

GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
(RAILWAY BOARD)

No.2011/Infra/12/32

New Delhi, Dt.10.12.2012

General Managers,
All Indian Railways

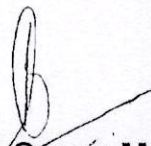
Subject:- Participative models for rail-connectivity and capacity augmentation projects.

Cabinet Committee on Infrastructure has approved a policy on participative models for rail connectivity and capacity augmentation projects which is enclosed. This policy supersedes the R3i and R2CI policies notified earlier. Adequate publicity may be given to the policy for attracting potential investors.

This issues with the concurrence of Finance Directorate of Ministry of Railways.

The receipt of this letter may please be acknowledged.

DA: As above.

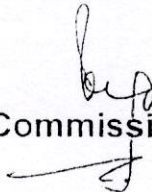

(Mukul Saran Mathur)
Executive Director/Traffic/PPP


No.2011/Infra/12/32

New Delhi, Dt.10.12.2012

Copy to:

1. FA&CAO, All Indian Railways
2. DAI(Railways) with 36 spares


For Financial Commissioner/Railways


19.12.2012
उप-मुख्य अभियंता (निर्माण) II
पूर्व तट रेलवे, अनुगुल
Dy. Chief Engineer (Con.) II
Anugul

No.2011/Infra/12/32

New Delhi, Dt. 10.12.2012

Copy forwarded for information and necessary action to:

1. Chief Operations Manager, All Indian Railways
2. Chief Commercial Manager, All Indian Railways,
3. Principal Chief Engineers, All Indian Railways
4. DG/RDSO, Manak Nagar, Lucknow
5. DG/Railway Staff College, Vadodara
6. Director, Indian Railways Institute of Transport Manager, Manak Nagar, Lucknow
7. Managing Director, Konkan Railway Corporation, RVNL, DFCCIL, CRIS, IRCON, RITES, CONCOR



(Mukul Saran Mathur)
Executive Director/Traffic/PPP

No.2011/Infra/12/32

New Delhi, Dt.10.12.2012

Copy for information to:

1. CRB, FC, MT, ME, MM, MS, ML and Secretary Railway Board, New Delhi
2. AM/T, AM/C, AM/Plg, Adv/Rates, Adv/Finance, Adv/Infra, Adv/Vig., EDTT(M), EDTT(S), EDTT(F), ED/P, EDPP, EDF(C), EDV(T), ED/F/PPP, ED/Infra/Civil, ED/Mech/PPP, DTT(Cord), OSD(CRB), OSD(MT) and DTC(R), Railway Board



(Mukul Saran Mathur)
Executive Director/Traffic/PPP
Railway Board

POLICY FOR PARTICIPATIVE MODELS IN RAIL-CONNECTIVITY AND CAPACITY AUGMENTATION PROJECTS

1. General

Indian Railways are operating in the core sector of the economy. To strengthen, modernise and expand the IR network, the investment requirement is huge. Ministry of Railways wishes to attract private capital for accelerated construction of fixed rail infrastructure. For this purpose, it has formulated participative investment models for its existing shelf of projects and also for new projects.

These are generic models. The specific issues will be decided on a case-to-case basis depending on the model of private investment, Ministry of Railways will either grant direct permission or go in for competitive bidding for award of concession.

2. Who Can Participate



- State Governments.
- Local bodies
- Beneficiary industries
- Ports
- Large import and export companies
- Co-operative Societies and other body corporate.
- Infrastructure and Logistics providers. PIO/Overseas Corporate Bodies (OCB) (After FIPB clearance)
- Foreign Direct Investor (After FIPB clearance)
- Other investors.

3. Advantages to Investors

- Opens opportunity for returns from investment in rail projects.
- Ensure timely availability of rail infrastructure to the beneficiaries viz. Port, Industry and States.

4. Advantages to the State Governments

- Ensure timely development of rail infrastructure critical to the economic development of the State.
- Reduces congestion on the roads.
- Investment in rail is cost effective compared to road.
- It is environment-friendly.



5. Objectives

- Supplementing Government investment in rail infrastructure projects by private capital flows.
- Involving the States in creation/development of rail infrastructure for the common public good.
- Timely creation of rail transport capacity to avoid supply-demand mismatch.
- Ensuring availability of transport needs consistent with the expected GDP growth of 9%.

