



**AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA**

**IN THE MATTER OF  
DETERMINATION OF FUEL INFRASTRUCTURE CHARGES (FIC) FOR  
INDIAN OIL SKYTANKING PRIVATE LIMITED (IOSPL) AT  
KEMPEGOWDA INTERNATIONAL AIRPORT (KIA), BANGALORE FOR  
THE THIRD CONTROL PERIOD  
(01.04.2021 – 31.03.2026)**

**Date of Issue: 07 December, 2021**

AERA Building  
Administrative Complex  
Safdarjung Airport  
New Delhi – 110003



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### List of Abbreviations

Abbreviation	Full Form
ACAAI	Air Cargo Agents Association of India
ACI	Airports Council International
ACS	Annual Compliance Statement
AERA	Airports Economic Regulatory Authority of India
ARR	Aggregate Revenue Requirement
ATM	Aircraft Traffic Movement
AUCC	Airport Users Consultative Committee
BOOT	Build, Own, Operate and Transfer
BPCL	Bharat Petroleum Corporation Limited
CAGR	Compounded Annual Growth Rate
CAPA	Centre for Asia Pacific Aviation
CHQ	Central Headquarters
CSR	Corporate Social Responsibility
DGCA	Directorate General of Civil Aviation
FIA	Federation of Indian Airlines
FIC	Fuel Infrastructure Charges
FICCI	Federation of Indian Chambers of Commerce and Industry
FRoR	Fair Rate of Return
Gol	Government of India
GST	Goods and Services Tax
HPCL	Hindustan Petroleum Corporation Limited
IATA	International Air Transport Association
IOCL	Indian Oil Corporation Limited
IOSPL	Indian Oil Skytanking Private Limited
ITP	Into Plane
JVC	Joint Venture Company
KIA	Kempegowda International Airport
KL	Kiloliter
MAFFFL	Mumbai Aviation Fuel Farm Facilities Private Limited
MoCA	Ministry of Civil Aviation
MRPL	Mangalore Refinery and Petrochemicals Limited
MYTP	Multi-Year Tariff Proposal
PASO	Petroleum and Explosives Safety Organization
OMCs	Oil Marketing Companies
O&M	Operation and Maintenance
RAB	Regulatory Asset Base
VFR	Visiting Friends & Family
YPU	Yield Per Unit



## CHAPTER 1. INTRODUCTION

### 1.1 Profile of the Service Provider

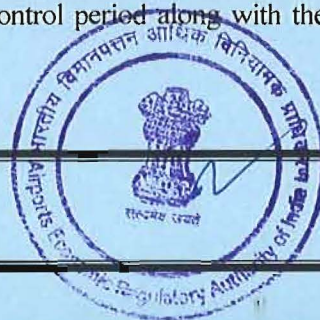
- 1.1.1 Indian Oil Skytanking Private Limited (IOSPL), a Joint Venture Company (JVC) floated by Indian Oil Corporation Limited (IOCL) and Skytanking Holdings GmbH, Germany with equal equity shareholding. M/s IOSPL was awarded Concession by BIAL on 24.05.2008 for a period of 20 years, valid till 24th May, 2028 for providing Fuel Farm services at Kempegowda International Airport (KIA), Bangalore on Build, Own, Operate and Transfer (BOOT) basis.
- 1.1.2 IOSPL was incorporated for the purpose of taking over and managing the aviation fuel facilities for the Airport on an “open access” model wherein airlines may source fuel from any oil company as per the user agreement between Airlines & Oil companies and use the fuel farm storage facilities at agreed price levels.
- 1.1.3 IOSPL, Bangalore submitted the “Business plan for Bangalore FF Services” as on 31st March 2021 as given below:

**Table 1: Technical Details of IOSPL, Bangalore.**

Technical Details of IOSPL		
S. no.	Particulars	As on 31st March 2021
1.	ATF Storage Capacity	6 X 3300 KL=19800 KL
2.	Fire water tanks Capacity	2 X 1900 KL=3800 KL
3.	Hydrant Pits	173 (172 Apron + 1 Fuel Farm)
4.	Stands Covered	132 (86 (Central) + 10 (West apron 3) + 2 (V68,69)+17 (T2-1a)+17(T2-1B)
5.	SAP	Implement accounting software SAP from FY 2020-21 of the 2nd Control Period.

- 1.1.4 M/s Indian Oil Skytanking Private Limited (IOSPL), Bangalore submitted the Multi-Year Tariff Proposal (MYTP) on 30th December 2020 under “Price Cap Approach” and sought tariff of Rs. 832/KL towards Fuel Infrastructure Charges for the 3rd Control Period(FY 2021-22 to FY 2025-26).
- 1.1.5 Ministry of Civil Aviation (MOCA) vide letter no. AV.13030/216/2016-ER (pt.2) dated 08.01.2020 decided to discontinue the levy of airport operator charge/fuel throughput charge (FTC) in any manifestation at all airports. Considering the policy decision of MOCA, AERA vide letter no AERA/200015/FT/2010-11/Vol II dated 15.01.2020 advised the Airport Operators at all major airports to implement the aforesaid MOCA directives with immediate effect. Accordingly, BIAL discontinued charging the Airport Operator fees w.e.f. 15.01.2020 at KIA Bangalore.
- 1.1.6 The Authority based on its preliminary analysis sought additional details and clarifications on the MYTP vide its various communications on time to time basis. In response, the details and clarification were submitted by IOSPL to the Authority. Based on the examination and clarification, IOSPL vide mail dated 28th April, 2021 submitted the revised tariff rate of Rs. 1187/KL towards Fuel Infrastructure Charge (FIC) for the 3rd control period along with the following reason for revised tariff rate:

- a) Revision of land rentals by BIAL.





- b) Inclusion of interest income.
- c) Inclusion of interest expenses.
- d) True up statement for the 2<sup>nd</sup> Control Period.
- e) Revised Fuel Throughput volume forecast.

## **1.2 Background of the Tariff Determination Exercise**

- 1.2.1 The Authority vide its Order No 05/2013-14 dated 04.04.2013 determined the tariff for IOSPL providing Fuel Farm services at KIA, Bangalore for the 1st Control Period (01.04.2011 to 31.03.2016) based on 'Light Touch Approach'. In the same order, the Authority determined the "Fuel Throughput Fee" of Rs. 1500/KL under two components (Airport Operator Fees for Rs. 1067 & Operating Cost and Reserve Fund for Rs. 433). The Authority further vide Order No 19/2016-17 dated 20.03.2017 allowed IOSPL to continue levy of tariffs existing as on 31.03.2016 till determination of tariffs for the 2nd control period.
- 1.2.2 Subsequently, the Authority vide Order No 29/2017-18 dated 18.12.2017 determined the tariff for the 2nd Control Period (01.04.2016 to 31.03.2021) based on 'Price Cap Approach. In the same order the Authority also determined the Fuel Throughput Fee at Rs. 1700/ KL (inclusive of Airport Operator's Fee i.e. Rs. 1067 & Operating Cost and Reserve Fund i.e. Rs. 633). Further, the Authority vide its Order No.67/2020-21 dated 25.03.2021 extended the same tariff up to 30.09.2021 or till the determination of tariff for 3rd control period, whichever is earlier. The Authority further vide order No. 18/2021-22 dated 15.09.2021 extended the same tariff as applicable as on 30th September, 2021 up to 31st March 2022 or till the determination of tariff for 3rd Control Period, whichever is earlier.

## **1.3 Steps involved in Determination of Tariff for IOSPL, Bangalore**

- 1.3.1 IOSPL submitted the audited consolidated financial statements for IOSPL as a whole and station-wise Annual Compliance Statement (ACS) for FY 2016-17 to FY 2020-21. The Authority has relied upon these documents as submitted by IOSPL for determination of tariff for the 3rd Control Period, IOSPL also submitted minutes of the stakeholders meeting held on 10<sup>th</sup> February, 2021, Regulatory filing as per AERA CGF Guidelines, information on assets wise and year wise Capital expenditure, copy of User Agreements for BLR Fuel Farm Service etc. in response to queries raised by AERA from time to time as part of the tariff determination process.
- 1.3.2 The Authority noted that IOSPL conducted stakeholder consultation meeting on 10.02.2021 on tariff proposals. The Representative from IOCL, BPCL, Indigo, Go Air, FICCI, IATA and ACAAI attended the meeting. As per the minutes of meeting, the stakeholders from IATA, Indigo & IOCL requested for deferment of tariff hike at least for one year due to the current Covid-19 pandemic situation. In this regard, IOSPL stated that the tariff hike has been proposed as per the AERA tariff determination guidelines based on "Price Cap" methodology.
- 1.3.3 The Authority reviewed the submissions made by IOSPL Bangalore for the 3rd Control Period with respect to various building blocks. The Authority's position on various building blocks is based on its regulatory philosophy and guidelines issued from time to time and also on the submission made by IOSPL.
- 1.3.4 Post analysis and discussion on various building blocks, the Authority issued its Consultation



Paper no. 13/2021-22 dated 13<sup>th</sup> August, 2021 inviting suggestions/comments from the stakeholders on various building blocks as the proposals of the Authority with the following timelines:

- Date of issue of the Consultation Paper: 13<sup>th</sup> August, 2021.
- Date for submission of written comments by Stakeholders: 20<sup>th</sup> September, 2021.
- Date for submission of counter comments: 29<sup>th</sup> September, 2021.

