also the recovery of investment with reasonable returns. The availability payment and cost of O&M is an estimate based on certain assumptions and the market will reassess the same and bid accordingly. However, these assumptions and conditions regarding Equity Return of 16% will be re-looked and suitable revisions will be made.
- xi. The condition regarding minimum of 20-hour availability and minimum 3-hour maintenance will be reassessed and will be revised suitably.

13. DoE, DEA, NITI Aayog and DoLA informed that they have reviewed the project documents as well as the financial model and have no further comments.

14. After deliberations, PPPAC decided to grant 'In Principle and Final Approval' and recommend to the competent authority the project proposal of Development of Sonnagar - Gomoh Section (261.3581 Km) of Eastern Dedicated Freight Corridor (EDFC) on Hybrid - Design, Build, Finance, Operate, Maintain and Transfer (Hybrid-DBFOT Model) on PPP mode with the overall project cost of Rs.9,751 Crore with the following suggestions: -

- i. The period of 8 months from the date for floating of RFP till the date of issuance of LOA may be reassessed.
- ii. Considering the Authority is in possession of 95% of land for the Project, the Construction timeline of 5 years may be reassessed for reducing the Construction Tenure.

- iii. It may be ensured that there should not be any disputes for meeting the KPIs by Concessionaire.
- iv. MoR to ensure transfer of 100% freight traffic on the EDFC section. Part commissioning even when the entire PPP project section is not ready should not result in further congestion of the tracks and payment by the MoR without the utilization potential of that part.
- v. Specific timelines for the Authority approval of the drawings and design should be provided to avoid unnecessary delays.
- vi. Equity IRR expectations in the base case as well as financial assumptions regarding Availability Payments etc. may be reassessed.
- vii. The conditions regarding minimum availability hours per day as well as minimum booked speed may be relooked for reducing the maintenance block.

The meeting ended with vote of thanks to the Chair.

Annexure - I

List of participants of 106th Meeting of PPPAC held on 13.12.2021 to consider the project proposal of Development of Sonnagar - Gomoh Section (261.3581 Km) of Eastern Dedicated Freight Corridor (EDFC) on Hybrid - Design, Build, Finance, Operate, Maintain and Transfer (Hybrid-DBFOT Model) on PPP mode:

1. **Department of Economic Affairs (DEA), Ministry of Finance**
 - a. Shri Ajay Seth, Secretary, Department of Economic Affairs (In Chair)
 - b. Shri Baldeo Purushartha, Joint Secretary (ISD)
 - c. Dr. Molishree, Deputy Secretary to the Government of India, (PIU)
 - d. Dr. Kartik Agrawal, Deputy Director
2. **Department of Expenditure (DoE), Ministry of Finance**
 - a. Dr. Sajjan Singh Yadav, Additional Secretary (PFS), Department of Expenditure
3. **NITI Aayog**
 - a. Sh. Partha Sarthi Reddy, Adviser (PPP)
 - b. Ms. Nidhi Arora, Consultant (Legal)
4. **Department of Legal Affairs (DoLA)**
 - a. Dr. R.J.R. Kasibhatla, Deputy Legal Advisor
5. **Ministry of Railways**
 - a. Shri Naresh Salecha, Member Finance, Railway Board
 - b. Shri R.N. Singh, Principal Executive Director, Infrastructure
 - c. Shri R.K. Singh, Executive Director, Infra - II
6. **DFCCIL**
 - a. Shri R.K. Jain, MD
 - b. Shri Hari Ballabh, Director Finance
 - c. Shri Pawan Kumar, GM (PPP)
