

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

Public Private Partnership Appraisal Committee

52nd Meeting on July 10, 2012

Record Note of Discussion

The 52nd meeting of the Public Private Partnership Appraisal Committee (PPPAC), chaired by Secretary, Economic Affairs, was held on July 10, 2012. The list of participants is annexed.

2. The Chairman welcomed the participants and noted that the PPPAC would consider one proposal from Ministry of Road Transport & Highways (MoRTH) and four proposals from Ministry of Shipping (MoS) for grant of final approval.

Agenda Item I: Proposal from Ministry of Road Transport & Highways (MoRTH) for grant of final approval: Construction of 2-lane Z-Morh Tunnel section of NH-I on BOT (Annuity) in Sonamarg, Srinagar, Jammu and Kashmir

Total length: 6.5 km (Tunnel) and 6 km approach road; Total Project Cost: INR2773.83 crore; Concession period: 20 years including 5 years construction period.
Major development works/ structures: Main Tunnel: 6.5 km, E-gress Tunnel: 6.5 km, the escape tunnel; East end approach roads: 0.55 km, West end approach road: 5.250 km, Culvert: 1

3. The PPPAC noted that the Standing Cost Committee had considered the proposal in its meetings held on June 5, 2012 and July 2, 2012. The Standing Cost Committee had recommended the Total Project Cost of Rs 2773.83 crore as Total Project Cost of the Project for consideration of PPPAC, based on the justifications presented by the Border Roads Organisation. The Planning Commission had conveyed preliminary observations on the project, which were responded to by MoRTH. The appraisal of Planning Commission on the project documents had not been received.

4. Secretary, Planning Commission informed that in the absence of complete documents required for appraisal purpose, the Planning Commission has been constrained from completing the appraisal process. Further, it was indicated that Planning Commission was not comfortable with the proposed civil cost and financing cost, assessment of geographical risks and absence of VFM analysis to establish that BoT (Annuity) is the appropriate mode for implementation of the project.

5. Secretary, Planning Commission emphasised that the critical requirement of the project was not under question. However, the appraisal process and due-diligence required before its consideration by the PPPAC should not be circumvented, especially in a complex project such as the instant proposal. The Chair concurred with the observations of Secretary, Planning Commission and observed that the project cost was higher than the other projects in the hilly terrain of Jammu and Kashmir and requested MoRTH to explain the project parameters that made the project distinctive from the other projects in exacting terrains of J &K or Himachal Pradesh.

6. Secretary, RTH informed that all the project documents, including the Detailed Project Report (DPR) have been shared with the Planning Commission on June 27, 2012. While the initial cost estimates were based on indicative estimates, the revised TPC of Rs 2773.83 crore is based on likely Bill of Quantities for the project and the latest Schedule of Rates. The TPC has been approved by the Standing Cost Committee in its meeting held on July 2, 2012 and a Value for Money (VFM) analysis, sought by DEA and Planning Commission in their appraisal notes, is being undertaken. It was emphasised that the urgency for consideration of the project was on account of the high elevation of the project site and short construction period of five to six months per year. In case of delay in commencement of the procurement process for the project, an entire construction season would be lost, with resultant delays of over an year in commencement of construction in the avalanche prone area and increase in the project cost on account of the delays.

7. Representative of Border Roads Organisation (BRO) made a detailed presentation on the project. The strategic importance of the Tunnel and need for undertaking quick commencement of work was emphasised. It was clarified that basic cost was based on the Standard Data Book for costing of Civil Engineering Works by MoRTH for the year 2003. The basic rates have been taken from the Schedule of Rates (SORs) of 2007, and the project's requirements are comparable to the Detailed Project Cost (DPR) of Chennani-Nashri Tunnel. The TPC at 2012 rates is after adding an escalation of 40% over the civil costs. Provisions for other additional costs have been made in view of the restricted work period available for construction for only 5 to 6 months (15%) and remote area conditions (10%). Additional items in the cost include additional taxes from 2007 level (3% of the civil cost), risk coverage on account of unpredictable geological conditions (5% of the civil cost). The civil cost of construction is Rs 1611.28 crore and other miscellaneous cost like taxes, labour costs and risks on inclusion take the project cost to Rs 1914.59 crore. Since the construction period for the Tunnel is 5 years, the TPC for the project is Rs 2773.83 crore, arrived at by escalating the civil cost of construction by 44.88% to take in account the IDC, escalation and financing charges for 5 years period as against the 25% allowed in the MCA, for a construction period of 3 years. The civil cost is comparable to a similar project, Rohtang Pass in Himachal Pradesh, which has been implemented on EPC basis by the BRO. The estimated semi-annual annuity, payable in 30 equated instalments, for a concession period of 20 years, including construction period of 5 years has been estimated as Rs 266.50 crore at 15% return on equity (EIRR), Rs 304.65 crore at 18% EIRR and Rs 350.15 crore at 21% EIRR.

