

**Government of India
Ministry of Finance
Department of Economic Affairs**

Public Private Partnership Appraisal Committee

38th meeting on August 17, 2010

Record Note of Discussion

The 38th meeting of the Public Private Partnership Appraisal Committee (PPPAC), chaired by Finance Secretary, was held on August 17, 2010. The list of participants is annexed.

2. The Chairman welcomed the participants. It was noted that there were eleven proposals for grant of final/ in principle approval; viz. two from Ministry of Home Affairs (MHA), two from Ministry of Shipping (MoS) and seven from Ministry of Road Transport and Highways (MoRTH).

Agenda Item I: Proposal from Ministry of Home Affairs: for approval of changes in the provisions of DCA for five Housing Clusters for CPMF under Ministry of Home Affairs in PPP mode cluster on BOT (Annuity) basis- Final Approval

- i. Development of the Kadarapur NCR Housing cluster.
- ii. Development of the Jalandhar (Punjab) Housing cluster
- iii. Development of the Kathgodam (Uttarakhand) Housing cluster
- iv. Development of the Assam -1 Housing cluster
- v. Development of the Assam -2 Housing cluster

3. Joint Secretary, MHA presented the proposal. It was noted that the PPPAC in its 37th meeting, held on June 21, 2010, had granted final approval to the five projects and had advised that the project documents may be reconciled with the extant draft MCA for BoT (Annuity) projects. Accordingly, MHA had effected the suggested changes in the DCAs of the five projects as per the decision of the PPPAC. In addition, modification has been made in the termination clauses in the DCAs; the provisions were now based on the concept of debt due as is being adopted by MoRTH with respect to BoT (Toll) projects of NHAI. The revised clauses had been circulated to the members of the PPPAC for examination. The representatives of Planning Commission, Department of Expenditure (DoE) and Department of Economic Affairs (DEA) indicated concurrence with the proposed changes. The

modifications were granted approval and the final approval with respect to the five projects was reconfirmed.

(Action: MHA)

Agenda Item II: Proposals from Ministry of Home Affairs for In principle approval for development of Housing Clusters for CPMF under Ministry of Home Affairs on Bot (Annuity) basis

- i. **Cluster 1: Development of the Siliguri (West Bengal) Housing cluster**
- ii. **Cluster 2: Development of the Greater NOIDA (Uttar Pradesh) Housing cluster**
- iii. **Cluster 3: Development of the Kolkata (West Bengal) Housing cluster**
- iv. **Cluster 4: Development of the Agartala (Tripura) Housing cluster**
- v. **Cluster 5: Development of the Srinagar (Jammu and Kashmir) Housing cluster**
- vi. **Cluster 6: Development of the Jamshedpur (Jharkhand) Housing cluster**
- vii. **Cluster 7: Development of the Gujarat Housing cluster**
- viii. **Cluster 8: Development of the Shillong (Meghalaya) Housing cluster**
- ix. **Cluster 9: Development of the Bhubaneswar (Orissa) Housing cluster**
- x. **Cluster 10: Development of the Sivagangai (Tamil Nadu) Housing cluster**

4. Joint Secretary, MHA presented the proposal. It was explained that subsequent to the roll out of the first phase of housing for Central Para Military Forces which consisted of five clusters consisting of 30 sites to provide for over 13,000 housing units for the Para Military Forces, MHA now proposes to develop and roll out the second phase of housing clusters. The second phase clusters consisted of 63 sites for developments of over 18,000 housing units on BoT (Annuity) basis. Accordingly, the project RfP had been prepared and 'in principle' approval was being sought for 10 projects. The Chairman complimented the Ministry for the proposed development of 34,000 houses for the Central Para Military Forces within period of next 2-3 years. The DG & AS, DEA observed that the project was commendable. As an illustration, it was informed that that Ministry of Defence had been facing considerable challenges in developing housing for their forces, especially in the remote locations. Neither EPC contractors nor the other GoI agencies had been able to augment the housing stock on a large scale. The framework proposed by MHA is likely to result in faster and better construction, also focus on maintenance over the defined period, and was a comprehensive solution for an urgent and imperative need. Member Secretary, Planning Commission endorsed the

observations and noted that the development of the housing stock would be good for the morale of the forces.