6. Models and policy framework¹

6.1 Non-Government Railway Model-Salient Features

Applicability

This model shall be applicable to first and last mile connectivity projects at either end of the rail transportation chain providing connectivity to ports, large mines, logistics parks or other similar industries/ cluster of industries, which are handling goods traffic for multiple consignors or consignees. It is applicable for transportation of any kind of goods traffic. These railways will be operated on "common carrier" principle for public transportation of goods. The railway connectivity will be developed on private land and it will be a Non- Government Railway project.

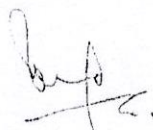
Legal/Policy Framework

It will be a Non- Government Railway under Railway's Act 1989. The Railway will become member of Indian Railway Conference Association. Under extant governmental policy, the train operation will be undertaken by the Zonal Railway serving the Non- Government Railway in a seamless manner. Proposal for such a Railway system will emanate from the beneficiaries of the first/ last mile connectivity.

Project Development and Project Structuring

- Project development and project structuring will be done by Project Developer to establish project cost, land requirement and other project component requirements. The project report will be examined by IR from the stand- point of

¹ This paragraph outlines the basic principles of various participatory models. Detailed guidelines/Concession Agreements will be developed in due course



its meeting of operational requirement for the traffic being projected for the railway system.

Project Developer, Funding and Land acquisition

- It envisages financial participation of the project proponent in the development and creation of rail infrastructure for providing first/last mile connectivity under an agreement with MoR either on its own or as a joint venture with infrastructure financing and development institutions.
- Funds will be fully mobilised by the project proponent etc. without any participation by the Railways.
- Land for the line will be acquired by the Project Developer to provide connectivity with the main line railway system. Railway land for providing connectivity may also be made available on lease/license as per extant policy. However, in such case commercial utilisation of the railway land for purposes other than for the project will not be permissible.

Construction

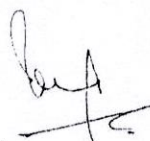
- Project construction will be done by Private Railway either on its own through a private agency or through Railways as special deposit work. Certification will be done by IR as per extant rules/policy.

Maintenance

- Maintenance of the project line and project assets will be done by the Non-Government Railway as per IR standards under supervision/ certification by the Zonal Railways on payment of supervision charges. Alternatively, Non-Government Railway may choose to entrust the maintenance to IR by entering into an O& M agreement.
- Renewal of project asset, technological up-gradation and capacity addition from time to time shall be undertaken by the project developer at its own cost as per IR standards.

Operations and Revenue Collection

- There will be seamless operation between IR network and the non- government railway system by IR with IR's rolling stock and locomotives. Railways will recover the cost of operation from non- government Railways (See Revenue Model).
- Commercial activities related to freight handling at the terminal will be done through Goods Clerk posted by IR whose cost shall be borne by IR. Freight for both outward and inward traffic will be collected by IR.



Revenue Model

- IR will pay user fee for the usage of infrastructure.
- User fee will be calculated on the basis of following :
 - Private line's apportioned share of 95% freight computed on the basis of Inter Railway Financial Adjustment Rules as provided in Paras 868 and 869 of Indian Railways Finance Code Volume-I Net of cost of operation and other fees/charges.
- Normal IR tariff/ freight rates shall apply on the project line. Freight revenue will be collected by IR
- The Non-government Railway shall pay the fixed cost i.e. the cost of essential operational and commercial staff to operate the line such as station staff, gate-keepers and maintenance supervisors etc. to IR. Variable Cost of operation shall be computed in terms of cost of rolling –stock usage,fuel/energy, crew etc including allocable overheads. The variable cost and other charges such as demurrage on wagons at terminals operated by the Non-Government Railway, where applicable, shall also be recovered by IR at the time of making net payment to the Non-government Railway.

Sidings and new line connectivity

- IR will have full rights to provide new rail connectivity taking off from the project line or provide sidings from the project line. However, the cost of the new connectivities including modifications to stations/yards shall be borne by new entrants and interests of original customers of the Non-Government Railway for freight movement shall be protected.