8. Director, DEA indicated that the proposed project is not a part of NHDP program. Hence, approval for budgetary resources for implementing the project on BoT (Annuity) mode and for BRO as implementing agency is required to be obtained from the Cabinet Committee on Infrastructure (CCI). Secretary, RTH responded that MoRTH shall commence the process of obtaining approval once the mode of implementation is cleared by the PPPAC.

9. Joint Secretary, Department of Expenditure indicated that financing cost of the project would be lower if the project be taken up on EPC mode. Further, once the project is constructed the O&M may be given separately on OMT basis in view of the geographical fragility. Therefore, the project may be taken up as a pilot for turnkey EPC.

10. Secretary, RTH responded that if the project is taken up on EPC mode, budgetary allocation of Rs 2,500.00 crore would be required during construction period of 5 years and if it is implemented on BOT (Annuity) mode, allocation of Rs8,800.0 crore would be required for making a semi-annual payment payable from 6th year onwards upto 20 years. Hence, availability of budgetary resources was central to the decision on the mode of implementation of the project. Further, the view of MoRTH was that BoT (Annuity) would result in superior construction since the responsibility of maintenance of the tunnel shall rest with the same entity that is constructing the tunnel. Further, it would be administratively difficult to have a number of short term maintenance contracts in the high altitude, sparsely populated area. Hence, the most appropriate mode of implementation of the project is on BoT (Annuity) mode. Accordingly, RfQ of the project has been invited and 19 bidders have already been pre-qualified for the project.

11. Secretary, RTH pointed out that if the project be taken up on EPC mode, it may delay the entire process by at least 2 years as the model document for turnkey EPC is for road projects of National Highways and is yet to be finalised by the competent authority. Hence, in view of the strategic importance of the project, it was requested that the project may be cleared for implementation on the BOT(Annuity) mode.

12. Representative of Ministry of Legal Affairs queried about the availability of land for undertaking the project. Representative from Border Road Organisation (BRO), the proposed implementing agency for the project, informed that land is available and no further land acquisition is required.

13. Representative of Ministry of Environment and Forest (MoEF) indicated that Forest and Environment clearance may be obtained before implementation of the project. This was agreed to.

14. The Chair summarised the discussion. It was noted that the project is critical for all weather connectivity from Srinagar through Zojila to Leh. The Standing Cost Committee

had examined the project parameters and satisfied itself about the project cost. He requested MoRTH to expeditiously share the Value for Money Analysis with the members of PPPAC as well as the complete project documents with Planning Commission to enable completion of the appraisal process. The Chair requested Planning Commission to expedite the appraisal of the project on receipt of the complete project documents. This was agreed to.

15. **The PPPAC deferred the consideration of the project for grant of final approval pending the appraisal note from Planning Commission and submission of value for money (VfM) analysis by MoRTH.**

(Action: MoRTH& Planning Commission)

Agenda Item II: Proposal from Ministry of Shipping (MoS) for grant of final approval: Development of Single Point Mooring (SPM) & allied facilities off Veera, outside Kandla Creek at Kandla Port, Gulf of Kutch, Gujarat on BOT basis to handle crude (petroleum) oil

Total berth length: Nil; Total Project Cost: Rs. 621.53 crore; Cost of pre-construction activities to be financed by KPT: Nil; Concession Period: 30 years including 2 years of construction period.