5. Joint Secretary, MHA informed that of the 63 proposed sites, one site is being withdrawn from the Shillong Cluster. The said site is facing litigation on compensation related issues and would be included in subsequent phases of the programme. Accordingly, the project cost of the said phase has been reduced by ₹ 90 crore. The total number of housing stock being created, thus reduced by 300 units would be 18,391 units including 115 barracks. The ten clusters encompassed the entire country. The objective was to establish strength of the concept of developing police housing on PPP basis in the country as a whole and not merely in commercially attractive regions.

6. The Chairman sought clarification on the extent to which the housing deficit would be addressed as a result of the proposed clusters. Further, it was queried whether MHA had looked at alternative models for development of housing clusters. Joint Secretary, DoE mentioned that while the concept was commendable, MHA had to ensure that there was commitment of resources of the magnitude required. It also needed examination whether BoT (Annuity) was a more cost effective way of implementing the project vis-à-vis EPC.

7. Joint Secretary, MHA responded to the observations:

(i) As advised by the PPPAC in its 17th meeting, while granting 'in principle' approval to the first phase of five clusters, MHA had examined whether commercial exploitation could be explored for the second phase to reduce the requirement of annuity payments. It had emerged that commercial exploitation on the proposed sites may not be feasible on account of the following:

- a. The generation of revenues through commercial activities within the housing complex for CPMF would be very less. Hence, it would have an insignificant impact on the overall outflow of payments of annuities.
- b. The security considerations did not allow a very conducive environment for undertaking economic activities in some of the sites.
- c. Land acquisition had been undertaken at the said sites by the State Governments for a defined purpose for provisioning of housing for the Central Para Military Forces. Change in the purpose defined for land acquisition may lead to certain legal complications which may not be acceptable to the State Governments.

In view of the above considerations, it was decided to not include commercial activities in the project structure and focus on the more imperative need of provision of housing stock for the forces.

(ii) A feasibility analysis had been done for the project by the consultants which included a Value for Money (VfM) analysis. The supremacy of the BoT mode over EPC had been established by the said analysis.

(iii) With regard to the availability of budgetary resources, Planning Commission had conveyed 'in principle' acceptance for allocation of resources for the first phase of the programme. MHA was in discussion with the Planning Commission for the allocation of resources for the second phase of the programme.

8. Member Secretary, Planning Commission observed that the initiative of MHA for augmentation of the housing stock for the CPMF within a short period of time was noteworthy. It was observed that Deputy Chairman, Planning Commission had addressed a letter to the Home Minister and suggested that the Home Minister may review whether the housing should be developed through the EPC or the PPP route. She urged the Home Ministry to examine the issues raised in the said letter and respond at the earliest to enable further discussion on resource allocation for MHA for the programme.

9. Joint Secretary, DEA observed that at the current juncture only 'in principle' approval of the PPPAC was being sought. The issue of funding could be decided before the second level of approval i.e. the final approval stage. Hence, for now, the project may be examined from the perspective of grant of 'in principle' approval for issue of RfQ for the ten clusters. With respect to the decision regarding adopting BoT or EPC model, the key issue for consideration was the housing satisfaction which was sought to be achieved by the MHA. If augmentation of the housing stock and housing satisfaction was justified and established, there were specific parameters which could be utilised for determining that the PPP model would be a superior option.

10. The Home Secretary emphasised that in case the proposed development of housing stock on PPP mode is not taken up, it is expected that the housing satisfaction would come down to 15.5%. It was initially expected that the construction of 63,000 housing units would result in increase in the housing satisfaction to 25% for the existing strength of CPMF. However, taking into account the raising of the CPMF which has already been approved, it is expected that the housing satisfaction would be around 20% on completion of the proposed augmentation. Furthermore, it was necessary that the capacity of the system to deliver the housing stock is also taken into account. As per the current statistics,

more than 4,000 housing units had not been delivered in any given year by public agencies. Hence, the evaluation study on housing for CPMF, recommendations by the Planning Commission as well as Standing Committee of the Parliament have all emphasised the need for change in the way of delivery of housing stock for CPMF. Furthermore, changing the mode of implementation of projects from BoT (Annuity) to the EPC mode would require an upfront provisioning of budgetary resources for MHA which may not be available. Thus, while augmentation of the housing stock and the housing satisfaction for the CPMF was imperative, there existed capacity and resource constraints within the existing framework for their expeditious provisioning. Hence, MHA proposed to develop the housing stock through the PPP basis.