The Consultation Paper issued by the Authority on 13.08.2021 was published on the AERA website. The Authority on request of stakeholders has further extended the last date of submission of comments and counter comments from 13.09.2021 and 22.09.2021 to 20.09.2021 and 29.09.2021 respectively. Thus, the consultation process was concluded with the receipt of counter comments from IOSPL on Stakeholder's views on 29.09.2021.

1.3.6 The following Stakeholders submitted their comments on the Consultation Paper no. 13/2021-22:

Sl. No.	Stakeholders
1.	M/s Bangalore International Airport Limited (BIAL)
2.	M/s Federation of Indian Airlines (FIA)
3.	M/s Hindustan Petroleum Corporation Limited (HPCL)
4.	M/s Indian Oil Skytanking Private Limited (IOSPL)

All the written comments submitted by the Stakeholders are also available on AERA website.

1.3.6 The Authority examined the submission of IOSPL and the comments of various stakeholders and after considering all the relevant aspects, has finalized this Tariff Order.

1.3.7 The Tariff Order is structured in a manner wherein under each regulatory building block, the submission made by IOSPL in the MYTP is listed out, followed by the Authority's examination and proposals for the 3rd Control Period in the Consultation Paper. The same is followed by the comments by the various stakeholders and counter comments by IOSPL, Bangalore, followed by the Authority's examination and final decision on the subject matter.



## CHAPTER 2. TARIFF SETTING PRINCIPLES

### 2.1 Background

2.1.1 According to Section 2 (a) of AERA Act, 2008 "Aeronautical Service" means any service provided-

- (i) for navigation, surveillance and supportive communication thereto for air traffic management;
- (ii) for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
- (iii) for ground safety services at an airport;
- (iv) for ground handling services relating to aircraft, passengers and cargo at an airport;
- (v) for the cargo facility at an airport;
- (vi) for supplying fuel to the aircraft at an airport; and
- (vii) for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority.

### 2.2 Tariff Setting Principles

2.2.1 The Authority vide its Order No. 12/2010-11 dated 10th January, 2011 and Direction No. 4/2010-11 dated 28th February, 2011 ("CGF Guidelines"), had issued Guidelines under Section 15 of the AERA Act, 2008 and the amendments issued from time to time, to determine tariffs for ISP's providing aeronautical services at 'major airports' based on set procedures for determination of Aggregate Revenue Requirement (ARR) for regulated service(s) deemed 'Materiality Assessment', 'Competition Assessment' and 'User agreement(s) between the Service Provider(s) and User(s) of the Regulated Service(s)'. As stipulated in Clause 3 of the guidelines, the Authority shall follow a three stage process for determining its approach for the regulation of regulated service.

#### Stage-I: Materiality Index

The Materiality Index (MI<sub>F</sub>) of Fuel Throughput at Bangalore airport is as under:

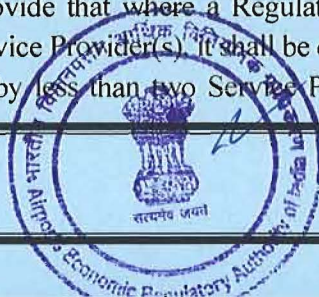
$$= \frac{\text{Fuel Throughput in Kilolitres at Bangalore Airport}}{\text{Total Fuel Throughput in Kilolitres at all Major Airports}} \times 100$$

$$\text{Fuel Throughput at Bangalore Airport} = \frac{816754}{8697575} \times 100 = 9.39\%$$

2.2.2 Based on IOSPL Bangalore submission, Materiality Index (based on the fuel throughput at Kempegowda International Airport, Bangalore in comparison to fuel throughput at other major airports) is 9.39% in FY 2019-20 which is more than 5% Materiality Index fixed for assessing the materiality of the subject regulated service as per clause 4(2)(ii) of "Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines 2011". Hence the regulated service is deemed as 'Material' for the 3rd control period.

#### Stage-II: Competition Assessment:

2.2.3 As the CGF Guidelines also provide that where a Regulatory Service is being provided at a major airport by two or more Service Provider(s), it shall be deemed "competitive" at that airport and if such service is provided by less than two Service Provider(s), it shall be deemed "not



competitive". The Guidelines also provide that the Authority may in its discretion consider such other additional evidence regarding reasonableness of competition, as it may deem fit.

2.2.4 At present, the fuel farm services at Bangalore are being provided solely by IOSPL. Hence, the service is deemed as "not competitive".

**Stage-III: Reasonability of User Agreement:**

2.2.5 IOSPL submitted User Agreement with oil companies such as IOCL, BPCL, HPCL, Shell-MRPL, Reliance Industries and with two airlines i.e. Spice Jet and Indigo Airlines.

2.2.6 The Authority's CGF Guidelines provide the based on the assessment of materiality and competition, when such Regulatory service is deemed "material and not competitive", the Authority shall then assess the reasonableness of existing User Agreement(s) and where the Authority is assured of the reasonableness of the existing User Agreement(s), the Authority shall determine Tariff(s) for the service providers based on a "Light Touch Approach".

2.2.7 Regarding Reasonableness of User Agreement(s), the CGF Guidelines provide that the Authority shall consider the existing User Agreement(s) as reasonable provided that:

- (i) The service provider submits existing User Agreement(s) between the Service Provider and all the User(s) of the Regulatory Service(s), clearly indicating the tariff(s) that are agreed to between the Service Provider and the User(s) of the Regulatory Service(s), and
- (ii) The User(s) of the Regulatory Service(s) have not raised any reasonable objections or concerns in regard to the existing User Agreement(s), which have not been appropriately addressed.

Provided that the Authority may in its discretion consider such other additional evidence regarding reasonableness of User Agreement(s), as it may deem fit."

2.2.8 The tariff for the 2nd Control Period was determined based on "Price Cap Approach". Accordingly, IOSPL submitted the Multi Year Tariff Proposal based on "Price Cap Approach" under single till methodology for the 3rd Control Period.

2.2.9 The Authority also noted that IOSPL essentially set up to provide "common access" to all suppliers of ATF and continues to remain as to be a single service provider of infrastructure of fuel supply. Hence, the Authority decides to continue determine tariff for fuel supply service provided by IOSPL at Bangalore based on "Price Cap Approach" for the 3rd Control Period.

For Regulatory Service is deemed 'material and not competitive' and where the Authority is not assured of the reasonableness of the existing User Agreement(s), the Authority shall calculate the Aggregate Revenue Requirement (ARR) on the basis of the following Regulatory Building Blocks:

**2.3 Methodology for determining Aggregate Revenue Requirement (ARR)**

2.3.1 The Aggregate Revenue Requirement (ARR) under the regulatory framework of the Authority is calculated as under:

$$ARR = \sum_{t=1}^5 ARR_t$$

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - NAR_t$$



Where,

't' is the Tariff Year in the Control Period;

$ARR_t$  is the Aggregate Revenue Requirement for year 't';

FRoR is the Fair Rate of Return for the Control Period;

$RAB_t$  is the Regulatory Asset Base for the year 't';

$D_t$  is the Depreciation corresponding to the RAB for the year 't';

$O_t$  is the Operation and Maintenance Expenditure for the year 't', which includes all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandate operating costs;

$T_t$  is the corporate tax for the year 't' paid by the airport operator on the aeronautical profits; and

$NAR_t$  is the revenue from services other than aeronautical services for the year 't'

- 2.3.2 The present value of total aeronautical revenue that is estimated to be realized each year during the Control Period at proposed tariff levels is compared with the present value of the ARR during the Control Period. In case the present value of estimated aeronautical revenue during the Control Period is lower than the present value of ARR, the Regulatory entity may opt to increase the proposed tariff. In case the present value of estimated aeronautical revenue is higher than the present value of the ARR then the Regulatory entity will have to reduce its proposed tariff.

#### **2.4 FIA's Comments on Review of Concession Agreements:**

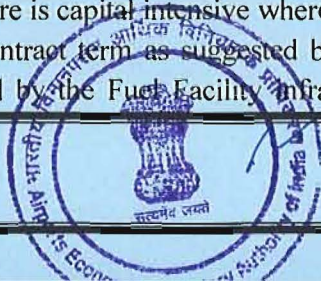
- 2.4.1 FIA has submitted that the Authority should ensure that instead of the Concession agreements being for a period of 20 years, the same should not exceed five (5) years such that there is no monopolistic situation, and in a fair and transparent manner, with the agreement awarded to only those parties which provide the competitive costs with best-in-class services, from at least three to four parties, based on cost of efficient operations.

#### **2.5 FIA's Comments on Review of Tendering Process:**

- 2.5.1 FIA has also submitted that the Authority should ensure that in the tendering process adopted by IOSPL, the tenders are awarded to only those parties which provide the competitive costs with best-in-class services. Any attempt to award the contracts on the highest revenue share basis to IOSPL should be discouraged as it leads to increasing the royalty for the airport operator and additional cost to Airlines. It is general perception that IOSPL has no incentive to reduce their expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings which in turn can be passed on to Airlines.

#### **2.6 IOSPL, Bangalore's response to FIA's comments regarding review of Concessional Agreements:**

- 2.6.1 In response to FIA's comments on Concessional Agreement, IOSPL has submitted that developing Fuel Infrastructure is capital intensive wherein the recovery period is over long-term periods of time. A short contract term as suggested by FIA will not lead to full recovery of capital expenditure incurred by the Fuel Facility infrastructure developer. In case this entire



capex is to be recovered in a short tenure as suggested by FIA, then it would lead to unusually high charges which will be detrimental to the interests of the end users.