Major development works/ structures: Construct Catenary Anchor Leg Mooring, Laying of 48" dia pipeline from Land fall point to the Port for 19 kms and provide connectivity of SPM with the Crude Oil Terminal (COT), Maintenance of dredged depth at – 28.9m, Maintenance of the entrance channel permissible draft at 22m, Carry out capital and maintenance dredging operations, as required, Equipments such as Tanker, Other allied facilities includes oil spill management, fire fighting systems, drainage system, development utilities and services such as communication, office accommodation, work related to pollution control and conservation of Environment etc.

16. Director, DEA drew attention to the generic issues with the regard to the four Port sector projects. It was stated that Planning Commission, in its appraisal notes in respect of all the four projects, has sought changes in the Draft Concession Agreements in order to incorporate the recommendations of the B.K. Chaturvedi Committee Report for effecting amendment in the Model Concession Agreement for Major Ports. The changes include amendment in the definition of Debt Due, issues relating to independent engineer, equity holding requirement, tariff rates and revision thereof, minimum guaranteed cargo etc.

17. Secretary, Shipping informed that the four projects were based on the MCA approved by the Cabinet and no departures may be effected in the provisions till the recommendation of the BKC Committee are approved by the Cabinet. The Chair agreed with the request and urged MoS to expedite the process of obtaining approval of the CCI to the recommendation. This was agreed to.

18. Chairman, Kandla Port Trust (KPT) made a presentation on the project. It was informed the RfQ was re-invited on April 19, 2012 and 9 parties have been shortlisted for the

project. The earlier RFQ issued on July 30, 2009 was rejected as one out of the two qualifying bidders failed to receive security clearance from Government of India. Tariff Authority (TAMP) has already given approvals for the tariff on January 2011.

19. Advisor, Planning Commission indicated that the project document indicate negligible requirement for dredging. However, the responsibility of dredging works has been transferred to the Concessionaire. As per the MCA, this responsibility rests with the Port Authority. Secretary, MoS informed that no specific dredging requirements are there for the project. The responsibility is being allocated to the Concessionaire to ensure timely completion of the dredging as and when required. It was agreed that the provision with respect to dredging would also be reviewed while proposing amendments to the MCA for approval by the CCI .

20. Director, DEA indicated that the project requires the Concessionaire to provide connectivity of the SPM with Crude Oil Terminal (COT), to be developed by the Concessionaire. The cost of development of the COT is not included in the instant project. It was queried whether the land for the COT shall be procured by the Concessionaire or the Authority. Further, whether the inclusion of the provision that the COT shall be procured by the Concessionaire would unfairly bias the bidding for the project in favour of the existing land owners in the region and thereafter, provide unfair advantage to the existing Concessionaire for subsequent bid process after the completion of the Concession period.

21. Chairman, KPT clarified that ample land is available in the vicinity for setting up of COT at present and the provision would not result in undue advantage to any bidder for the current bid process. This provision would not result in undue advantage to the selected Concessionaire after the expiry of the Concession Period for the next round of procurement of private sector entity for the SPM. The procurement of the COT has been made the responsibility of the Concessionaire to ensure expeditious acquisition of the asset and its development during the construction period of the project. It was further indicated that the life period of a COT is 25 years and after that it becomes unserviceable; hence, KPT suggests that COT need not be reverted to the Authority after the expiry of 30 years of concession period for the project. Hence, no benefits were perceived to be gained by the existing Concessionaire on account of owning land and development of COT.

22. Chairman, KPT emphasised that the development of COT is mandatory and co-terminus with the construction of the SPM in the DCA. Any delays in its development shall be treated as an event of default liable for termination of the concession. Director, DEA indicated that the COT has been defined in a very circular manner and required greater clarity in the DCA. The timely provision of connectivity with the COT was critical for implementation of the project. However, this has not been indicated in the performance milestones, scope of work or obligations of the Concessionaire. It was recommended that the COT may be precisely indicated in the DCA, the scope of work, the project milestones and

provisions of penalties in the event of delay in connectivity between the SPM and COT. This was agreed to.