11. The PPPAC granted 'in principle' approval to the ten projects, subject to the condition that the decision regarding resource availability would be separately discussed by MHA with Planning Commission.

(Action: MHA)

Agenda Item III: Proposal from Ministry of Shipping for final approval:

- i. **Development of EQ 1 berth by replacement of the existing EQ 1 and part of EQ2 berths in the north of the Inner Harbour of Vishakhapatnam Port**
- ii. **Development of EQ 1A berth on south of EQ1 berth for handling Thermal Coal and Steam Coal in the Inner Harbour of Vishakhapatnam Port**

12. Chairman, Visakhapatnam Port Trust (VPT) presented the proposal. It was noted that the two berths were required to meet the domestic demand for coal. It was emphasised that the two proposed berths were independent and standalone facilities viz. for steam coal imports and for back loading of steam coal and coastal loading of thermal coal. Accordingly, it was proposed to dismantle the existing EQ-1 and EQ-2 berths and develop the two berths EQ-1 and EQ 1A for a project cost of ₹ 323.18 crore and ₹ 313.39 crore respectively. The need for dismantling existing berths had arisen due to the following reasons:

- i. Structural inadequacies: EQ-1 to EQ-3 berths were constructed in 1933-35 with gravity type stone masonry lined concrete monolith structure and can take lesser live loads of 3 T per sq.m. and crane capacity of 3 to 6 tonnes as against required load upto 30 T per sq.m. for higher capacity equipment.
- ii. Inadequate draft: EQ-1 to EQ-3 were designed to cater to 9.50 m draft only as against required draft of 14 m for panamax vessels.

iii. Limitations in length: The length of EQ-1 to EQ-3 is 167.64 m each as against required length of 280 m. Therefore, the existing berths can cater to 150 m LOA as against required LOA of 230 M.

13. Chairman, VPT informed that the observations of DEA vide their Appraisal Note had been responded. Specifically, regarding the justification for the two berths, it was emphasised that both the berths were a necessity; since against a total future requirement of demand for capacity of 26 million tonnes, capacity of 13 million tonnes only is being created. The environmental and the security clearances were pending. It was requested that the VPT may be allowed to proceed with the bid process and obtain clearances concurrently.

14. Specifically responding to the observations of Planning Commission on the two proposals, Chairman, VPT informed that the observations were based on wrong interpretation of the traffic volume at the existing berths - EQ-1 and EQ-2. The traffic volumes indicated were in lakh TPA; they have been read as million TPA resulting in wrong conclusion regarding the capacity of the berth, minimum guaranteed traffic and the justification of the project. The error had been brought to the notice of Planning Commission and the issues cleared. The observations with respect to the change in law and other provision in the DCA were in accordance with the MCA for the port sector. Hence, the proposed provisions may be accepted. Further, since the provisions of MCA were being considered in Planning Commission by a Committee chaired by Shri B.K. Chaturvedi, modifications in the MCA, if any, would be effected based on the recommendations of the said Committee.

15. The representatives of DoE and Department of Legal Affairs indicated that they had no observations on the proposal.

16. The PPPAC granted final approval to the project proposals.

(Action: MoS)

Agenda Item IV: Proposals from Ministry of Road Transport and Highways for Final Approval- Six laning of Barwa-Adda-Panagarh section of NH 2 from km 398.420 to km 521.120 in the State of Jharkhand and West Bengal under NHDP Phase V on BoT (Toll) basis.