**2.7 IOSPL, Bangalore's response to FIA's comments regarding review of Tendering Process:**

2.7.1 In response to FIA's comments on tendering process, IOSPL has submitted that they have conducted all major procurements through an e-tendering process followed by reverse auctions. This transparent method ensures optimum price discovery and ensures that all purchases are made in lowest available cost. Therefore, FIA's perception that "It is general perception that IOSPL has no incentive to reduce their expenses as any such increase will be passed on to the airlines through tariff determination mechanism process" is incorrect and not in line with the facts.

**2.8 Authority's examination regarding review of Concession Agreements & Tendering Process:**

2.8.1 The Authority noted the comments of FIA regarding the periodicity of the Concession agreements. In this regard, the Authority is of the view that any capital intensive business particularly aeronautical assets at airport have a longer gestation period. The Authority also believe that if a significant capital expenditure is to be recovered in a short term, then it would lead to unusual burden to the end users.

2.8.2 The Authority also noted the comments of FIA and IOSPL's response thereon. The Authority states that the tendering process is not regulatory in nature. Further, the Authority is of the view that the such matters may be taken up by the stakeholders with the Service Providers preferably in the AUCC meeting. However, the Authority is of the firm view that a robust tendering process needs to be followed with established standards to maintain a fair tendering process and cost efficiency.

**2.9 Authority's Decision regarding Tariff Setting Principles for the 3rd Control Period**

Based on the material before it and its analysis, the Authority has decided:

2.9.1 To adopt "Price Cap Approach" on 'Single Till' basis for Tariff determination for IOSPL, Bangalore for the 3rd Control Period.



### CHAPTER 3. TRUE UP FOR THE 2<sup>nd</sup> CONTROL PERIOD

- 3.1 The Authority vide its Order no. 29/2017-18 dated 18th December 2017 relating to the 2nd Control Period, decided to True up each building blocks of the 2nd Control Period during the tariff determination exercise for the 3rd Control Period.
- 3.2 The tariff for the second control period was done on Price Cap Method. It was decided in the Order No. 29/2017-18 dated 18.12.2017 that the building blocks for the Second Control Period will be trued up during the tariff determination for the 3rd control period. IOSPL submitted the following details for the true up of Second Control Period.
- 3.3 As submitted by IOSPL, True-up for the 2nd control period (01.04.2016-31.03.2021) has been calculated as the difference between:
- 3.3.1 Permissible fuel revenue calculated based on actual fuel off take and financials; and
- 3.3.2 Actual fuel revenue received by IOSPL for the 2nd control period.
- 3.4 IOSPL submitted the following ARR & revenue regarding true-up for the 2nd control period:

**Table 2: IOSPL's submission for True up of 2<sup>nd</sup> Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
FF Volume /KL in Lakhs	6.93	7.58	8.37	8.17	4.29	35.34
Revenues from Operations	10399.40	11779.73	14228.43	12176.93	2716.26	51300.75
Yield / KL	1500.00	1553.95	1700.00	1490.89	633.00	
Revenues from Interest	52.43	67.89	107.30	91.32	31.00	349.93
<b>Total Revenues</b>	<b>10451.83</b>	<b>11847.62</b>	<b>14335.73</b>	<b>12268.25</b>	<b>2747.25</b>	<b>51650.68</b>
Payroll Costs	266.26	328.45	368.51	435.59	399.55	1798.37
Administrative & General Costs	183.93	169.67	207.01	170.66	189.23	920.50
R&M Cost	95.80	146.53	119.74	93.95	115.95	571.97
Utility Costs	145.66	131.09	131.07	133.39	95.04	636.24
Airport Operator Fees	7434.43	8097.74	8930.43	7006.88	0.00	31469.48
<b>Total Operating Expenditure</b>	<b>8126.07</b>	<b>8873.48</b>	<b>9756.77</b>	<b>7840.47</b>	<b>799.77</b>	<b>35396.56</b>
Depreciation	768.15	777.43	784.03	1165.91	1583.15	5078.68
Finance Costs	139.71	62.70	0.00	14.99	117.79	335.19
<b>Profit Before Tax</b>	<b>1417.90</b>	<b>2134.00</b>	<b>3794.92</b>	<b>3246.88</b>	<b>246.54</b>	<b>10840.25</b>
Tax Rate	34.61%	34.61%	34.61%	34.61%	34.61%	34.61%
Income Tax	490.71	738.54	1326.10	1134.59	86.15	3788.02
<b>Profit After Tax</b>	<b>927.19</b>	<b>1395.47</b>	<b>2468.83</b>	<b>2112.29</b>	<b>160.39</b>	<b>7052.23</b>
Opening RAB	8165.89	8019.46	7274.80	7554.34	13262.76	0.00
Additions	628.50	32.77	1069.63	6874.33	232.32	8837.54
Disposals / Transfers	6.77	0.00	0.00	0.00	0.00	0.00
Closing RAB	8019.46	7274.80	7560.39	13262.76	11911.93	0.00
Average RAB	8092.68	7647.13	7417.59	10408.55	12587.35	0.00
<b>ARR</b>	<b>10581.87</b>	<b>11451.18</b>	<b>12835.94</b>	<b>11515.74</b>	<b>4231.28</b>	<b>50616.00</b>
<b>True Up Amount</b>	<b>-130.04</b>	<b>396.44</b>	<b>1499.79</b>	<b>752.51</b>	<b>-1484.02</b>	<b>1034.69</b>



3.5 IOSPL calculated the FRoR for the 2nd Control Period, considering Cost of Equity 14.00% as approved by AERA.

3.6 As per IOSPL submission, Finance cost is the interest cost on the loan taken for financing the Capital Expenditure. In FY 2018-19 finance cost was nil due to the complete repayment of loan amount. In FY 2019-20, IOSPL again took loan for further financing of their CAPEX plan.

3.7 Following are the depreciation rates used by IOSPL to calculate the depreciation for key assets:

**Table 3: Depreciation rates – IOSPL submission**

S. No.	Asset Class	Useful life	Depreciation rate for Integrated Fuel Farm Facility
1.	Motor Vehicle	8	12.50%
2.	Office Equipment's	5	20%
3.	Computers & Software	3	33.33%
4.	Building	Upto the Concession period i.e. May 2028	Varies as per commissioning date of assets.
5.	Plant & Machinery	Upto the Concession period i.e. May 2028	Varies as per Commissioning date of assets.
6.	Furniture	10	10%

**3.8 Authority's examination regarding True-up for the 2nd Control Period at Consultation Stage:**

3.9 The Authority observed that IOSPL calculated the excess recovery in the following manner:

3.9.1 IOSPL calculated over recovery in the Second Control Period as the difference between the actual revenue and the revenue recoverable based on the yield. As per IOSPL, the over recovery during the Second Control period works out to Rs. 1034.69 lakhs.

3.9.2 The detailed calculations of depreciation, true-up amount were not submitted by IOSPL in their MYTP. However, the financial model was submitted by IOSPL. Subsequently, IOSPL submitted the additional information against the clarifications sought by the Authority.

3.9.3 The analysis and consideration of the Authority for True up of 2nd Control Period on each of the building blocks are as under:

**A. Fuel Throughput Volume**

3.10 The Authority considered the fuel throughput volume for true up of the 2nd control period as given below:

**Table 4: Fuel Throughput considered by the Authority for the True-up of 2<sup>nd</sup> Control Period.**

Financial Year	Domestic	International	Total	Growth rate Year on Year		
				Domestic	International	Total
2016-17	374600	318693	693293	--	--	--
2017-18	418386	339667	758053	5%	5%	9%
2018-19	440005	396962	836967	5%	5%	10%





<b>2019-20</b>	435947	380808	816755	-1%	-4%	-2%
<b>2020-21</b>	227428	201681	429109	-48%	-47%	-47%
<b>CAGR 4 Years</b>	5%	6%	6%	--	--	--
<b>CAGR 5 Years</b>	-12%	-11%	-11%	--	--	--

**3.11** The Authority observed that the CAGR of the fuel throughput shows 6% increase for the first four years of the 2nd Control Period. Further, by including FY 2020-21 (pandemic year), the 5<sup>th</sup> years CAGR figure gets distorted since then shows a drastic decline of 11% in the volumes.

#### **B. Capital Expenditure**

**3.12** The Authority carefully examined the submission of IOSPL relating to CAPEX. The capital expenditure approved by the Authority for the 2nd Control Period in the Order no.29/2017-18 dated 18th December 2017 for the fuel farm facility is given below:

**Table 5: Capital Expenditure as approved by the Authority for the 2<sup>nd</sup> Control Period.**

<b>Particulars (Amount in Lakhs)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>Total</b>
Land & Building	12.00	325.00	-	-	-	337.00
Plant & Machinery	508.00	4290.00	105.00	9846.00	-	14749.00
Deadstock	95.00	95.00	95.00	154.00	-	439.00
Computer & IT Assets (including Software)	2.00	1120.00	-	-	-	1122.00
Office Equipment	-	25.00	-	-	-	25.00
Vehicles	12.00	45.00	-	-	-	57.00
Furniture & Fittings	0.00	-	-	-	-	0.00
Intangible Assets	-	320.00	-	-	-	320.00
<b>Total</b>	<b>629.00</b>	<b>6220.00</b>	<b>200.00</b>	<b>10000.00</b>	<b>-</b>	<b>17049.00</b>

**3.13** As against the total capital expenditure of Rs.17049 lakhs (including Rs. 320 lakhs intangible assets) considered by the Authority in the 2nd Control Period Order no. 29/2017-18, the actual expenditure incurred by IOSPL for fuel farm at Bangalore is Rs. 8837.44 lakhs, the detail of which is given below.

