

**GOVERNMENT OF INDIA
Ministry of Railways
(Railway Board)**

No.2008/PL/9/16

New Delhi, dated 20.7.2010

**The General Managers,
All Indian Railways.**

Sub: New R3i policy

**Ref: Railway Board's Circular No. 2008/PL/9/16 Dtd. 28.11.2008 : R3i-
Railways' Infrastructure for Industry Initiative - attracting private
sector participation in rail connectivity projects.**

1. **Introduction:** With the Indian economy growing at a rate of 8% over the past few years, new areas are opening for investment many of which do not have any rail connectivity. These have significant potential for freight traffic and therefore Indian railways has to be proactive in seizing these opportunities in order that the high rate of growth of freight traffic in the last few years can be sustained. However with too many competing demands, resources are a constraint and alternative sources of funding must be explored and encouraged.

2. **Objective:** R3i is therefore aimed at attracting private sector participation in rail connectivity projects so that additional rail transport capacity can be created. The primary objective of this policy is to retain and increase rail share in freight traffic. It also aims at making rail option more competitive for prospective customers by sharing their burden in getting rail connectivity.

This policy shall not be applicable to lines intending to provide connectivity to coal mines and iron ore mines directly or indirectly.

3. **Eligibility:** Only those new line proposals which are 20 kms or more in length (excluding the length of siding which may take off from this line) shall be eligible under this policy.

The policy allows for four models viz., (a) Cost sharing-freight rebate model, (b) Full contribution- Apportioned earning Model, (c) the SPV model and, (d) the Private Line Model. Further, the new line proposals under models (a) and (c) only would require to have an acceptable FIRR of minimum 14%. While applicants may choose and indicate preference for one of the models, Ministry of Railways reserves the right to decide which model shall be applicable and that decision shall be final.

4. COST SHARING FREIGHT REBATE MODEL

4.1 The new line project shall be sanctioned as a railway project.

4.2 The applicant(s) could be an individual company or a group of companies applying together as a consortium with clear power of attorney in favor of the lead partner.

4.3 **Land:** Wherever land has to be acquired, the same shall be done by IR at party's cost, with the proviso that funds for land acquisition will be made available by the applicant upfront to the railways. The ownership of the land shall however vest with railways.

4.4 **Financing:** All contributions towards cost sharing by the applicant shall be in the nature of an advance. The percentage contribution of the applicant towards cost sharing shall be decided based on a number of factors including railways prior financial commitments, traffic projections etc., but in no case less than 50%. In case there are more than one applicant, the combined share shall not be less than 50% of the project cost.

4.5 **Concession:** The applicant shall be permitted to recover the advance contribution made by it through a freight rebate of 10%-12% (depending on the financials of the case) on incremental outward traffic (incremental traffic being reckoned as the traffic which is over and above the level of traffic moved by rail at the time of the sanction of the project). The freight rebate will be valid till the party recovers the advance contribution made by it or for a period of 10 years from the date of commissioning of the line, whichever is earlier.

The freight rebate on incremental outward traffic shall be for the entire lead of traffic and not restricted to the length of the new line.

In case of projects where the applicant may not be directly using rail services, the Zonal railway shall calculate the total freight traffic booked via the project line and calculate the refund at the end of the every month by applying the freight rebate which shall then be refunded to the applicant.

4.6 **Ownership:** Ownership of the line will remain with railways from the beginning.

4.7 **Estimated Cost:** Every project that shall qualify under the scheme shall have undergone a Preliminary Engineering cum Traffic Survey (PETS) which should be not more than six months old. An MOU shall be signed between the railways and the applicant laying down the broad terms of agreement only after which necessary sanctions will be processed by Railways. Thereafter, the Final Location Survey (FLS) will be undertaken by the railway and the cost of FLS would be shared by the railway and the party in the same proportion of cost sharing.