17. Joint Secretary, DEA drew attention to the outstanding issues with respect to the project proposal:

- i. Total Project Cost (TPC): The cost of the project was higher than the norms which have been accepted subsequent to the approval of the recommendations of the BK Chaturvedi (BKC) Committee by the Cabinet Committee on Infrastructure. It was suggested that the MoRTH/NHAI may consider reviewing the scope of work to bring the cost within the approved levels, possibly, with some increase to allow for the escalations in costs since the establishment of the thresholds in 2009.
- ii. Performance Security: The performance security had been taken as equivalent to 5 percent of the TPC. The same required an increase to make it equivalent to 12 months of toll revenues in accordance with the earlier decisions of PPPAC on NHDP Phase V projects.
- iii. Concession Period: The concession period of the project was initially 27 years, based on the average traffic on the project stretch. However, NHAI had reviewed the project proposal and reduced the concession period to 19 years by taking the traffic on the busier of the two project sections. This was a departure from the norm followed for all highway projects. Since the MCA allowed provisions for early termination in the event of the project stretch reaching the design capacity, change in the norms of determination of concession period was not warranted. Further, a longer concession period would enhance the viability of the project and result in a better bid response. Therefore, the concession period may be restored to 27 years.
- iv. Provisions in the DCA: Certain core provisions of the MCA with respect to Escrow account and substitution provisions had been deleted in the project DCA, which may be restored.
- v. Request for Qualifications: MoRTH/NHAI had been allowed the flexibility of effecting changes in the Model RfQ document for NH projects. However, some of the changes made in the RfQ document for the project were likely to be restrictive to competitive bidding and may be reconsidered by MoRTH.

18. Member Secretary, Planning Commission emphasised that the higher project costs required justification. Since the thresholds by nature are average, it was expected that there would be a broad band in which the project costs would lie- both lower than and higher than the average norms. The Planning Commission was concerned about the trend of the project costs being close to or higher than the cost thresholds for NH projects. It was suggested that MoRTH may consider obtaining technical inputs on the project costs from an independent entity for validation of the project costs.

19. Joint Secretary, DoE reiterated the concerns regarding higher project cost and emphasised that the sustainability of the Financing Plan for NHDP required adherence to the prescribed thresholds. Further, since the traffic on the stretch did not justify six laning, MoRTH may consider deferring the project till the traffic reached 40,000 PCUs.

20. Chairman, NHAI informed that the higher project cost was primarily on account of service lanes of 149 km on both sides of the project stretch, which increased the project cost by ₹ 2.2 crore per km. If the project cost was estimated without considering this project component, the cost was within the accepted thresholds. The service lanes were required to retain the access control on the six lane highway. Moreover, NHAI had reviewed the project and effected curtailment of a few components which had resulted in some reduction in the project cost. Further curtailment of costs would compromise road safety. It was emphasised that the CoS had considered the matter and advised that roads built should be safe. It was agreed that the performance security would be aligned to the earlier decision of the PPPAC so that it was equal to 5 percent of the TPC or toll revenues of 12 months, whichever was higher. It was indicated that the development of the project as a six lane stretch was in accordance with the cabinet decision and approved work plan of NHAI. Therefore, deferring the project would be contrary to decisions of higher fora.

21. Chairman, NHAI informed that the growth of traffic on the complete stretch was expected to be high, and it would not be advisable to take average traffic since the traffic on one segment would breach design capacity well before the other segment. In case average traffic was taken to estimate the concession period, the risk profile of the project would increase from the bidders' perspective in the event of early termination on account of road congestion. Higher risk perception would reduce the overall attractiveness of the project and adversely impact the bid response.

22. Secretary, RTH informed that MoRTH had reviewed the concession period and alternate project models, including the possibility of splitting the stretch as two separate models. However, the analysis suggested that the proposed project with a shorter concession period was the most optimal model and may be approved.

23. The Chairman suggested that NHAI may review the project costs and explore the possibilities of its reduction. In view of the operational limitations indicated by NHAI, the concession period may be kept at 20 years.

24. The PPPAC granted final approval to the project subject to the review of the project cost by NHAH and modification in the project DCA. MoRTH/NHAH were requested to circulate the revised project documents to the members of the PPPAC.

(Action: MoRTH/NHAH)

Agenda Item V: Proposal from Ministry of Road Transport and Highways for Final Approval: Two laning with paved shoulders of Ambala – Kaithal section of NH 65 from km 5.000 to km 88.135 in the State of Haryana under NHDP III on BOT (Toll) basis.