**Table 6: Capital Expenditure considered by the Authority for the true up of the 2<sup>nd</sup> Control Period.**

<b>Particulars (Amount in Lakhs)</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>Total</b>
Land & Building	11.58	0.00	0.00	4.76	90.18	106.52
Plant & Machinery-FF & HS (including Deadstock)	600.59	14.59	1004.81	6857.53	81.68	8559.20
Computers	2.00	1.58	1.05	5.73	1.62	11.98
Equipment's	2.19	3.97	7.29	0.71	0.00	14.16
Vehicles	12.00	6.90	52.36	0.00	0.00	71.26
Furniture & Fittings	0.11	5.71	0.10	5.58	0.00	11.50
Computer Software	0.00	0.00	4.00	0.00	58.82	62.82
<b>Total</b>	<b>628.47</b>	<b>32.75</b>	<b>1069.61</b>	<b>6874.31</b>	<b>232.30</b>	<b>8837.44</b>



**3.14** The Authority examined the Annual Compliance Statement (ACS) as submitted by IOSPL and observed that IOSPL only incurred 52.65% CAPEX i.e. Rs 8837.99 during the 2nd Control Period as against the approved CAPEX of Rs 16783.64 lakhs (Excluding intangible asset). The Authority sought clarifications from IOSPL for non-execution of the CAPEX. IOSPL vide various mails by dated 20.07.2021, submitted the comparative statement of CAPEX proposed cost & actual cost for the period FY 2016-17 to FY 2020-21 of the 2nd Control Period is given below:

**Table 7: Comparison of CAPEX proposed cost & actual cost during the 2<sup>nd</sup> Control Period  
(Amount in lakhs)**

S. No	Capital projects	Financial Years	Cost Proposed by IOSPL	Actual cost incurred	Statuses
1	Electronic data processing	2016-17	800.00	0.00	Project Cancelled
2	Valve Chambers covers replacement	2018-19	200.00	0.00	Project Cancelled
3	Additional Water Tanker to meet OISD requirement	2016-17	1,000.00	0.00	Project Cancelled
4	MOV replacement in VC001	2016-17	150.00	0.00	Project Cancelled
5	Shifting Electrical Cables to outside dyke	2016-17	100.00	0.00	Project Cancelled
6	Solar Power Plant installation	2016-17	200.00	0.00	Project Cancelled
7	Others Miscellaneous projects	2016-17	467.00	0.00	Project Cancelled
8	Augmentation of facilities at FF for Airport expansion	2019-20	<b>10,000.00</b>	<b>5,229.23</b>	Completed project (West Apron, T2-1A & T2-1B)
9	Enterprise Resource Planning	2016-17	<b>320.00</b>	<b>64.00</b>	Project Completed
10	Others Miscellaneous projects	FY 2016-17 to FY 2020-21	3546.64	3544.76	Project Completed
	<b>Total cost</b>		<b>16783.64</b>	<b>8837.99</b>	

**3.15** The Authority further examined the comparative statement as submitted by the IOSPL and observed that the projects of Rs. 2917.00 lakhs were cancelled and Rs. 8837.99 lakhs were incurred against the proposed projects of Rs 13866.64 lakhs (Rs. 16783.64 lakhs -2917.00 lakhs). As per IOSPL submission, Rs 5028.65 lakhs (Rs 13866.64 lakhs- Rs. 8837.99 lakhs) saved due to the cost optimization measures taken resulted into completion of various projects in less amount than the projected amount (Refer Table No. 7 above) during the 2nd Control Period Order. In this regard the Authority further sought additional clarification; IOSPL submitted the following reasons for variation in proposed CAPEX & actual CAPEX of the 2nd control period.

- **Impacts of Covid-19-** Some Projects were severely impacted due to restriction on account of Covid-19.



- **Cost Saving Measures-** Due to cost saving measures, various projects was completed in less than projected amount.
- **Operational requirements-** Many projects such as installation of hydrant pumps would have required the facility to be shutdown, for a short duration, which may have caused operational challenges. Since a suitable window for shutdowns was not available, some of these minor works could not be completed, leading to cost savings.

**3.16** The Authority further observed that IOSPL vide letter no. IOSL-BLR-FF/AERA-MYTP/FY 2016-17 to 2020-21 dated 06.07.2018 submitted the mid-term review of Fuel Throughput Fees from Rs. 1700/KL to Rs. 2006/KL for the remaining period of the 2nd control period. In this regard, IOSPL submitted that they are planning additional CAPEX of Rs. 6133.79 lakhs for East Apron PH T2-1C which involves the development of a 1.7 km long hydrant system covering 14 stands with 47 hydrant pits. The agreement to develop this system was signed between IOSPL & BIAL on 25th October 2018 which was much after the issuing of Order No 29/2017-18 dated 18th December 2017 for the 2nd control period. As per IOSPL submission, T2-1C project was expected to be commissioned in the 2nd control period itself but due to construction delay on account of Covid-19 the commissioning of T-2. of BIAL. has deferred to 1st March, 2022.. Accordingly, IOSPL carryover of T2-1C Project from 2nd Control Period to 3rd Control Period.

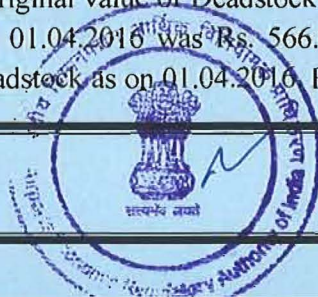
**C. Depreciation for the true up of 2<sup>nd</sup> control period.**

**3.17** The depreciation rate adopted by IOSPL in respect of Land & Buildings and Plant & machinery, considering the useful life up to the validity of Concession period i.e. May 2028. These rates vary from the rates prescribed in Order no.35/2017-18 as well as Companies' Act 2013. Further Pipelines and Storage Tanks have a separate life span as per Companies' Act. The life of Plant and Machinery is 15 years, Storage Tanks is 25 years and Pipelines is 30 years respectively as per Companies' Act. However, IOSPL has considered Hydrant feeder lines and tank life 20 years under the head Plant & Machinery. The Authority also observed that there are so many line items under Plant & Machinery and building in which IOSPL has considered different useful life. The Authority further observed that IOSPL has calculated depreciation at pro-rata basis on assets commissioned during the year. However, the Authority considered depreciation on the average basis. Further, the Authority proposed to consider uniform useful life for plant & machinery and building as given below:

**Table 8: Depreciation Rates considered by the Authority for True up of 2<sup>nd</sup> Control Period.**

Sl. No	Asset Class	Useful life as per Order No. 35/2017-18	Depreciation Rate Applied as per Order no.35/2017-18
1	Land & Building	60	1.67%
2	Plant & Machinery	15	6.66%
3	Computer & Software	3	33.33%
4	Office Equipment	5	20%
5	Vehicles	8	12.50%
6	Furniture & Fixture	7	14.28%
7	Deadstock	--	0.00%

**3.18** As per IOSPL submission, the original value of Deadstock was Rs. 868.50 lakhs but as per the book value of Deadstock as on 01.04.2016 was Rs. 566.05 lakhs. Hence, the Authority has considered the book value of Deadstock as on 01.04.2016. Further, the Authority has considered



Deadstock as a non-depreciable asset in line with the decision taken during the tariff determination for the 2nd Control Period. Therefore, depreciation has not been calculated on dead stock. The IOSPL submitted the value of addition in dead stock during the 2nd control period in the books of accounts as given below:

**Table 9: Dead Stock considered by the Authority during the 2nd Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
Opening Balance	566.05	593.29	593.29	640.64	1451.42
Additions	27.24	0	47.35	810.78	0
Closing Balance	593.29	593.29	640.64	1451.42	1451.42

**3.19** The revised depreciation calculated by the Authority in accordance with the rates specified in the Order no.35/2017-18 is given below:

**Table 10: Depreciation considered by the Authority for true up of the 2nd Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Plant and Machinery (including Dead stock)	750.40	751.11	775.74	1070.51	1193.65	4541.41
Land & Building	14.43	14.45	14.45	14.53	15.28	73.13
Computers & Software	6.47	6.22	5.12	4.19	13.80	35.78
Furniture and fixture	0.81	1.23	1.65	2.09	2.30	8.09
Vehicles	2.91	3.34	10.66	9.28	9.01	35.20
Office Equipment	1.38	2.10	2.65	3.05	2.94	12.11
<b>Total Depreciation</b>	<b>776.40</b>	<b>778.44</b>	<b>810.27</b>	<b>1103.64</b>	<b>1236.98</b>	<b>4705.72</b>

**3.20** The comparative statement of depreciation as submitted by the IOSPL & considered by the Authority for true up of 2nd control period is given below:

**Table 11: Comparative Statement of Depreciation for the 2nd Control Period for true up.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
As submitted by IOSPL in MYTP	768.15	777.43	784.03	1165.91	1583.14	5078.66
As recalculated by the Authority	776.40	778.44	810.27	1103.64	1236.98	4705.72

**D. Regulatory Asset Base.**

**3.21** The Regulatory Asset base recalculated after considering the above depreciation for the 2nd Control Period is given below:

