F. No. 2/10/2020-PPP
Government of India
Ministry of Finance
Department of Economic Affairs
PPP Cell

North Block, New Delhi
Dated: 24.03.2021

OFFICE MEMORANDUM

Subject: Record of Discussions of 101st Meeting of PPPAC to consider the project proposal of MoR for construction of Sonnagar - Gomoh Section (263.705 Km) of Eastern Dedicated Freight Corridor (EDFC) on Public Private Partnership (PPP) basis

The undersigned is directed to enclose a copy of the minutes of the 101st Meeting of the PPPAC held on 18th March, 2021 under the Chairmanship of Secretary (DEA) for information and necessary action.

2. This issues with the approval of competent authority.

Encl: As above

Molishree
(Dr. Molishree)
Deputy Secretary to the Government of India

To

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

Copy to:

1. Sr. PPS to Secretary (DEA)
2. Sr. PPS to JS (IPF)

Minutes of meeting of the 101st PPPAC Committee to consider the project proposal for construction of Sonnagar - Gomoh Section (263.705 Km) of Eastern Dedicated Freight Corridor (EDFC) on Public Private Partnership (PPP) basis

The 101st Meeting of PPPAC chaired by Secretary, DEA was held on 18th March, 2021 at 3:45 PM to consider the project proposal of Ministry of Railways for construction of Sonnagar - Gomoh Section (263.705Km) of Eastern Dedicated Freight Corridor (EDFC) on on Design, Finance, Built and Transfer - Annuity Model.

List of Participants is enclosed at **Annexure I**

Name of the Project	Sonnagar - Gomoh Section (263.705Km) of Eastern Dedicated Freight Corridor (EDFC) on Public Private Partnership (PPP) basis ("Project").
Type of PPP (BOT, BOOT, BOLT, OMT etc.)	Design, Finance, Built and Transfer - Annuity Model
Location (State/District/Town)	The alignment of Sonnagar – Gomoh section passes through Giridih, Hazaribagh and Koderma district of Jharkhand and Gaya and Aurangabad district of Bihar.
Sponsoring Authority	Ministry of Railways
Implementing Agency	Dedicated Freight Corridor Corporation of India Ltd. (DFCCIL)
Justification for the project	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. The existing capacity utilization of Kolkata – Delhi corridor varies between 115% to 150%. The upward economic growth is adding more traffic to the system and creating more 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 much higher level of freight to support nation's growing economy.

Total cost to be borne by Indian Railways/DFCCIL towards land, Survey \ expenses and Utility shifting @ June 2020 to FY 2022.	2,269.70
Project Cost for Concessionaire (Including IDC & Financing Fee) @ FY 2027 level	7,709.86
Bidding Process	Single stage Two packet System (1st Part for Qualification and 2nd Envelop for Financial Bid)
Payment to Concessionaire	The Complete Project Cost will be paid to Concessionaire in 60 quarterly installments over a period of 15 (fifteen) years commencing from COD.
Approval Sought	In Principle and Final Approval

1. DS, PPP welcomed the participants to the 101st meeting of the PPPAC and requested DFCCIL to make their presentation.
2. DFCCIL made a presentation on the broad contours of the project. It was informed that 96% of land required for the project had been awarded to DFCCIL and acquisition of the balance land is at advanced stages. It was also informed that the cost estimates for the Authority had been revised to Rs.2,607 Crore (earlier it was Rs.2,269.70 Crore). He also delineated the role for DFCCIL viz., to provide Right of Way to the Concessionaire and to provide Annuity payments to the Concessionaire. The Concessionaire is required to Design, develop, construct and finance the project and receive instalment payments for a period of 15 years post Commercial Operation Date. The risks for variation in traffic etc. are to be borne by the Authority. He also informed that the payment for undertaking the construction is to be paid to the concessionaire through an Annuity in 60 equal quarterly instalments over 15 years concession period post-COD with an interest payable to concessionaire with each annuity payment @(MCLR +2%) on the balance Project Cost.
3. NITI Aayog informed that with the Project IRR expected to be 13.05% and NPV of Cash flows to Indian Railways of INR 9,471 Cr (i.e., the scenario of entire project development done by Indian Railways), the rationale for not adopting BOT mode for this project is unclear. Though, put forth as a public private partnership (PPP), the model only provides for the private partner to finance and undertake the construction of the project, without leveraging any private sector efficiencies of operation and maintenance. The proposed PPP model of the project fails to capture

the most essential benefits of public private partnership and would lead to (financially and operationally) inefficient outcomes. Further, the annuity model proposed herein - deferring the project cost payable by the Authority to post COD – would lead to expensive bids thereby increasing Authority's financial outflow - making the proposed model financially inefficient.

