

No. H-25011/1/2018- Toll
GOVERNMENT OF INDIA
MINISTRY OF ROAD TRANSPORT AND HIGHWAYS
(Toll Zone)
Transport Bhawan, 1, Parliament Street, New Delhi- 110001.

Date: 15.02.2018

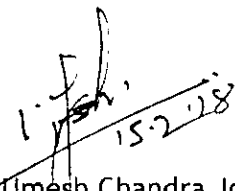
To,
The Chairman,
National Highways Authority of India,
G-5 & 6, Sector 10, Dwarka,
New Delhi- 110075

{Kind Attention: Sh. Rohit Kumar Singh (Member, Finance)}

Subject: Change in WPI series reg.

1. The Office of the Economic Advisor has published a new series of Wholesale Price Index (WPI) with the base year revised from 2004-05 to 2011-12, thereby discontinuing the old WPI series w.e.f. April 2017. In response to this, National Highway Builders Federation (NHBF) has represented to the Ministry (Copy Annexed) for adoption of a higher linking factor i.e 1.641 in place of the linking factor of 1.561 published by the Office of the Economic Advisor (OEA).
2. This was deliberated in Ministry (Copy annexed) and as directed, NHAI is requested to peruse the proposal and provide views/comments regarding the subject matter at the earliest please.

O/c
Issued by Peon book (2)
16/2/2018


(Umesh Chandra Joshi)
Superintending Engineer (Toll)
Tele: 011-23326670

Enclosure: As above.

F No. H- 25011/1/2018- Toll

GOVERNMENT OF INDIA
MINISTRY OF ROAD TRANSPORT AND HIGHWAYS
(Toll Zone)

Transport Bhawan, 1, Parliament Street, New Delhi- 10001.

Subject: Change in WPI series (Reference NHBF's letter dated 12.1.2018).

Background:

1. The Office of the Economic Advisor has published a new series of Wholesale Price Index (WPI) with the base year revised from 2004-05 to 2011-12, thereby discontinuing the old WPI series w.e.f. April 2017. In response to this, National Highway Builders Federation (NHBF) has represented to the Ministry (p/173/c- F/X) for adoption of a higher linking factor i.e 1.641 in place of the linking factor of 1.561 published by the Office of the Economic Advisor (OEA). NHBF's main plea for doing so is on account of the argument that though the bid assumption of the ongoing projects for WPI movement was a 5% annual increase for concession periods ranging from 15 to 30 years, due to severe fluctuations in the WPI, over the last five years, the compounded WPI increase has been only 1%. This has resulted in lower toll revenues to them.

2. To detail, whenever the series of WPI is changed, a 'linking factor' is published by OEA. This time this has been pegged at 1.561. NHBF has requested that this factor be determined at 1.641. The rationale offered is a peculiar analogy. They have appealed that when MOSPI altered the CPI, they have chosen to calculate the linking factor based on the year 2015 (p/174/c) whereas OEA while changing the WPI has opted for calculation of the same at the base year i.e.2011-12. The method adopted for calculation of the linking factor by NHBF is through representing the relationship between the new and the old series of WPI for the whole period between 2011 and 2017 which is an altogether new manner of computing the WPI linking factor. OEA has given a relaxation to users to opt for a 'linking factor' as decided by them based on the choice of method they find appropriate which is the window being used by the NHBF is seeking a revised 'linking factor'.

✓ F/Y

3. The matter was referred to TRW who consulted OEA. OEA has re-confirmed the 'linking factor' as 1.561 but suggested that we may approach MoSPI for technical appropriateness of the methodology adopted by NHBF. We visited OEA and after discussions it was confirmed that WPI falls within their jurisdiction and this series is computed after COS deliberations. Several representations have been received by the OEA regarding the changing of the 'linking factor' and the same is under deliberation *by them.*

Comments:

4. The current practice of annual fee revision, as per the provisions of NH Fee Rules, 2008 is based on a 3% increase, without compounding, and 40% of the variation in WPI. In 2008, when the new Fee Rules were formulated, the series 1994-95 was applied for WPI calculation as determined by OEA. When the series was changed to

2004-05, a linking factor of 1.873 was prescribed by OEA which was used. Hence MORTH has been applying the 'linking factor' as communicated by the OEA without any discretion. The process of annual fee revision is an automatic process. The Executing agency, with the help of the prevailing WPI rates computes the base rates, which are used for calculation of revised fees for the year. It is observed that since the values for WPI have been released by the OEA with 2011-12 as the base year, if the linking factor is calculated on application of 2016-17, the values will be inflated. Further, this will set a new trend on MoRTH calculating the 'linking factor' each time the series reflects fluctuations.

5. While NHBF may be suffering a loss as opposed to projections, this has to be treated as a business risk. Here it is important to note that the application of the 'linking factor' has implications not only for User Fee calculations but also during calculations of escalations in EPC projects. Annuity payments for HAM are also linked to WPI. The impact of any change, across the board may therefore be significant resulting in larger pay-outs from our side. Further, the user of NH will end up paying more User Fee if at all the suggestion of NHBF is adopted i.e. over Rs.500 crore annually.

6. To conclude, NHBF has requested MoRTH to direct NHAI to approve the fee revision based on 2004-05 series with 1.641 as the linking factor. However, ~~our~~ ^{our} ~~is~~ ^{is} ~~of the~~ ^{of the} opinion that the 'linking factor' published by the OEA may be used for calculation of fees during annual revision. Adoption of an independent logic by this Ministry will have ramifications and will need to be justified as to why we have opted for a different series with a more detailed analysis of cross-sector impact. In view of the above, no action appears necessary on this representation.

Submitted please.

SE (Toll)

JS (Toll)

Secretary

JS (T)

60/11

15/2/18
ABE(T) SM

15/02

(Signature)
12/2/18
(Saswat Mohapatra)
AEE (Toll)

(Signature)
13.2.18

(Signature)
13/02

DAKSHITA DAS
Jt. Secretary (T&C & AP)

What is NHAI's view? We may seek their comments at the earliest.

(Signature)
14/2/18

युज्योद सिंह मलिक/Y. S. MALIK
सचिव (म.प. व राजकाय)/Secretary (MTH)

Fwd. JS (Toll)
13/2/2018

Jt. Secy (RTM)
13/2/2018

F-35 (TK)
15/2

13/2/18