25. The representative of NHAH presented the proposal. It was noted that the cost of the project was ₹ 4.54 crore per km, which was higher than the threshold of ₹ 3.5 crore per km. The higher cost was primarily on account of the Kaithal bypass. Chairman NHAH informed that higher toll rates would be admissible for the bypass in accordance with the Toll Policy, which would improve the viability of the project.

26. The representative of Planning Commission indicated that the project financials estimated high requirement of VGF. Unless the project was restructured, the project was not likely to get a bid response.

27. Secretary, RTH informed that the project RfQ had been invited and had received 40 responses, indicating bidder interest. It was indicated that the State Government was agreeable with development of a project stretch as 2-lane with paved shoulders on BoT (Toll) basis and, therefore, MoRTH may be allowed to test the market response to the project through competitive bidding.

28. The Chairman observed that the initial cost and financial estimates often tended to align the bid response in a particular direction. Hence, MoRTH may examine the possibility of developing the project stretch, including the Kaithal bypass, in a more economical manner.

29. The PPPAC granted final approval to the project subject to the review of the Total Project Cost by MoRTH/NHAH.

(Action: MoRTH/NHAH)

Agenda Item VI: Proposal from Ministry of Road Transport and Highways for Final Approval: Four laning of Panikolli-Rimuli section of NH 215 from km 0 to km 163 in the State of Orissa under NHDP Phase III on BOT (Annuity) basis.

30. Joint Secretary, DEA indicated that the project had been bid out by MoRTH in March 2010 at a Total Project Cost of ₹ 1165 crore on BoT (Toll) basis. However, the instant proposal indicated a project cost of ₹ 1401 crore on BoT (Annuity) basis. The basis of increase in the Project Cost by over ₹ 250 crore required justification.

31. The representative of NHAI informed that the scope of work of the Concessionaire for the earlier BoT (Toll) structure entailed two stage augmentation with the project being developed as two-laned highway in the first phase and four-laned subsequently. However, the proposed annuity structure did not entail two-stage augmentation. Therefore, the project cost was higher.

32. The representative of Planning Commission indicated that development of projects on BoT (Annuity) basis should be preceded by a VfM analysis to establish the superiority of the structure vis-à-vis EPC framework. The representative of NHAI indicated that the instant policy framework prescribed testing the project twice on BoT (Toll) basis. In case the project did not elicit a response, the project was bid out on BoT (Annuity) basis; failing which on the EPC mode. However, if required, the NHAI could undertake a VfM analysis for subsequent proposals on BoT (Annuity) modality and present it during the consideration of the proposals by the PPPAC.

33. Secretary, RTH informed that the project had been twice bid on BoT (Toll) basis. Though the traffic was more than 15000 PCUs, the project did not evince bidder response. The lack of response could be on account of locational attributes of the stretch. Further, the project State Support Agreement (SSA) had earlier not got the acceptance of the State Government. However, the State has subsequently concurred with the proposed SSA.

34. The Chairman noted that the traffic on the project stretch was high and consensus has since been reached on the SSA. Therefore, the project may be tested again on BoT (Toll) basis. NHAI/MoRTH was requested to review the Total Project Cost (TPC) and send the revised project documents for bidding the project on BoT (Toll) framework.

(Action: MoRTH/NHAI)

Agenda Item VII: Proposal from Ministry of Road Transport and Highways for Final Approval: Four laning of Kuttipuram Edapally section in the State of Kerala on BOT (Annuity) basis on BOT (Annuity) basis.

35. Chairman, NHAI informed that the land acquisition in respect of the project had not reached levels to enable the bid process to commence. Accordingly, NHAI was withdrawing the proposal. The Agenda Item was dropped from consideration.

(Action: MoRTH/NHAI)

Agenda Item VIII: Proposal from Ministry of Road Transport and Highways for Final Approval: Proposal for Parwanoo-Solan section of NH 22 from km 67 to km 106 in the State of HP on BOT (Annuity) under NHDP Phase III.

36. The PPPAC noted that the project cost at ₹ 16.20 crore per km was higher than the established thresholds, primarily due to the hilly terrain. Chairman, NHAI informed that the project included a tunnel and a major bridge with a construction cost of over ₹ 50 crore each.