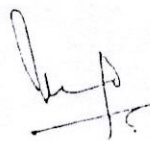
Concession Period

- As the project line is on private land and the assets are fully private infrastructure, it will be transferred to IR in case of violations of specified terms of agreement at terms set out in the Agreement or by mutual consent at such terms as may be mutually agreed.

6.2 JV Model for operationally necessary/ bankable sanctioned/to be sanctioned Railway projects - Salient Features

Applicability

- It is generally applicable for bankable **New line** and **Gauge Conversion** projects either sanctioned or proposed to be sanctioned having clearly identifiable stake holders either as user of the line or utilities such as ports, mines, exporters, plants and the State Governments. Bankability of the



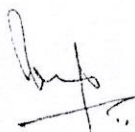
projects, if required, can be enhanced through innovative financial structuring such as sub-ordinate debt, grants etc.

Project Development and project structuring, Land acquisition

- Project development will be done by Indian Railways or its PSU through consulting firms to establish project cost, land requirement, project design and other project component requirements, and project bankability.
- IR will do financial structuring of the project to make it bankable including Identification of risks and mitigation measures.
- Land acquisition will be done either by Indian Railways at the JV's cost or by the JV itself as mutually decided. Ownership of the land will vest with the Railways. Land will be given to the JV on annual token lease of one rupee for the entire concession period. Cost of acquisition of land will be treated as a long-term non-interest-bearing advance and will be refunded to the JV on expiry/termination of concession. For such cases, the land acquisition cost will be certified by an independent agency.
- Railway land, as available, and MG/NG assets in case of Gauge Conversion projects, required for the project will be made available on lease/license at a token rental/fee of Re 1.00 per annum.

Selection of equity partners, Funding, Revenue Model

- It envisages participation of the stakeholders and beneficiaries besides national level infrastructure funding institutions in the development and creation of rail infrastructure through appropriate concession.
- Financial participation will be through equity participation in the JV. The JV will be a joint venture with Railways as a partner with IR or its PSU holding a minimum of 26% equity shares. Other partners will be selected from the stakeholders such as users of the line like ports, mines etc. Selection of partners will be done through a transparent Expression of Interest process, with clearly laid down technical qualifications based on parameters like networth, minimum threshold of equity participation etc. However participation by state governments and PSU's and other government entities will be through nomination basis.
- Project will be assigned to the JV by Ministry of Railways on nomination basis.
- Debt will be raised through Project Finance route without any guarantee by the Government of India.
- Revenue from the operation on the project line will be collected by IR through its commercial staff. Revenue stream of the JV shall be established through revenue apportionment from freight operation for the



project line as per Inter-Railway Financial Adjustment as stipulated in IR Finance Code Vol-I. No apportionment of passenger revenues will be made. JV will provide free access to IR passenger trains.

- Normal IR tariff/ freight rates shall be applicable. Inflated tariff to improve bankability could be approved by Railway Board in specific cases.
- Commercial utilisation of railway land, commercial publicity rights as permissible under the law and public policy.

Construction

- Project construction will be done by the JV. The JV must ensure transparency in project procurement in line with the extant guidelines of Government for public procurement. The JV, may, however, choose to entrust construction to IR or its agencies by entering into a Construction Agreement. Certification will be done by IR as per the extant rules/policy.

Maintenance

- Maintenance of the project line could be done either by the JV or by IR through an O&M agreement. In case the maintenance is undertaken by the JV, supervision/certification shall be done by IR on payment of supervision/certification charges by the JV.

Operations

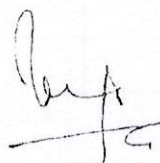
- Operations will be done by IR.

Recovery of O&M cost

- IR will recover O&M cost or cost of operation as applicable as per the Agreement. The JV shall compensate IR for the fixed cost i.e. the cost of essential operational and maintenance staff and other maintenance expenditure (if maintenance is to be done by IR) or the cost of supervision/certification. The variable cost of operation i.e. the cost of rolling-stock usage, fuel, crew etc. shall be recovered from the apportioned revenue. IR will pay to the JV apportioned revenue net of such cost as applicable, as per a pre-defined formula to be specified in the O&M or Operations agreement.

