30 June 2009

Sub.: Rate of return of Capital Employed and Annual Escalation factor for expenditure projections allowable for the major ports and private terminals operating thereat for the FY 2009-10.

Sir,

Clause 2.9.2. of the tariff guidelines of March 2005 requires this Authority to review the rate of ROCE in April every year, in the light of the changes in the key parameters. Accordingly, a review of the existing rate of ROCE was undertaken which revealed that the variance is less than 1%.

2. Since the variance is less than 1%, the existing maximum ROCE of 16% will continue to be applied in all tariff cases of major ports and private terminals, to be decided in the financial year 2009-10.

3.1. Clause 2.5.1. of the tariff guidelines of March 2005 requires that the expenditure projections of the major ports/ terminal operators should be in line with traffic adjusted for price fluctuations with reference to current movement of Wholesale Price Index (WPI) for all commodities announced by the Ministry of Finance, Government of India.

3.2. The 52-week average inflation rate based on WPI for the financial year 2008-09 works out to 8.43% based on the data obtained from the Government of India. Noting that this average inflation rate of 8.43% was largely influenced by the volatile fluctuations in the index during the year 2008-09 and keeping in view the current movement of WPI in the first quarter of the year 2009-10, this Authority has decided to consider the average of the annual escalation factors adopted for the years 2005-06 to 2008-09 and the 52 week average WPI for the year 2008-09.

4. Accordingly, an escalation factor of 5.80% will be considered for the expenditure projections in the cost statements to be considered in the tariff cases to be decided during the year 2009-10.

Yours faithfully,

(**L. Ragothaman**)
Director