**Table 12: Regulatory Asset Base considered by the Authority for true up of the 2nd Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Opening RAB (A)	8167.00	8012.31	7266.62	7525.96	13296.63	44268.53
Addition (B)	628.48	32.75	1069.61	6874.31	232.31	8837.46
Disposal (C)	6.77	0.00	0.00	0.00	0.00	6.77
Depreciation (D)	776.40	778.44	810.27	1103.64	1236.98	4705.72



Closing RAB (E =A+B-C-D )	8012.31	7266.62	7525.96	13296.63	12291.97	48393.49
Average RAB (F=(A+E)/2)	8089.66	7639.47	7396.29	10411.30	12794.30	<b>46331.01</b>

#### E. Operating Expenses

3.22 The Authority observed that IOSPL submitted operational expenses of Rs. 35397.25 lakhs wherein Head Quarter expenses (HQ) are included in the payroll cost. After clarification sought by the Authority, IOSPL vide mail dated 24.05.2021 submitted the details of Headquarter expenses of fuel farm at Bangalore Airport is given below:

**Table 13: Headquarter Expenses of the 2nd Control Period as submitted by IOSPL.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
<b>IOSPL total HQ expenses</b>	165.04	207.91	265.37	243.16	327.75
<b>Bangalore Fuel Farm HQ Expenses</b>	39.61	49.90	63.69	58.36	78.66

3.23 The Authority further observed that during FY 2017-18, there was 23.36 % increase in payroll cost over 2016-17, and, 18.20% increase in payroll cost in FY 2019-20 over FY 2018-19 respectively. The Authority vide mail dated 25.05.2021 sought clarifications for such increase. In their response IOSPL stated that during FY 2017-18 & FY 2019-20 performance incentives bonus was higher as compared to FY 2016-17 & FY 2018-19, IOSPL further stated that bonus paid to the employees on deputation by parent company also includes in the payroll cost of IOSPL.

3.24 The Authority further observed that IOSPL proposed Airport Operator Fees of Rs.1067/KL till 15.01.2020 and discontinued the same based on the MOCA directives & AERA letter to discontinue the levy of Airport Operator Fee's or Fuel throughput charges at all Airports. The year wise Operating Expenses are given below:

**Table 14: Operating Expenses considered by the Authority for true up of the 2nd Control Period:**

Particulars (Amount in lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Payroll Costs	266.26	328.45	368.51	435.59	399.55	<b>1798.36</b>
Administrative & General Costs	183.92	169.67	207.01	170.65	189.22	<b>920.47</b>
R&M Cost	95.79	146.52	119.73	93.95	115.95	<b>571.94</b>
Utility Costs	145.65	131.08	131.06	133.39	95.03	<b>636.21</b>
Airport Operator Fees	7434.42	8097.74	8930.43	7006.68	1.00	<b>31470.27</b>
<b>Total OPEX</b>	<b>8126.04</b>	<b>8873.46</b>	<b>9756.74</b>	<b>7840.26</b>	<b>800.75</b>	<b>35397.25</b>

#### F. Income Tax

3.25 IOSPL submitted the income tax expenditure as given below:

**Table 15: Income Tax as submitted by IOSPL for the 2nd Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Aeronautical Revenues	<b>10451.83</b>	<b>11847.62</b>	<b>14335.73</b>	<b>12268.25</b>	<b>2747.25</b>	<b>51650.68</b>
OPEX (excl. Depreciation)	8126.07	8873.48	9756.77	7840.47	799.77	35396.56
Depreciation	768.15	777.43	784.03	1165.91	1583.15	5078.68



Finance Cost	139.71	62.70	0.00	14.99	117.79	335.19
Profit before tax	1417.90	2134.00	3794.92	3246.88	246.54	10840.25
Tax rate (%)	34.61%	34.61%	34.61%	34.61%	34.61%	---
<b>Total Tax</b>	<b>490.71</b>	<b>738.54</b>	<b>1326.10</b>	<b>1134.59</b>	<b>86.15</b>	<b>3788.02</b>

3.26 The year wise Income Tax claimed as a building block in the True up for the 2nd Control Period as considered by the Authority is given below.

**Table 16: Tax considered by the Authority for true up of the 2<sup>nd</sup> Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Aeronautical Revenues	10399.39	11779.76	14228.42	12176.90	2716.25	<b>51300.75</b>
OPEX (excl. Depreciation)	8126.04	8873.46	9756.74	7840.26	800.75	<b>35397.25</b>
Depreciation	776.40	778.44	810.27	1103.64	1236.98	<b>4705.72</b>
Profit before tax	1496.96	2127.86	3661.42	3233.00	678.53	<b>11197.77</b>
Tax rate (%)	34.61%	34.61%	34.61%	34.61%	34.61%	
<b>Total Tax</b>	<b>518.10</b>	<b>736.45</b>	<b>1267.22</b>	<b>1118.94</b>	<b>234.84</b>	<b>3875.55</b>

#### G. Other Income

3.27 Since the tariff determination exercise for IOSPL is being done on a 'Single Till' basis therefore, entire other income has been considered for subsidizing the FIC tariff as IOSPL has other income only from interest on bank deposit.

3.28 The year wise detail of other income to be considered for the True up is given below:

**Table 17: Other Income considered by the Authority for True up of the 2nd Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Interest Income	52.43	67.88	107.29	91.31	30.99	<b>349.93</b>

#### H. Fair Rate of Return

3.29 IOSPL adopted a rate of return of 14.00% on equity which is in line with the rate adopted by the Authority in its calculations for determination of tariff for the 2nd Control Period. The Authority also observed that, IOSPL took loan on 9.50% for FY 2016-17 & FY 2017-18 and 8.50% from the year 2018-19 to FY 2020-21. IOSPL proposed FRoR @ 13.06%. The Authority considered cost of equity & cost of debt as submitted by the IOSPL. Accordingly, FRoR for the 2nd Control Period for the True up is worked out below:

**Table 18: FRoR considered by the Authority for True up of the 2nd Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
Debt	1529.52	117.7	494.87	1551.56	1108.26
Equity	4032.89	4,032.89	4,032.89	4,032.09	4,032.89
Total	5,562.41	4,150.59	4,527.76	5,583.65	5,141.15
Cost of Debt	9.50%	9.50%	8.50%	8.50%	8.50%
Cost of Equity	14.00%	14.00%	14.00%	14.00%	14.00%
Individual Year Gearing	27.50%	2.84%	10.93%	27.79%	21.56%



Weighted Average Gearing	19%
Weighted Average Cost of Debt	9%
Cost of Equity	14.00%
FROR	<b>13.01%</b>

**3.30** Considering the proportionate rate of cost of equity & cost of debt as submitted by IOSPL, FRoR arrived to 13.01%. Therefore, the Authority considered the FRoR @ 13.01% for truing up of the 2nd Control Period as per the Table 18 above.

**I. Aggregate Revenue Requirement.**

**3.31** The revised Aggregate Revenue Requirement (ARR) as well as actual revenue realized during the 2nd Control Period and the amount of excess/under recovery for true up is given below:

**Table 19: ARR considered by the Authority for True up of the 2<sup>nd</sup> Control Period.**

Particulars (Amount in Lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Average RAB (A)(refer Table 12)	8089.66	7639.47	7396.29	10411.30	12794.30	46331.01
FRoR (B) (refer Table 18)	13.01%	13.01%	13.01%	13.01%	13.01%	
Return on RAB (C=A*B)	1052.46	993.89	962.26	1354.51	1664.54	6027.66
Depreciation (D) (refer Table 10)	776.40	778.44	810.27	1103.64	1236.98	4705.72
O & M (E ) (refer Table 14)	8126.04	8873.46	9756.74	7840.26	800.75	35397.25
Income Tax (F) (refer Table 16)	518.10	736.45	1267.22	1118.94	234.84	3875.55
Gross ARR(G=C+D+E+F)	10473.00	11382.25	12796.48	11417.35	3937.11	50006.19
Other Income (H)	52.43	67.88	107.29	91.31	30.99	349.90
Net ARR (I=G-H)	10420.57	11314.37	12689.19	11326.04	3906.12	49656.29
Discounting Year	5	4	3	2	1	
Discount Factor	1.84	1.63	1.44	1.28	1.13	
NPV of ARR (J)	19207.72	18454.31	18314.05	14464.78	4414.30	74855.17
Revenue from aeronautical services	10399.40	11779.76	14228.42	12176.90	2716.26	51300.75
NPV of Total Revenue (K)	19168.69	19213.39	20535.60	15551.44	3069.65	77538.77
Excess/ Shortfall (L=K-J)	-39.03	759.08	2221.54	1086.66	-1344.66	2683.60
Over/Under Recovery for the 2nd Control Period	<b>2683.60</b>					

**3.32** The excess recovery (claw back) amounting to Rs. 2683.60 lakhs will be adjusted out of 3rd control period. The total ARR recoverable for the second control period is more or less on the lines of ARR determined during the tariff determination for the second control period. The reasons for the excess recovery are:

- Increase in the fuel throughput handled during second control period to 35.34 lakhs kl from the projected volume of 32.00 lakhs kl.
- Decrease in the return on average RAB due to the actual capital expenditure incurred is less against the proposed capital expenditure.
- Decrease in actual depreciation against the proposed depreciation.