23. Joint Secretary, DEA queried whether the estimated project cost has been calculated based on the latest SOR. Chairman, KPT confirmed that the same has been updated based on the current costs and as approved by the TAMP.

24. All members of the PPPAC were in agreement to grant final approval to the project.

25. The PPPAC granted final approval to the project for TPC of Rs. 621.53 crore, for award on highest premium basis, subject to fulfilment of the following conditions:

- a. MoS shall incorporate provisions in the DCA for greater clarity about the COT.
- b. MoS shall obtain clearances such as environment and forest clearance, before commencing work on the project site.
- c. MoS shall obtain prior approval of the PPPAC on any change in scope of work or project configuration as noted above.
- d. MoS/Kandla Port Trust shall incorporate the observations of Planning Commission and DEA with respect to corrections in the Schedules of the project DCAs.
- e. MoS shall circulate the revised documents to the members of the PPPAC for record.

(Action: MoS/KPT)

Agenda Item III: Proposal from Ministry of Shipping (MoS) for grant of final approval: Development of North Cargo Berth-III for handling bulk cargoes, Thermal Coal and Rock Phosphate, at V.O Chidambaranar Port on DBFOT basis

Total berth length: 306m; Total Project Cost: Rs. 420 crore; Cost of pre-construction activities to be financed by VOCPT: Nil; Concession Period: 30 years including 2 years of construction period.

Major development works/ structures: Construct berth for a length of 306 m with a width of 22.90 m for panama size vessels upto 75,000 DWT with a draught of 12.80m, Construction of conveyor system from Berth to stack yard of 2.86 km including erecting Mechanical cargo handling equipments, Development of stock yard at Hare island, area of 12.60 Ha, Railway connectivity from port marshalling yard to stack yard, Dredging dock basin in front of proposed NCB-III to cater to 12.80m draught vessel, Other allied facilities includes fire fighting systems, drainage system, development utilities and services, work related to pollution control, health safety, security and conservation of Environment etc., Capital works for civil work including berth apron, approaches, equipments include mechanical and electrical works and for development of berthing activity, Split coal dredging

26. Chairman, VOCPT presented the proposal and indicated that the RFQ was invited on February 17, 2011 and 17 parties have submitted applications and evaluation for shortlisting

is under process. Tariff Authority (TAMP) has already given approvals for the tariff on January 2012. It was indicated that there is sufficient demand and capacity to cater to the requirement.

27. Director, DEA queried over the estimated project cost for the two projects at NCB- III & IV being different, however, having similar scope of work. Chairman VOCPT informed the length of conveyor belt of the instant project was greater hence, there is a cost variation in the two projects.

28. Advisor, Planning Commission pointed out that spill coal dredging was the responsibility of the Concessionaire while rest of the dredging was to be undertaken by the Concessions Authority. Chairman, VOCPT informed that this condition is added after the pre-bid conference to ensure that the PPP operator avoids spillage of coal into the sea considering the pollution point of view and to avoid operational delay in berthing of vessels. Secretary, Shipping added that the project was on a rocky belt; hence, silt is not likely to be dredged therein. Hence, the provision may be retained as proposed. This was agreed to.

29. All members of the PPPAC were in agreement to grant final approval to the project.

30. The PPPAC granted final approval to the project for TPC of Rs. 420.0 crore, for award on highest premium basis, subject to fulfilment of the following conditions:
- a. MoS shall obtain clearances such as environment and forest clearance, before commencing work on the project site.
 - b. MoS shall obtain prior approval of the PPPAC on any change in scope of work or project configuration as noted above.
 - c. MoS/Port Trust shall incorporate the observations of Planning Commission and DEA with respect to corrections in the Schedules of the project DCAs.
 - d. MoS shall circulate the revised documents to the members of the PPPAC for record.

(Action: MoS/VOCPT)

Agenda Item IV: Proposal from Ministry of Shipping (MoS) for grant of final approval: Development of North Cargo Berth-IV for handling bulk cargoes, Thermal Coal and Copper Concentrate, at V.O Chidambaranar Port on DBFOT basis

Total berth length: 306m; Total Project Cost: Rs. 355 crore; Cost of pre-construction activities to be financed by VOCPT: Nil; Concession Period: 30 years including 2 years of construction period.