4.8 Construction: Railways shall undertake the construction of the line as laid down below.

- The estimated cost of the project, based on FLS, has to be vetted by the Zonal railway concerned, which shall certify that the standards of construction laid down are as per the extant rules in force. It will also clearly lay down the facilities that shall be provided.
- The project cost shall be frozen after detailed estimates are prepared based on FLS. This will be the “agreed cost” between the applicant and railways. The period of construction shall also be specified and shall be calculated from the date from which land is made available.
- In case of any cost escalation due to variation in the scope of work, as mutually agreed shall be shared in the same ratio as per the initial contributions towards the cost of the project. However, cost increase due to price escalation during the course of construction of the line has to be necessarily shared in the same ratio as per the initial contributions towards the cost of the project.
- The applicant shall immediately deposit 25% of its contribution to the project when agreed cost is finalized. Thereafter, from time to time, Railways will demand balance funds in 3 installments of 25% each based on progress of works and committed liabilities.
- In cases where land is made available by the party, railways will construct the line within a pre-specified time and cost.

4.9 O&M shall be undertaken by the railways at its own cost.

4.10 Railway shall have the right to provide connectivity to other parties from the said line. In case the line is still under construction a new party could also be asked to advance the cost of the new line in a manner to be decided by the railways. The decision of railway shall however be final.

5.0 FULL CONTRIBUTION APPORTIONED EARNING MODEL: This model shall be applicable in cases where the applicant is making 100% contribution towards the cost of the project.

5.1 The new line project shall be sanctioned as a railway project.

5.2 The applicant(s) could be an individual company or a group of companies applying together as a consortium with clear power of attorney in favour of the lead partner.

5.3 Land: Wherever land has to be acquired, the same shall be done by IR at applicant’s cost, with the proviso that funds for land acquisition will be made available upfront by the applicant. The ownership of the land shall however vest with railways.

5.4 Applicant will construct and maintain the line for a period of 25 years as per Ministry of Railways rules, specifications, standards and procedures as laid down from time to time.

5.5 For a period of 25 years from the date of commissioning of the line, the applicant would be entitled to receive the apportioned earnings from the line less the O&M costs incurred by the railways on the line.

5.6 The ownership of the line and land shall vest with railways from the beginning at all times

5.7 Railways would levy a fee of 2% on the gross apportioned earnings of the applicant's share for the first ten years from the date of commissioning and 4% thereafter till the completion of the concession period of 25 years. The fee shall be reviewed mutually at the end of 10 year and 20 year period.

5.8 At the end of the concession period of 25 years, the entire revenue would accrue to the railways and all costs would be borne by the railways. No compensation shall be payable to the applicant after the expiry of the concession period. However, the advance provided for land acquisition, shall be refunded without any escalation whatsoever.

5.9 In case of projects where the applicant may not be directly using rail services, the Zonal railway shall calculate the apportioned earning and pay the applicant at the end of the every month.

6.0 Special Purpose Vehicle:

This model shall be applicable to both

- Lines likely to be embedded in the existing railway network as well as
- Lines taking off from the mainline and terminating into a dead end terminal be it a port, steel plant etc.

6.1 An SPV shall be formed between railways and the applicant and railways share in equity will generally be 26%.

6.2 Land shall be acquired by at SPV's cost but ownership of land will vest with IR. However, in cases where line is going through forest land and environmentally sensitive areas, railways shall assist in land acquisition and where necessary even acquire such land themselves. The original cost of acquisition of land will be returned to the SPV at the end of the concession period without any escalation what so ever.

6.3 The project cost shall be determined after detailed estimates are prepared based on FLS. This will be the "agreed cost" between the SPV and the railways.

6.4 SPV shall be granted a concession to construct, operate and maintain the line and in consideration thereof, it shall be granted a share in the revenue generated on the project line. The revenue share under the concession shall be broadly as under, subject to modifications based on financials of the project.

A) For Port connectivity projects

a) First 10 years of operation, 100% freight apportionment less O&M charges due on the project and for next twenty years, 98% freight apportionment less O&M charges due on the project.

B) For embedded line projects

a) For project related traffic: First 10 years of operation, 95% freight apportionment less O&M charges due on the project. Next twenty years, 90% apportionment less O&M charges due on the project

b) For other than project related traffic/diverted traffic: 80% apportionment less O&M charges due on the project for 30 years.