3.33 The claw back to be adjusted out of 3rd Control Period is Rs. 2683.60 lakhs.

**3.34 Stakeholders' Comments on True up for the 2<sup>nd</sup> Control Period:**

**FIA's comments on Over Recovery of the Second Control Period.**

3.34.1 **Over Recovery (Refer 3.7 and 3.29 of CP)** FIA submitted that IOSPL has made an over recovery of Rs. 2683.60 Lakhs during the second control. The Authority and IOSPL should undertake a detailed scrutiny and others appropriate measures to ensure that there are no cases of over recovery, which will assist in lowering the burden of tariff on airlines/passengers. It appears that the costs are exaggerated/inflated, and revenues suppressed in the projections, which leads to over recoveries.

3.34.2 FIA further submitted that the interest due to over recoveries should also be clawed back, as over a period of five (5) years, the interest earned on monies received but not spent are significant amounts.

**3.35 IOSPL, Bangalore's response to FIA's comments regarding over recovery of the Second Control Period.**

3.35.1 Regarding FIA's comments on over recovery of the Second Control Period, IOSPL submitted that the statement made by FIA "*It appears that the costs are exaggerated/inflated, and revenues suppressed in the projections, which leads to over recoveries.*" is incorrect. As stated in the Stakeholders Meeting Presentation and adequately documented in the Consultation paper stage, due to Covid-19, the T2-1C project could not be completed in the 2nd control period and over recoveries have accrued in the 2nd control period. However as per the true up mechanism, these over recoveries will be adjusted in the 3rd control period (with compounding / with interest), therefore there is no loss to the end users.

**3.36 Authority's examination and decisions regarding over recovery of the Second Control Period:**

3.36.1 The Authority noted the comments of FIA and response of IOSPL thereon and observed that any excess/under recovery will be adjusted along with carrying cost in the tariff determination of 3<sup>rd</sup> Control Period. Thus, the interest of Stakeholders are taken care of.

**3.37 Authority's Decision regarding True up for the 2nd Control Period:**

Based on the material before it and based on its analysis, the Authority has decided the following regarding True up for the 2nd Control Period:

3.37.1 To consider the depreciation for the 2nd Control Period as per Table 10.

3.37.2 To true up the Regulatory Asset Base as per Table 12.

3.37.3 To consider the Operational & Maintenance expenses for true up of 2nd Control Period as per Table 14.

3.37.4 To consider Income Tax for the 2nd Control Period as per Table 16.

3.37.5 To true up the FRoR for the 2nd Control Period as per Table 18.

3.37.6 To consider shortfall as per Table 19 for the 2nd Control Period which is proposed to be recovered from ISP in the 3<sup>rd</sup> Control Period.





## CHAPTER 4. FUEL THROUGHPUT FORECAST

### 4.1 IOSPL, Bangalore's submission on Fuel Throughput Forecast for the 3rd Control Period as part of MYTP.

4.1.1 The projected Fuel Throughput (Volume) as per the MYTP of IOSPL, Bangalore for the 3rd control period is given below:

**Table 20: Projection of fuel throughput as per IOSPL, Bangalore for 3<sup>rd</sup> Control Period.**

Year	Volume ( in KL)			% Change over previous Year		
	Domestic	International	Total	Domestic	International	Total
2019-20 (Actual)	435947	380808	816755	---	---	---
2020-21 (Actual)	227428	201681	429109	-48%	-47%	-47%
2021-22	271278	271278	542555	19%	35%	26%
2022-23	339097	339097	678194	25%	25%	25%
2023-24	408325	408325	816649	20%	20%	20%
2024-25	428741	428741	857481	5%	5%	5%
2025-26	434420	434420	868840	1%	1%	1%
<b>CAGR 5 year's</b>				<b>12%</b>	<b>12%</b>	<b>12%</b>

4.1.2 IOSPL, Bangalore submitted the Fuel Throughput (Volume) projections based on the following assumptions:

- Fuel Volumes associated with International flights are likely to recover to Pre-Covid levels by 2024 which is based on projections made by IATA.
- In its stakeholder meeting held on 26th August 2020, BIAL Airport had also detailed their forecasts on passengers and ATM's which is also used as a basis for volume forecast.
- Travel segments such as Visiting Friends & Family (VFR) and leisure travel are likely to recover by 2023, however business travel is likely to be negatively impacted in the long term as more companies rely on e-meetings & video conferencing.
- Recovery of VFR and Leisure travel is also subject to the arrival of a Covid-19 vaccine and it being administered to a large percentage of the population which is likely to take at least 1-2 Years. During this time, travel is expected to be limited to emergency and minimal VFR and leisure travel.
- Resurgence of Covid-19 in India or overseas is likely to negatively impact both domestic and inbound/outbound international travel.
- Airlines are likely to phase out older aircrafts and replace them with more narrow body and newer, more fuel-efficient aircraft. This is likely to negatively impact fuel volumes at Bangalore Airport.
- With these assumptions, IOSPL expected that fuel throughput volumes will cross Pre-Covid-19 level in FY 2023-24.

### 4.2 Authority's examination regarding Fuel Throughput Forecast for the 3rd Control Period at Consultation stage:

4.2.1 The Authority noted that IOSPL's assumptions are based on a combination of factors. IOSPL



projected CAGR of 12% in Fuel volumes during the 3<sup>rd</sup> Control Period i.e. FY 2021-26. The Authority is of the view that the ATM and fuel throughput are correlated and a key indicator for the purpose of projections for both Fuel Farm as well as ITP services.

4.2.2 The Authority recently determined tariff for many other major airports, having more or less similar control periods. During this process the Authority considered the adverse impact of the Covid-19 pandemic and made its own assessment of the pattern of traffic resurgence in the next 5-year period. While doing so the Authority considered the opinions/forecasts of the experts in the aviation field such as CAPA, ACI and IATA.

4.2.3 The Authority after assessing the current Covid-19 situation across the country observed that over one year into the Covid-19 pandemic, substantial disruption still persists. Accordingly, the Authority made the suitable adjustment in the ATM traffic for FY 2021-22 and onwards based on the actual ATMs traffic of FY 2019-20 as base year for KIA, Bangalore Excluding the pandemic year i.e. FY 2020-21 as given below:

**Table 21: ATM projections proposed to be considered by the Authority for 3<sup>rd</sup> Control Period at CP stage.**

Financial Year	Domestic	International
2019-20	Actual ATM Traffic	Actual ATM Traffic
2021-22	76% of FY 2019-20	72% of FY 2019-20
2022-23	118% of FY 2019-20	91% of FY 2019-20
2023-24	135% of FY 2019-20	101% of FY 2019-20
2024-25	156% of FY 2019-20	111% of FY 2019-20
2025-26	181% of FY 2019-20	122% of FY 2019-20

4.2.4 The Authority, using the above data proposed the following projections of fuel throughput volumes for the ITP services of IOSPL Bangalore for the 3<sup>rd</sup> Control Period as given in the table below:

**Table 22: Fuel Throughput (Volume) Proposed by the Authority for IOSPL, Bangalore for 3<sup>rd</sup> Control Period (at Consultation stage).**

Particulars	Fuel Throughput (volume in KL)		
	Domestic	International	Total
2019-20 (Actual)*	435947	380808	816755
2020-21 (Actual)	227428	201681	429109
2021-22	331320	274182	605501
2022-23	514417	346535	860953
2023-24	588528	384616	973145
2024-25	680077	422697	1102774
2025-26	789064	464586	1253650
Total**	2903407	1892616	4796023
CAGR**	24%	14%	20%

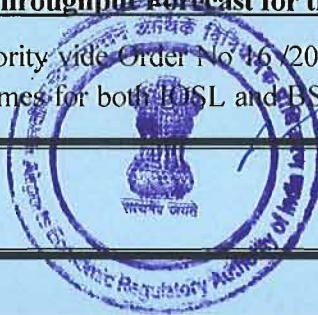
\* Figures for FY 2019-20 taken as base year for projection.

\*\* FY 2021-22 to FY 2025-26.

### 4.3 Stakeholders' Comments regarding Fuel Throughput Forecast for the 3<sup>rd</sup> Control Period:

#### IOSPL's comments on Fuel Throughput Forecast for the 3<sup>rd</sup> Control Period:

4.3.1 IOSPL submitted that the Authority vide Order No 46 /2021-22 and Order No 15 /2021-22 has determined the Into Plane Volumes for both IOSL and BSSPL respectively. There are two Into



Plane Agents at Bangalore Airport and the aggregate volumes of the two Into Plane Agents always equals to the fuel farm volumes. However, the authority has incorrectly determined the volumes for Bangalore Fuel Farm in CP 13/2021. This error can be seen as total IOSL BSSPL volumes for FY22 is 4,13,011 KL, whereas the Fuel Farm Volume forecast for FY22 is 6,05,502 KL which is 47% higher than the sum total of ITP Volumes for both IOSL and BSSPL for the 3rd control period. The volumes considered by the Authority for Bangalore Fuel Farm are therefore erroneously 26% higher than the sum total of ITP Volumes for IOSL and BSSPL.

- 4.3.2 Since logically, fuel farm volumes cannot be higher than the sum total of volumes for the two ITP Operators, IOSPL request the authority to rectify the error and consider volumes for Bangalore Fuel Farm as per the table below.

