

**GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
RAILWAY BOARD**

No. TCR/1078/2016/14 Pt.

New Delhi, dated 21 .06.2017

The General Managers
All Indian Railways

Sub: Long Term Tariff Contract (LTTC) with key customers using pre-determined price escalation principle.

Ref: Board's letter No. TCR/1078/2016/14 dated 30.03.2017
(Rates Circular No.14 of 2017)

In terms of Board's letter under reference, policy guidelines have been issued for Long Term Tariff Contract (LTTC) with key customers using pre-determined price escalation principle.

With reference to the policy a number of issues have been raised by some Zonal Railways and industries. The issues have been examined in consultation with Finance Directorate of Ministry of Railways. Following clarifications to the policy are being issued:

- (i) Para 10 of the policy guidelines stipulates conditions for grant of rebate on retention of traffic. It is clarified that the customer is required to retain the traffic at the same level of AGFR during the entire period of agreement as offered by him during the year just preceding the start of the contractual period, to avail rebate on retention of traffic. For example, suppose the customer has signed agreement under LTTC for three years i.e. 2017-18, 2018-19 and 2019-20 and the AGFR of 2016-17 was Rs. 1000 cr. If customer desires to avail rebate, he must offer the AGFR of at least Rs.1000 cr during 2017-18, 2018-19 and 2019-20 i.e. during all the years of contract. The rebate for retention of traffic under the scheme, if applicable, will be granted on annual basis.

Illustration: The AGFR for 2016-17 is Rs.1000 cr. Customer shall retain this AGFR during the each year of the contract for availing retention rebate. Suppose, customer offers traffic of Rs. 1000 cr in 2017-18, Rs. 980 cr. in 2018-19 and 1000 cr in 2019-20. The customer will be eligible for rebate in 2017-18 and the rebate amount will be refunded after end of the first year of contract i.e. 2017-18. In second year (2018-19), no rebate will be given as the customer did not retain the AGFR of Rs.1000 cr. For third year of the contract (2019-20), customer will be eligible for rebate for retention of traffic and the rebate amount will be refunded after end of the third year of the contract.

- (ii) The words "Financial year" in the Para 3(2) of the policy guidelines (Rates Circular No.14/2017) and Para 5.1.1 of the Annexure – B of the Rates Circular may be read as "year". Definition of the term "MGGFR" in Para 3(2) of policy guidelines and Para 5.1.1 of Annexure-B to the Rates Circular No.14 of 2017, shall be read as "the annual minimum gross freight revenue committed by the company for each individual year (i.e. twelve months of 1st year, 2nd year and so on) of the Agreement from the date of the Agreement".

Illustration: Contract is signed for three years i.e. from September 2017 to August 2020 (first year: Sept. 2017- Aug. 2018, second year: Sept. 2018-Aug. 2019 and third year: Sept. 2019-Aug. 2020). The MGGFR will be annual minimum gross freight revenue committed by the

company for each individual year of the contract i.e. for Sept. 2017-Aug.2018, Sept.2018-Aug.2019 and Sept.2019- Aug.2020 separately.


- (iii) At Para 7.2 of the policy, it has been stipulated that the rebate accrued in a year under this scheme shall be granted as refund immediately within 45 days after completion of each year. The issue has been further examined and it has been decided that the rebate may be granted either as a refund or through adjustment in freight during the next year. For this purpose, discount @20% on each RR of the customer may be granted during the next year. This discount shall be allowed till the adjustment of the total rebate amount accrued during previous year under the scheme.

However, GFR for the current year (i.e. the year in which discount @20% is granted in lieu of rebate accrued during previous year through freight adjustment) shall be calculated on the original freight amount and not on discounted freight amount arrived after discount on each RR.

Customer can give his option for refund or freight adjustment during the time of signing of the Agreement.

Illustration: Suppose, total rebate accrued to the customer during 2017-18 is Rs. 1 crore. If party opted for freight adjustment of rebate amount accrued during 2017-18 during the next year i.e. 2018-19, 20% discount on each of the RR of that customer will be allowed. The discount during the year 2018-19 will be continued till the total rebate amount of Rs. 1 cr is adjusted in full.

However, GFR of 2018-19 will be calculated by taking total freight amount without accounting for the discount allowed in lieu of freight adjustment. If on a RR, the total freight comes to Rs. 50 lac and after discount it comes to Rs. 40 lac, the calculation of GFR will be done by taking freight revenue of Rs.50 lac for that RR.


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No. TCR/1078/2016/14 Pt.

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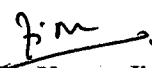

for Financial Commissioner(Railways)

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