Concession period

- Concession period will be normally 30 years including the Construction period. The concession period shall be subject to both upward and



downward revision depending on shortfall/excess of traffic materialisation vis-à-vis the specified threshold traffic (80% of the total traffic to be carried during the Concession period expressed in terms of million tonne kilometres) on the Target Date (25 years after signing of the Agreement). Threshold traffic shall be determined on the basis of the Feasibility Report. For every shortfall of 4%, the Concession shall be extended by one year and the reverse principle shall apply if actual traffic exceeds the threshold traffic. However, the concession period shall not be less than 25 years and more than 35 years of operation.

- Cost of land acquisition paid by the JV shall not be factored in for the purpose of such equity return. No termination payment shall be admissible in case of natural expiry of the concession period.

Risk Mitigation

- Traffic guarantee and rolling stock availability agreement will be signed wherever such guarantees are considered necessary to mitigate the demand risk. Traffic guarantee shall be in the form of a "take or pay" agreement on the part of the strategic partners (users) for the minimum volume of traffic to be moved. Strategic partners will be required to enter into an agreement with IR on minimum commitment of traffic volumes to be moved on the line. IR shall assure provision of rolling-stock for loading and transportation in respect thereof. In case of failure by either the strategic partners (users) or IR, penalties stipulated in the agreement shall be payable to JV.

General Features

- JV shall operate on "common carrier" principle for public transportation of goods and passengers. For rail users, IR would be the interface.

6.3 Railway Projects on BOT awarded through Competitive Bidding - Salient Features

Applicability

- This model shall be applicable to the sanctioned Railway projects where it is not possible to identify a stakeholder or strategic investor who can take a lead in making investment in the project line. The projects under this model will generally be long rail corridors carrying traffic generated from various streams. These will be sandwiched sanctioned new line and gauge conversion projects or dedicated freight corridors. In the absence of strategic investor, selection of investors will be done through competitive bidding process. The



concessionaire so selected will design, build, finance, maintain and transfer the railway line at the end of concession period.

Project Development

- Project development, preparation of DPR, establishing financial viability & bankability will be done by MoR/Zonal Railway by engaging credible consultants and the project will be sanctioned as a railway project following the applicable procedure of appraisal/approval of PPP projects.

Selection of concessionaire

- The concessionaire will be selected through competitive bidding process. Premium or grant (through viability gap) will be the bidding parameter.

Design, Build, Finance, Maintain and Transfer(DBFMT) Concession

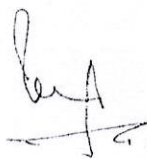
- The project will be funded by the concessionaire. The concessionaire will design and build the project within the design & performance parameters specified by MoR. The statutory/mandatory design approvals, wherever required, will have to be taken from CRS or the concerned Zonal Railway. However, it will be the responsibility of the concessioning authority/IR/Zonal Railways to get these approvals within a specific timeframe.
- Land acquisition for the project will be done by the Railways at their cost. Land will be owned by the Zonal Railways. It will be given to concessionaire on license on a token license fee of Re1 per annum.

Revenue share

User fee to be paid by IR will be calculated on the basis of following principles:

- i. IR published tariff for the year of RFQ will be used as base tariff along with specified annual escalation percentages based on inflated mileage charges.
- ii. Inter Railway Financial Adjustment formulae shall be used for apportionment of freight realized by IR on the project section.
- iii. The user fee to be paid to concessionaire by IR will be 50% of the apportioned freight as calculated in (ii) above.

Regardless of actual running of trains, trains chargeable to the route as per the routing indicated in the Railway Receipt (RR) shall be considered for apportionment. To insulate the concessionaire from the risk of inflation, appropriate mechanism for year-on-year escalation of base tariff (prevailing tariff levels) shall be built in. In case, freight revisions by IR lag and freight



charges do not cover the pay-out to the concessionaire, IR would recover such additional amounts by levying and collecting inflated mileage charges on the project line on the pattern of Konkan Railway.

Construction

- Project construction will be done by concessionaire through its own agency under mandatory certification and supervision from Railways.

Maintenance

- The concessionaire shall be responsible for maintenance of the project line to make it rail-worthy at all times including replacement/renewal of assets as per IR standards and specifications. Supervision and certification shall be done by IR on payment of specified charges.

Operation

- Train operation will be done by Indian Railways.

