



Ref: BMTC/CO/CME(P)/890/2017-18

DATE: 06.01.2018

To

The Joint Secretary to Govt of India

Department of Heavy Industry (DHI)

Ministry of Heavy Industries and Public Enterprises,

L-71, NiveditaKunj,

R.K Puram, Sector 10,

New Delhi – 110066

Dear Sir,

Sub: Hiring of Electric Buses on Gross Cost Model –Reg

Ref: 1) This office letter no: BMTC/CO/CME/684/2015-16 Date: 18/11/2016
2) This office letter no: BMTC/CO/CME/852/2015-16 Date: 07/01/2017
3) This office letter no: BMTC/CO/CME/940/2015-16 Date: 01/12/2017
4) This office letter no: BMTC/CO/CME/843/2017-18 Date: 26/12/2017

Please recall the discussions that we had in your office on 02.01.2018. With regard to the same, we would like to state that as induction of Electric Buses is an emerging field and the technology is evolving, BMTC has proposed to induct Electric Buses on a **Performance Based Gross Cost Model** instead of direct procurement. During the discussions, the following major concerns were raised by DHI on the proposed engagement model:

1. Commitment of the STU in a Gross Cost Model
2. STUs control on these buses, as ownership of these buses will vest with the private player

With regard to the above raised concerns, we would like to clarify as follows:

Commitment of the STU:

The LoA issued by DHI on 27th December 2017, states that subsidy available under the Multi Model Public Transport for buses would be as follows:

Level 1 Incentive	Level 2 Incentive
60% of the purchase cost or Rs. 85 Lakhs (whichever is lower) for minimum 15% localization	60% of the purchase cost or Rs. 1.00 crore (whichever is lower) for minimum 35% localization

If the cost of a 12 meter Electric Bus is assumed to be about Rs.2 crore, then with 35% localization, the capital requirement per electric bus for the State Transport Units (STUs) would be about Rs.1 crore. In the event of going for direct procurement the STUs would have to upfront invest the entire gap funding. Whereas, in a gross cost model the upfront investment would be done by a private operator and then the operator makes it good by way of operating cost, payable to him by the STU for operating the buses over a period of 10 years. Thus, the STU will indirectly bear the burden of gap funding in installments for the entire project period.

BMTC is also making capital investment towards electric connectivity infrastructure besides providing free land for charging infrastructure.

It is estimated that the Total Cost of Operations (TCO) for an Electric Bus is likely to be more than that of normal AC buses owing to initial high capital cost. This increase will also have to be borne by BMTC.

Thus, it is evident that there is a strong financial commitment from BMTC both in terms of Gap Funding of the capital cost, funding support to meet the increase in TCO owing to induction of Electric Buses and opportunity cost in terms of providing land for setting up of charging infrastructure.

STU control on the ownership of the buses in Gross Cost Model:

The vehicles once purchased would be registered with the Transport Department for transport operations of BMTC. Further, the stage carriage permit for the said buses would be only in the BMTC's area scheme jurisdiction.

The vehicle would be hypothecated to financial institutions and then to BMTC in such a way that the first charge will be of the financial institution and the second charge would be of BMTC.

It is also proposed to obtain a Performance Security of Rs.30 crore (about 10% of the capital cost of the bus) by way of Bank Guarantee from the Operator, before signing the contract

Thus, the Operator or the service provider will be bound to operate the said buses only for BMTC and will neither be able to transfer the ownership or operate the buses elsewhere without the consent of BMTC.

During the meeting, it was informed that as against our proposal for 150 Electric Buses only 40 buses have got approved under the demand incentive scheme. With regard to the same and based on the recent discussions held at your office, as we have already invited tenders for 150 buses, we will seek quotation from bidders in slab of 40 electric buses up to a maximum 120 buses. In the event other cities not meeting the deadline fixed by DHI for procurement of Electric buses, then the demand incentive of such cities may be passed on to Bangalore which will enable us to induct more electric buses.

Further, it was also informed that upon placement of order, 20% of the incentive would be released and balance 80% would be released as and when the bus gets actually inducted. As such, kindly confirm whether the balance 80% of the incentive and the additional incentive towards charging infrastructure would be released within the FY 18-19, if all the buses are inducted within the said time frame. This would enable us to declare the time frame for release of subsidy in the RFP document which may result in enhanced bid competition.


We look forward for your support in taking this initiative forward.

Thanking You,

Yours Faithfully
Sd/-
(V.PONNURAJ)
Managing Director

Copy:

- 1) *Director(Auto), Department of Heavy Industries (DHI), Ministry of Heavy Industries and Public Enterprises, New Delhi, for information and necessary action*
- 2) *Commissioner, Department of Industries and Commerce, Government of Karnataka, for information and necessary action*


(V.PONNURAJ)
Managing Director