In case the new line becomes a shorter route for existing traffic, railways shall reserve the right to levy a surcharge on an inflated distance basis.

6.5 However, in both the cases the concession shall lapse as soon as the NPV on the project equity reaches zero at a discounted rate of 14%.

6.6 The line and the land shall be owned by MOR from the very beginning.

6.7 Minimum Traffic guarantees shall be laid down in the concession agreement

6.8 O&M shall be undertaken for the SPV by the railways for which SPV shall reimburse the costs.

6.9 Construction could be done by the SPV itself through competitive bidding or by railways or RVNL for SPV at the cost of SPV and at the option of SPV.

7.0 Private line Model:

7.1 This would apply for situations in which a private line is built by the applicant on privately acquired non-railway land and connectivity is sought to the railway's network. Applicant will construct and maintain the line for a period of 30 years as per Ministry of Railways rules, specifications, standards and procedures as laid down from time to time. In these cases, the Railways would enter into an Operation and Maintenance Agreement with the applicant for a period of 30 years which would provide the following:

7.1.1 Apportioned revenue less O&M expenditure incurred by Railways would be paid to the applicant.

7.1.2 Railways would levy a fee at the following rate on the gross apportioned earnings viz:

- 0 -5 years - Nil
- 5-10 years - 2%
- 10-20 years - 3%
- 20-30 years - 4%

The fee shall be reviewed mutually at the end of 10 year and 20 year period

7.1.3 At the end of the 30 years period, the Railways will have the right to take over the line at zero cost. However this shall be neither obligatory nor binding on railways. However, in case of such take over, the cost of the land, as certified by Ministry of Railways prior to the execution of the agreement, shall be paid to the party without any escalation whatsoever.

8.0 For all the four models, Ministry of Railways shall retain the right to provide connectivity to other customers, regions or, industries without adversely affecting the transport requirements of the original participant under the scheme.

9.0 **Exit Policy:** the exit provision is not relevant for the cost-sharing freight rebate model. However, for, other models, the following shall be the exit policy

9.1 SPV Model: Obligations relating to lock-in or change of ownership in case of the SPV would be incorporated in the Share-holder agreement. From the date of the execution till the Commercial Operation Date (COD), transfer of shares to any other party except as provided in the Agreement would not be permitted. Limited right to assign certain percentage of the share may, however, be provided in the Agreement, if required in specific cases.

9.2 Full contribution apportioned earning Model and the Private line Model: Change in ownership interest in respect of the Applicant's investment in railway line would not be normally permitted till one year after the Commercial operation Date. However, in exceptional circumstances, changes in ownership can be permitted by the Ministry of Railways subject to the satisfaction of certain obligations on the part of the Applicant which shall be enumerated in the Agreement.

10.0 Railways shall permit applicants to develop freight and logistics related activities on the project line as per extant rules in force. Party will also be permitted to develop Multi Functional complexes (MFC) at stations.

11.0 All sidings taking off from these new lines will be governed by the rules governing sidings.

12.0 For all the four models mentioned above, Railway Board shall circulate the model concession agreement to the zonal railways for entering into agreement with the applicant.

13.0 Planning Directorate shall be the nodal directorate for all matters concerning this policy and ED/Planning shall be the nodal officer.

14.0 This policy is being issued with the concurrence of Works and Finance directorates of Railway Board.

15.0 This policy supersedes the earlier R3i policy issued vide Railway Board's Circular No. 2008/PL/9/16 Dtd. 28.11.2008.



(N. Madhusudan Rao)
Executive Director (Planning)
Railway Board

No.2008/PL/9/16

New Delhi, dated 20.7.2010

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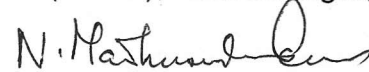


For Financial Commissioner (Railways)

No.2008/PL/9/16

New Delhi, dated 20.7.2010

1. Chief Commercial Managers, All Indian Railways
2. Chief Operating Managers, All Indian Railways
3. Managing Director, CRIS, Chanakyapuri, New Delhi-110 023
4. The Chief Administrative Officers, FOIS, Northern Railway, Camp:CRIS, Chanakyapuri, New Delhi-110 023
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