Concession Period

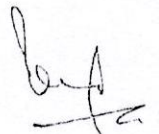
- Concession period will be fixed at 25 years. This shall include the Construction period. The concession period shall be subject to both upward and downward revision depending on shortfall/excess of traffic materialisation vis-à-vis the specified threshold traffic (80% of the total traffic to be carried during the Concession period expressed in terms of million tonne kilometres) on the Target Date (20 years after signing of the Agreement). Threshold traffic shall be determined on the basis of the Feasibility Report. For every shortfall of 4%, the Concession shall be extended by one year and the reverse principle shall apply if actual traffic exceeds the threshold traffic. However, the concession period shall not be less than 20 years and more than 30 years.

6.4 Capacity Augmentation (Doubling/Third line/Fourth line, etc) with funding provided by customers.

This model addresses doubling/ multiple line projects where some customers are beneficiaries of the capacity addition and may be interested in funding the project for expeditious completion/commissioning.

Project Development, Financing, Construction, Maintenance and Operation

- The project will be sanctioned as a railway project on the basis of an MOU/Agreement entered into between Railways and the Customers wishing



to fund the project in full or part. It will be constructed, maintained and operated by Railways. IR shall ensure that the funds advanced by the customers will be treated as deposits and used solely for timely execution of the concerned project by appropriate ring-fencing. The ownership of the line and its operation and maintenance will always remain with Railways. In return, Railways will pay upto 7% of the amount invested through freight rebate on freight volumes every year till the funds provided by the project beneficiary is recovered with interest at a rate equal to the prevailing rate of dividend payable by Railways to General Exchequer at the time of signing of the agreement. The interest shall be payable on the reducing balance.

6.5 Capacity Augmentation (Doubling/Third-line/Fourth line, etc)- Annuity Model Applicability

This model is applicable to sanctioned doubling, third line and fourth line projects where it may not be possible to find funding from any specific user.

Project Development, Financing, Construction, Maintenance and Operation

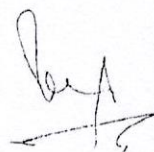
- Indian Railways will be responsible for project formulation, DPR, Final Location Survey etc. The feasibility report would be prepared by a consulting firm to provide an indicative assessment to the prospective bidders. The prospective bidders will carry out due diligence on the feasibility report.
- Concession period will be fixed in the range of 15-20 years based on the feasibility report.
- Indian Railways shall also be responsible for finalization of Engineering Scale Plans & Signal Interlocking Plans, if any as also technical standards and specifications.
- Project will be appraised, approved and awarded following the procedure laid down by Government for PPP projects.

Land acquisition

- Land acquisition and shifting of structures to the extent required would be done by IR.

Nature of Design, Build and Transfer concession and selection of the concessionaire

- The concession would be for financing and construction. Supervision and certification of construction would be carried out by IR under guidelines specified in the agreement.



- Train operations and maintenance will be by IR i.e. IR will manage stations, signals, level crossing gates, if any, running of trains and section control.
- IR shall, based on the requisite papers submitted by the Concessionaire, apply for and obtain CRS sanction.
- Non-interlocking (NI) activities preceding operationalisation of the double/multiple line will be undertaken within a stipulated period after Construction Completion Certificate in respect of the civil works is furnished by the Concessionaire. NI will be done by the Concessionaire under the supervision of IR.
- Track-mounted technological tools could be deployed to eliminate possibility of disputes on account of flat-wheels, hot axles, hanging parts during the period of defect liability. In addition, an appropriate mechanism would be set up for resolution of technical disputes.

Revenue model

- The concessionaire would be paid through annuity for limited predetermined period. Annuity will be determined through competitive bidding
- Annuity payments will be budgeted and paid on a committed basis.

6.6 STATE GOVERNMENTS:

In case state governments or their agencies evince interest in developing and taking up any railway project in their respective states, they can participate under the schemes described herein. In particular, if the projects can be structured as an JV or a Non-Government Railways as defined in the Railways Act, 1989, it is proposed to permit them to take up such projects under the framework described in para 6.1 or 6.2 above (subject to a limited concession period with the additional flexibility to run passenger services on these lines in compliance with all safety and statutory requirements). Further, they will be permitted to bid out such projects within the boundaries of the Concession Agreement. In other words, they will not create any additional encumbrances on the project assets or additional obligations on Railways. They will be, however, fully responsible to meet their commitments to Ministry of Railways regardless of the outcome of the bidding.

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