Major development works/ structures: Construct berth for a length of 306 m with a width of 22.90 m for panama size vessels upto 75,000 DWT with a draught of 12.80m, Construction of conveyor system from Berth to stack yard of 2.25 km including erecting Mechanical cargo handling equipments, Development of stock yard at Hare island, area of 12.80 Ha, Railway connectivity from port marshalling yard to stack yard, Dredging dock basin in front of proposed NCB-IV to cater to 12.80m draught vessel, Other allied facilities includes fire fighting systems, drainage system, development utilities and services, work related to pollution control, health safety, security and conservation of Environment etc., Capital works for civil work including berth apron, approaches, equipments include mechanical and electrical works and for development of berthing activity, Split coal dredging

31. Chairman, VOCPT presented the proposal and indicated that the RFQ was invited on February 17, 2011 and 17 parties have submitted applications and evaluation for shortlisting is under process. Tariff Authority (TAMP) has already given approvals for the tariff on January 2012.
32. All members of the PPPAC were in agreement to grant final approval to the project.
33. The PPPAC granted final approval to the project for TPC of Rs. 355.0 crore, for award on highest premium basis, subject to fulfilment of the following conditions:
 - a. MoS shall obtain clearances such as environment and forest clearance, before commencing work on the project site.
 - b. MoS shall obtain prior approval of the PPPAC on any change in scope of work or project configuration as noted above.
 - c. MoS/Port Trust shall incorporate the observations of Planning Commission and DEA with respect to corrections in the Schedules of the project DCAs.
 - d. MoS shall circulate the revised documents to the members of the PPPAC for record.

(Action: MoS/VOCPT)

Agenda Item V: Proposal from Ministry of Shipping (MoS) for grant of final approval: Development of a Riverine Multipurpose Jetty at the Outer Terminal-1 in the upstream of 3rd Oil Jetty at Haldia Port in order to handle bulk cargo, commodities Coal, Iron ore & other dry bulk cargo on DBFOT basis

Total berth length: 270m; Total Project Cost: Rs. 278.90 crore; Cost of pre-construction activities to be financed by KoPT: Nil; Concession Period: 30 years including 2 years of construction period.

Major development works/ structures: Construct berth for a length of 270 m with a width of 40 m for panama size vessels upto 25,000 DWT with a draught of 12.80m, capital dredging, approach trestle, connecting road, back up area development including internal railway systems, railway yard including paving, equipments for mechanical & electrical works and environmental mitigation, other allied facilities includes fire fighting systems, drainage system, appurtenances, development utilities and services, health and safety, security and conservation of Environment etc, Jetty facilities, Cargo handling facility including mobile harbour cranes for quay and mobile hopper at Jetty , Stack yard , Other facilities including water supply system, sewerage system, electronic stat transfer system

34. Chairman, KoPT presented the proposal. It was indicated that the project has severe siltation and issues regarding availability of draught. The capacity proposed to be created at the Port is 5.11 metric million tonnes. It was further informed that the Haldia Dock Complex has a vast potential for handling dry bulk cargo because it is in proximity of steel plants at Durgapur, Bokaro, Rourkela of SAIL, Burnpurof IISCO, Jamshedpur of Tata Steel, power plants at Farakka, Khelgaon of NTPC, Buj of CESE, coal mines required by Tamil Nadu Electricity Board, iron ore mines of Jharkhand and Odisha, sponge iron factory in West Bengal, and local industries at Haldia comprising Tata Steel, Shri Renuka sugar etc. It was stated that these Port user save transportation cost over road or rail modes through the use of the Port route. The environmental clearance for the project has been obtained in September 2007, the RFQ has been issued in February 2011, and 4 applicants have been shortlisted. TAMP has approved the project in September 2011 and security clearance have been attained in January 2012.