Volumes (in KL)	FY22	FY23	FY24	FY25	FY26
Volume for BLR ITP IOSL as per Order 16 /2021-22	2,81,000	4,14,000	5,15,000	5,58,000	5,95,000
Volume for BLR ITP BSSPL as per Order 15/2021-22	1,32,011	2,68,842	3,14,453	3,53,276	3,88,959
Total Airport / Fuel Farm Volume (Derived from IOSL + BSSPL ITP Volume)	4,13,011	6,82,842	8,29,453	9,11,276	9,83,959
BLR FF Volume Forecast as per AERA, CP13/2021-22	6,05,502	8,60,952	9,73,144	11,02,774	12,53,650
<b>Difference</b>	1,92,491	1,78,110	1,43,691	1,91,498	2,69,691

- 4.3.3 IOSPL further submitted that in case the summation of IOSPL's and BSSPL's volume as per the final tariff orders is used as the implied fuel farm volume in Table 44 as per the CP, keeping all other values unchanged, then the revised tariff works out to Rs. 598.23/ KL for each year of the entire control period. Since the impact of volumes is significant in nature and as a principle of logic, IOSPL requested to the Authority to use Bangalore Fuel Farm's volumes derived from the ITP Volumes of the two service providers at Bangalore Airport.

**FIA's comments on Fuel Throughput Forecast for the 3rd Control Period:**

- 4.3.4 FIA submitted that the Authority has sought to take into consideration stakeholder's view on the proposed Fuel Throughput Forecast. FIA is agreed with the Authority's view on Fuel Throughput forecast.

**4.4 IOSPL, Bangalore's response to FIA's comments regarding Fuel Throughput Forecast for the 3rd Control Period:**

- 4.4.1 In response to their comments on Fuel Throughput Forecast, IOSPL requested to the Authority to use Bangalore Fuel Farm's volumes derived from the ITP Volumes of the two service providers at Bangalore Airport and not as per the Authority's determination as made in CP No 13/2021-22.

**4.5 Authority's examination and decisions regarding Fuel Throughput Forecast for the 3rd Control Period:**

- 4.5.1 The Authority notes the comments of IOSPL on Fuel throughput volume for the 3rd Control Period. In this regard, the Authority would like to clarify that the traffic estimates considered by the Authority are based on a balanced approach and were arrived at after thorough analysis of all the information available at its disposal and substantial deliberations. The Authority has also taken into consideration the outlook of various industry bodies and aviation expert agencies regarding the traffic level to be achieved



during the control period. At present, the traffic situation is very dynamic. There is no scientific model available for traffic projections to cater to such pandemic situations. Therefore, the Authority has considered the fuel throughput volume for the 3<sup>rd</sup> Control Period for IOSPL providing Fuel Infrastructure Services at KIA, keeping in view the following:

- The impact of Covid-19 pandemic on the global aviation market is still prevalent and is expected to continue till the end of FY 2021-22. However, with the gradual revival of the economy, increase in the uptake of the vaccines, measures taken by the Govt. of India (GoI) to make the air travel safe along with easing of air travel by various countries, the aviation industry is expected to recover at a better pace in the next few years.
- Considering the positive outlook of the GDP growth predicted by the GoI, and easing of travel restriction to 100% for domestic travel, the Authority is of the view that domestic traffic will revert to pre-Covid levels (i.e. FY 2019-20) by FY 2022-23.
- The Authority also realised that the international traffic demand has remained subdued due to travel restrictions imposed by other countries on Indian travellers. Therefore, the Authority is of the view that international traffic will likely to recover to pre Covid-19 levels (i.e. FY 2019-20) by FY 2023-24.

4.5.2 In view of the above, the Authority decides to revise the fuel throughput projections for the 3<sup>rd</sup> control period as made in the Consultation Paper. It may be noted that fuel through volume is subject to true-up in the tariff determination of the next control period. The revised fuel throughput projections are given in Table 23 as under:

**Table 23: Revised Fuel Throughput (Volume) considered by the Authority for IOSPL, Bangalore for 3<sup>rd</sup> Control Period.**

Year	(Volume in KL)			% of FY 2019-20		
	Domestic	International	Total	Domestic	International	Total
2019-20*	4.35	3.80	8.16	-	-	-
2021-22	2.56	1.36	3.92	59%	36%	48%
2022-23	4.65	2.96	7.61	107%	78%	93%
2023-24	5.35	3.49	8.84	123%	92%	108%
2024-25	6.17	3.87	10.04	142%	102%	123%
2025-26	6.96	4.21	11.17	160%	111%	137%
<b>Total**</b>	<b>25.69</b>	<b>15.89</b>	<b>41.58</b>			
<b>Total volume Considered at CP Stage</b>	<b>29.03</b>	<b>18.92</b>	<b>47.96</b>			

\* Figures for FY 2019-20 taken as base year for projection.

\*\* FY 2021-22 to FY 2025-26

#### 4.6 Authority's Decisions regarding Fuel Throughput Forecast for the 3<sup>rd</sup> Control Period

Based on the material before it and its analysis, the Authority has decided:

- 4.6.1 To consider Fuel Throughput Forecast for the 3<sup>rd</sup> Control Period for IOSPL, Bangalore as per Table 23
- 4.6.2 To true-up the Fuel Throughput (volume) on the basis of actual off take in 3<sup>rd</sup> Control Period while determining tariff for the Next Control Period



## CHAPTER 5. CAPITAL EXPENDITURE

### 5.1 IOSPL, Bangalore's submission on Capital Expenditure for the 3rd Control Period as part of MYTP

- 5.1.1 As per clause 9.2 of the CGF guidelines, RAB assets shall be all fixed assets proposed by the Service Provider(s), after providing for such exclusions therefrom or inclusions therein as may be determined by the Authority.
- 5.1.2 As per MYTP submission, IOSPL, Bangalore projected total capital expenditure of Rs. 8206.22 Lakhs for the 3rd control period. The projection of assets wise capital expenditure as per the MYTP of IOSPL, Bangalore for the 3rd control period is given below:

**Table 24: Capital Expenditure as projected by IOSPL, Bangalore for the 3rd Control Period**  
Amount (Rs. in Lakhs)

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Land & Building	0.00	0.00	0.00	0.00	0.00	0.00
Plant and Machinery-FF & HS	422.00	7784.22	0.00	0.00	0.00	8206.22
Plant and Machinery-IPS	--	--	--	--	--	
Dead Stock	--	--	--	--	--	
Computers	--	--	--	--	--	
Office Equipment's	--	--	--	--	--	
Vehicles	--	--	--	--	--	
Furniture and Fittings	--	--	--	--	--	
Computer Software	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>422.00</b>	<b>7784.22</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>8206.22</b>

### 5.2 Authority's examination regarding Capital Expenditure for the 3rd Control Period at Consultation stage:

- 5.2.1 The Authority noted that IOSPL projected total CAPEX (additions to RAB) of Rs. 8206.22 lakhs for the 3rd Control Period. Out of total CAPEX of Rs. 8206.22 lakhs proposed by IOSPL, Rs. 6133.92 Lakhs proposed for Hydrant system expansion for T2-1C which is being carried over from the 2nd control period. The remaining CAPEX of Rs. 2072.29 lakhs are statutory upgrade, reliability centered update & routine CAPEX. The detail of CAPEX projected by the IOSPL as given below:

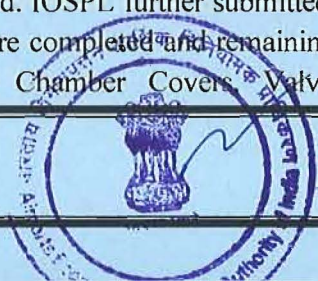
**Table 25: Asset wise Projection of Capital Expenditure for the 3<sup>rd</sup> Control Period.**

CAPEX Item (Amount in lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
T2 1C-Hydrant Expansion Project (Carry Over from 2nd Control Period) (Project detail attached as Annexure- IV )		6133.92				6133.92
Backup DG Upgrade with new transformer		525.00				525.00
Shifting Electrical Cables to	265.00					265.00



outside dyke					CAPEX Proposed- NIL	
Replacement of 7x Hydrant Pumps		96.00	96.00	32.00		224.00
Valve Chambers covers replacement		109.00	109.00			218.00
Flushing Truck		140.05				140.05
MOV replacement in VC001			122.00			122.00
ROSOV For 04 Tanks		52.12	52.12			104.24
Dyke walk area modification for tanks -T11,T12,T13 in line with tank T21		84.00				84.00
Khume Flow Control Valves Replacement Receipt Line 4 No.		62.00				62.00
MOV actuator replacement in Fuel Farm for Tank 12		55.00				55.00
TT receipt Batch controller and PD meter replacement			55.00			55.00
Hydrocarbon detectors in FF	480.00					480.00
Modification of entry & exit passages for tanks-T11,T12,T13 in line with tank T21	4.00					4.00
Hydrant Pit valve assembly -10 Nos		32.00				32.00
Security Equipment - as per recommendation by State Security	32.00					32.00
Foam pourer work area modification for tanks - T11,T12,T13 in line with tank T21	29.00					29.00
Khume Flow Control Valves Replacement Return Line 1 No.			17.00			17.00
Battery bank revamping for inverters in control room		12.00				12.00
Total CAPEX	422.00	7301.09	451.12	32.00		8206.22

5.2.2 The Authority observed that 75% of total CAPEX (refer Table 25) proposed by the IOSPL for the 3rd control period relating to T2-1C Hydrant expansion project carried over from the 2nd control period. This project will involve the development of 1.7 Km long hydrant system covering 14 stands with 47 hydrant pits. This project is linked to the terminal-2 project of BIAL. IOSPL submitted that due to construction delays on account of Covid-19 the commissioning of T-2 of BIAL now deferred to 31st March 2022. Therefore, this project also been deferred to FY 2022-23 of the 3rd control period. IOSPL further submitted that presently 75% activities of T2-1C Hydrant expansion project are completed and remaining activities such as installation of Pit Boxes & Pit Valves, Valve Chamber Covers, Valves, others misc. accessories, pre-



commissioning checks, statutory approval from DGCA and PASO are pending which will be completed on or before March 2022.