It was also pointed out that the proposed model and the concession agreement, as presently formulated, are more akin to an EPC contract than an annuity basis concession - with only the construction obligation vesting with the private partner and various other provisions of concessionaire obligations etc. analogous to risks and rights associated with an EPC contract rather than a concession agreement. The proposed project needs to be reviewed and restructured on DBFOT mode - extending the concession to operation and maintenance by the Concessionaire for a term beyond the Construction Period. NITI Aayog also highlighted that the proposed formulation provides for Termination payments to be payable in 4 instalments which is in deviation from prudent practice and is an onerous stipulation that would inter alia adversely affect the bankability of the document.

DEA informed that the present project structuring of annuity based payments may result in the Authority shelling out more than what it would cost if the project was undertaken on pure EPC mode. It was informed that a PPP Project undertakes a complete life cycle cost of the project while the present proposal only involves construction by a private player. In the instant proposal, it is observed that the private player is only required to construct the Freight Corridor and is not involved in its post COD operation or maintenance. The payment to concessionaire is to be made in 60 Equal (excluding interest etc.) Quarterly Installments over 15 years. Further, major risks and rewards from the project are also not shared with the Private Player. At best, this is an EPC project with annuity payments. Hence, DFCCIL/MoR may be advised to re-work and restructure this project on PPP Mode and then submit the revised proposal for consideration of the PPPAC.

MoR agreed with the view of DEA and NITI Aayog that the present project proposal of Sonnagar - Gomoh Section is not a PPP model. Further, this section of Eastern Dedicated Freight Corridor has adequate traffic potential and hence the same may be remodelled on DBFOT basis with a concession period of 30 year or so.

DFCCIL informed that the Freight Corridor projects is different from NHAI models of BOT wherein the customer base is large. In case of Freight Corridor, the sole customer at present is Indian Railways. Further, the operational control of the present section of the Freight Corridor is from Centralized Facility at Prayagraj and is monitored by the Indian Railways. BOT model has not been proposed as a small section of a Railway track cannot be operated in isolation unlike a highway where it is feasible. Also, maintenance of railway infrastructure is a highly specialized job and requires huge investment in machinery and traffic projections in such railway projects is highly uncertain, therefore traffic/revenue risk has not been passed on to concessionaire. DFCCIL also stated that such features make the BOT model vulnerable to non-participation by investors/bidders.

4. DoE raised the issue that financing costs for Concessionaire as well as Agency (DFCCIL) has been considered at different rates. The interest rate on long term debt as financing cost for Concessionaire has been considered as 9.3% per annum. However, the interest rate for long term debt for Agency (DFCCIL) to finance the capex has been considered as 8.4% per annum. DoE also asked MoR to explain basis of considering Departmental and General Charges @ 9.13% over and above capital costs (Para 5.11.3 on page 37 of Final Revenue Model Report). DFCCIL informed that the risks associated with financing the project to a private player will always be higher than for the Authority. The cost of debt for the Concessionaire will be higher than the cost of debt for the Authority. The cost of debt for Authority has been considered based on IRFC rate. Also, it is a standard practice to include Departmental and General charges @ 9.13% over and above capital cost in any project executed by DFCCIL/ IR. These charges mainly pertain to the manpower cost and other associated expenditure incurred by the department.

5. PPPAC considered the views of DEA, NITI Aayog, DOE, MoR and DFCCIL and 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 EPC contract rather than a PPP concession agreement. It was noted that in the present proposal the Concessionaire is not involved in the lifecycle of the project and risk and rewards from the project are unilaterally skewed. Further, the associated cost and operational efficiencies of the PPP model have also not been captured. PPPAC, hence, decided not to recommend the project proposal for approval of competent authority and directed DFCCIL to redesign, re-work and restructure this project on PPP Mode and then submit the revised proposal for consideration of the PPPAC. PPPAC also advised DFCCIL/MoR that if need be, then DEA and NITI Aayog may be consulted while reworking and redesigning of this project on PPP Mode.

The meeting ended with a vote of thanks to the chair.

Annexure I

List of participants in the 101st Meeting of the PPPAC held on 18.03.2021 at 3:45 PM

1. **Department of Economic Affairs, Ministry of Finance**

a. Shri Tarun Bajaj, Secretary, Department of Economic Affairs (In Chair)

b. Dr. Molishree, Deputy Secretary, (PPP)

c. Shri Kartik Agrawal, Deputy Director, (PPP)

2. **Department of Expenditure**

a. Dr. Sajjan Singh Yadav, Joint Secretary, Department of Expenditure

3. **NITI Aayog**

a. Sh. Partha Sarthi Reddy, Adviser (PPP)

b. Ms. Nidhi Arora, Consultant (Legal)

4. **Department of Legal Affairs**

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 Pawan Kumar, GM (PPP)