35. Deputy Secretary, DOE queried about the need for allocating expenditure related to dredging requirements. Secretary, Shipping responded that as per the B.K. Chaturvedi Committee Report, all Major Port much achieve draught of 14 m in the 12th plan period and 17m by the 13th plan period. Thus, dredging requirements for the project had been proposed. Further, Chairman, KoPT informed that the draught available along the Channel varies between 6.5m to 8.0 m and the berth, in low tide, the available draught ranges between 7.5m to 8.5 m. It was stated that this is a riverine project and seasonal requirements vary, thus, the draught has to be accordingly maintained and only Rs 10.0 crore is estimated as a onetime cost for dredging purposes. Joint Secretary, MoS added that the draught available at the deep-sea was 30 m and hence this Port is suitable for transshipment point for larger size vessels.

36. Joint Secretary, DOE queried about the availability of depth for undertaking dredging activities. It was pointed out that around Rs 5000 crore was already being allocated by the Government for dredging works for the Major Ports and increasing allocation for dredging was not possible. It was queried whether the instant proposal would minimise the requirement of expenditure on dredging in KoPT. Secretary, Planning Commission concurred with the view that the expenditure on dredging needs to be contained; however, the same could not be linked to a particular Port Trust. Secretary, MoS informed that the Sagar Port, with likely investment of Rs 8,000.0 crore is being proposed for large size vessels on the shores of Bay of Bengal. Once the Sagar Port would commence operations, the dredging requirement at Haldia Dock Systems would be considerably reduced.

37. All members of the PPPAC were in agreement to grant final approval to the project.

38. The PPPAC granted final approval to the project for TPC of Rs278.90 crore, for award on highest premium basis, subject to fulfilment of the following conditions:

- a. MoS shall obtain clearances such as environment and forest clearance, before commencing work on the project site.
- b. MoS shall obtain prior approval of the PPPAC on any change in scope of work or project configuration as noted above.
- c. MoS/Port Trust shall incorporate the observations of Planning Commission and DEA with respect to corrections in the Schedules of the project DCAs.
- d. MoS would circulate the revised documents to the members of the PPPAC for record.

(Action: MoS/KoPT)

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

**Ministry of Finance
Department of Economic Affairs**

Meeting of the Public Private Partnership Appraisal Committee (PPPAC)

52nd Meeting on July 10, 2012

List of Participants

- I. Department of Economic Affairs,, Ministry of Finance**
- i. Shri R. Gopalan, Secretary (Economic Affairs) (In Chair)
 - ii. Shri Rajesh Khullar, Joint Secretary
 - iii. Smt. Aparna Bhatia, Director
 - iv. Shri Abhijit Phukon, Deputy Director
- II. Department of Expenditure, Ministry of Finance**
- i. Shri Saurabh Garg, Joint Secretary
 - ii. Smt. Sigy Thomas, Deputy Secretary (PF II)
- III. Planning Commission**
- iii. Smt. Sindhushree Khullar, Secretary
 - iv. Shri K. R. Reddy, Joint Advisor
 - v. Amitabh Ray, Deputy Advisor
- IV. Ministry of Road Transport & Highways (MoRTH)**
- vi. Shri A. K. Upadhyay, Secretary
 - vii. Shri Vijay Chhibber, Special Secretary and Financial Advisor
 - viii. Shri C. Kandasamy, DG (RD)
 - ix. Shri Rohit K. Singh, Joint Secretary (PPP)
- V. Border Roads Organisation (BRO)**
- x. Dr. V.K.Yadav, Additional DG,
 - xi. Shri Vinod Kumar, CI
 - xii. Shri. A.K. Gupta, Director
- VI. Ministry of Shipping (MoS)**
- xiii. Shri Pradeep K. Sinha, Secretary,
 - xiv. Shri N. Muruganandam, Joint Secretary
- VII. Ministry of Law and Justice**
- xv. Shri Mahesh Tyagi, Deputy Legal Advisor,
- VIII. Ministry of Environment and Forest (MoEF)**
- xvi. Dr. S.K. Agarwal, Director

- IX. Kandla Port Trust (KPT)**
 - xvii. Shri P.D. Vaghela, Chairman

 - X. VO Chidambaranar Port Trust (VOCPT)**
 - xviii. Shri Paul Anthony, Chairman
 - xix. Shri E.J Tensingh, CE

 - XI. Kolkata Port Trust (KoPT)**
 - xx. Shri Manish Jain, Chairman
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