37. The PPPAC granted final approval to the project subject to review of the TPC by NHAI/MoRTH.

(Action: MoRTH/NHAI)

Agenda Item IX: Proposal from Ministry of Road Transport and Highways for Final Approval: Four laning of Barsat-Krishnagar section of NH-34 in the State of West Bengal under NHDP Phase III on BOT (Annuity) basis.

38. Joint Secretary, DEA indicated that the project cost was ₹ 10.56 crore per km. However, the project proposal was earlier considered by the IMG for change of modality of implementation of National Highways, chaired by Secretary, RTH wherein the project cost had been ₹ 8.42 crore per km. The increased cost required justification. Further, the IMG for MCA for BoT (Annuity) projects, chaired by Secretary, RTH in its meeting held in July 2010 had decided that the concession period for annuity projects may be taken as 17 years. Moreover, since MCA for BoT (Annuity) projects was pending approval of the competent authority, MoRTH may confirm that the project DCA was based on the draft MCA which had been earlier circulated by MoRTH and which had been approved by the then FM and PM subject to certain observations.

39. Representative of NHAI informed that the project cost, earlier proposed as ₹ 886.73 crore had been reviewed and reduced to ₹ 867 crore. It was informed that the project DCA would be based on the earlier draft MCA, which incorporated the observations of DEA and the subsequent recommendations of BKC Committee.

40. The PPPAC granted final approval to the project for the TPC of ₹ 867 crore and for a concession period of 17 years.

(Action: MoRTH/NHAI)

Agenda Item X: Proposal from Ministry of Road Transport and Highways for Final Approval: Two laning of Purnea-Khagaria section of NH 31 in the State of Bihar under NHDP Phase III on BOT (Annuity) basis.

41. Representative of NHAI presented the proposal. It was noted that the project cost at ₹ 4.81 crore per km. was higher than the prescribed thresholds. The higher cost was on account of the project stretch traversing through the flood plains and requiring additional work on earthwork and construction of embankments. It was confirmed that the project DCA would be based on the earlier draft MCA, which incorporated the observations of DEA and the subsequent recommendations of BKC Committee.

42. The PPPAC granted final approval to the project for a concession period of 17 years.

(Action: MoRTH/NHAI)

43. The meeting ended with a vote of thanks to the Chair.

**Ministry of Finance
Department of Economic Affairs**

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**Public Private Partnership Appraisal Committee (PPPAC)
38th Meeting on August 17, 2010**

List of Participants

- I. Department of Economic Affairs**
- i. Shri Ashok Chawla, Finance Secretary (In Chair)
 - ii. Shri Govind Mohan, Joint Secretary
 - iii. Shri Bimal Jhulka, DG(Currency)
 - iv. Smt. Aparna Bhatia, Director
 - v. Shri I.P. Singh, Director
- II. Department of Expenditure**
- vi. Ms. Meena Agarwal, Joint Secretary
- III. Planning Commission**
- vii. Ms. Sudha Pillai, Secretary
 - viii. Shri K.R. Reddy, Joint Adviser
- IV. Ministry of Law**
- ix. Shri Y.K. Singh, ALA
- V. Ministry of Home Affairs**
- x. Shri Gopal Pillai, Secretary
 - xi. Shri V. Trivedi, AS &FA
 - xii. Shri Ashok Lavasa, JS
 - xiii. Ms. Sreyasi Chaudhri, DS
- VI. Ministry of Shipping**
- xiv. Shri K. Mohandas, Secretary
 - xv. Shri Rakesh Srivastava, JS(Ports)
 - xvi. Ms. Geetu Joshi, Director
- VII. Vishakhapatnam Port Trust**
- xvii. Shri Ajeya Kallau, Chairman

xviii. Shri K.V. Gupta, FA & CAO

VIII. Ministry of Road Transport and Highways

- xix. Shri R.S. Gujral, Secretary
- xx. Shri A.V., Sinha, DG(RD)
- xxi. Shri P.K. Tripathi, Joint Secretary
- xxii. Shri B.K. Sinha

IX. National Highways Authority of India

- xxiii. Shri Brijeshwar Singh, Chairman
- xxiv. Shri J.N. Singh, Member (F)
- xxv. Shri V.L. Patankar, Member (Technical)
- xxvi. Shri Subhash Patel