5.2.3 The Authority further observed that the remaining 25% CAPEX (refer Table 25) are related to the up-gradation and replacement of the existing plant & machinery. The Authority is of the view that some of these CAPEX for up-gradation & replacement can be deferred to the next years or even next control period. In this regard, a virtual meeting also held with IOSPL officials and IOSPL agreed to defer some CAPEX to the next year. Accordingly, IOSPL submitted the revised CAPEX for the 3rd control period in which CAPEX of Rs. 451.12 lakhs and Rs. 32.00 lakhs deferred from FY 2022-23 to FY 2023-24 & FY 2024-25 respectively.

5.2.4 The Authority observed that IOSPL incurred only 52.65% CAPEX i.e. Rs 8837.99 against the approved CAPEX of Rs 16783.64 lakhs for the 2nd Control Period. Therefore, the Authority proposed that in the event of any delay or significant reduction in the execution of capital expenditure as planned for the 3rd control period, it will consider reduction of RAB by 1% of the cost of the delayed part of work, in the true up during tariff determination for the next control period.

**Table 26: Capital Expenditure proposed by the Authority for IOSPL, Bangalore for the 3<sup>rd</sup> Control Period at CP stage.**

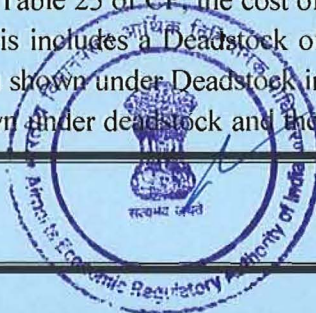
Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Land & Building	0.00	0.00	0.00	0.00	0.00	0.00
Plant and Machinery- FF & HS	422.00	7301.10	451.12	32.00	0.00	8206.22
Plant and Machinery- IPS	--	--	--	--	--	
Dead Stock	--	--	--	--	--	
Computers	--	--	--	--	--	
Office Equipment's	--	--	--	--	--	
Vehicles	--	--	--	--	--	
Furniture and Fittings	--	--	--	--	--	
Computer Software	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>422.00</b>	<b>7301.10</b>	<b>451.12</b>	<b>32.00</b>	<b>0.00</b>	<b>8206.22</b>

5.2.5 The Authority in order to ensure that IOSPL, Bangalore adheres to its Capital Expenditure plan, proposes to rework the RAB of the IOSPL, Bangalore for the 3rd Control Period, by reducing the RAB by 1% of the total cost of the Vehicles as per the timeline above or as the case may be, if the IOSPL, Bangalore fails to commission and capitalize these assets as per the capitalization schedule proposed as above.

**5.3 Stakeholders' Comments regarding Capital Expenditure for the 3rd Control Period:**

**IOSPL's comments on Capital Expenditure for the 3rd Control Period:**

5.3.1 IOSPL has submitted that as per Table 25 of CP, the cost of T2-1C hydrant expansion project is shown as Rs 6133.92 Lakhs. This includes a Deadstock of Rs 564.30 Lakhs (Table 29 as per CP). However, no value has been shown under Deadstock in the Table 26 of CP. In FY2022-23, Rs 564.30 Lakhs should be shown under deadstock and the same should be subtracted from Rs



7301.10 Lakhs (Under Plant and Machinery). Accordingly, depreciation needs to be re-worked to account for a reduction of deadstock from the Plant & Machinery (Table 30 of CP).

**FIA's comments on capital expenditure for the 3rd Control Period:**

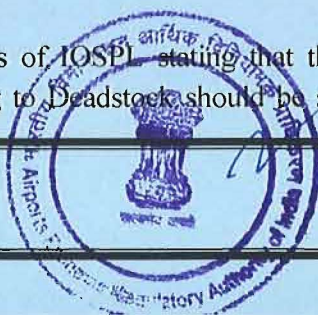
- 5.3.2 FIA has submitted that it will take around two (2) to three (3) years for the flight operations to reach to its pre Covid-19 peak levels. Accordingly, the Authority and IOSPL need to review the optimum usage of existing 'Aviation Fuel Farm facilities' at KIA Airport, Bangalore to cater to the proposed traffic levels, without any new or additional investments, at the present stage. To support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by IOSPL, should be put on hold/ deferred, unless deemed critical from a safety compliance perspective. Further, in case IOSPL wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines.
- 5.3.3 FIA has further submitted that the Authority has taken a view that some of the CAPEX items for up-gradation & replacement can be deferred to the next years or even the next control period. However, in the CP, it is neither mentioned what could be deferred to the next control period, and nor is there any proposal for deferment of CAPEX to the next control period (Refer Table Nos. 5.5 and 26 of CP). The Authority is requested to kindly clarify the same and reconsider CAPEX items that can be deferred to the next control period.
- 5.3.4 FIA has also submitted that capex projects of Rs. 2917.00 lakhs were cancelled in the second control period. FIA request the Authority to apply a penalty of 1% on the projects not undertaken, as reasonable. FIA also stated that While the airline industry has been cutting down the capital expenditure to mere bones in the face of current extra ordinary situations, the Authority may consider more stringent penalties in excess of 1% in the event of any delay or significant reduction in the execution of capital expenditure as finally approved for the 3rd control period such that efficiencies in the system are encouraged and inefficiencies discarded.

**5.4 IOSPL, Bangalore's response on FIA's comments regarding Capital Expenditures for the 3rd Control Period:**

- 5.4.1 In response to FIA comment's on Capital Expenditures, IOSPL submitted that all fuel related infrastructure which is in the development phase stays on the Capital Works in Progress (CWIP) Account. Since it does not form part of the Regulated Asset Base (RAB), there is no return on RAB or Depreciation till the assets are commissioned. Therefore, there is no expense to the end users on account of facilities and infrastructure under construction.
- 5.4.2 IOSPL further submitted that the majority of the capex planned in the 2nd control period comprises of T2-1C hydrant expansion project, which is nearing physical completion. Due to the advanced stage of construction and due to contractual liabilities to Bangalore International Airport Limited (BIAL), this project cannot be deferred. Other balance capex in the 2nd control period is statutory / essential in nature and therefore cannot be deferred beyond the 2nd control period.

**5.5 Authority's examination and decisions regarding Capital Expenditure for the 3rd Control Period:**

- 5.5.1 The Authority noted the comments of IOSPL stating that the amount of Rs 564.30 Lakhs proposed in FY 2022-23 pertaining to Deadstock should be shown separately and subtracted





from Plant and Machinery. Accordingly, depreciation needs to be re-worked. The Authority based on its analysis has deducted the Deadstock from the plant and machinery & projected it separately (refer Table No. 27). As far as, the IOSPL comments on depreciation is concerned, the Authority has already considered Deadstock as a separate component while computed the depreciation on plant and machinery at Consultation stage. Therefore, the rework of depreciation on Plant & Machinery may not be required.

5.5.2 The Authority noted the comments of FIA regarding enhancing the proposed 1% penalty in case of delay in implementing the proposed CAPEX schedule. In this regards, the Authority is of the view that in case the IOSPL does not execute the CAPEX as per proposed capitalization plan the recovery of the adjustment amount would be adjusted during the true up along with the carrying cost. Therefore, the Authority considered 1% readjustment (reduce) of the non capitalized CAPEX from ARR/Target Revenue stringent enough against the over projection and under achievement of CAPEX.

5.5.3 As far as FIA comments regarding deferment of remaining CAPEX of Rs 2072.30 lakhs and IOSPL's response thereon, the Authority notes that the CAPEX of Rs 2072.30 lakhs are related to the up-gradation and replacement of the existing plant & machinery which is statutory and essential in nature and may not be deferred as submitted by IOSPL in their counter comments. The Authority further notes that the IOSPL has submitted the revised CAPEX for the 3rd control period in which CAPEX of Rs. 451.12 lakhs and Rs. 32.00 lakhs has been deferred from FY 2022-23 to FY 2023-24 & FY 2024-25 respectively. (Refer Table no 26 above). Therefore, the Authority decides to consider the CAPEX as per table No 27

5.5.4 The Authority, in order to ensure that IOSPL adheres to the Capital Expenditure plan, proposed to readjustment (reduce) 1% of the non capitalized CAPEX from ARR/Target Revenue, as re-adjustment, in case any particular CAPEX is not completed as per the Capitalization schedule, in the True-up exercise for the 3rd Control Period during determination of tariff for the Next Control Period.

5.5.5 The stakeholders have cited the impact of the Covid-19 pandemic and the related uncertainties which may affect completion of the CAPEX schedules. In this regard, the Authority is of the view that the situation is likely to improve in view of the various measures implemented by the government including the availability of vaccine. The re-adjustment in the ARR/Target Revenue is to protect the interest of the stakeholders who are paying for services provided by IOSPL, Bangalore, and, is also an encouragement to IOSPL, Bangalore to commission/capitalize the proposed assets as per the approved CAPEX schedule.

5.5.6 Further, in case there is a delay in commissioning/capitalizing of the assets proposed for the 3rd Control Period due to any reason beyond the control of IOSPL, and, is properly justified, same would be considered by the Authority while truing up the actual cost at the time of Tariff determination exercise for the next control period. It is also stated that AERA expects that capitalization plan given by the service provider is adhered to, and, expects them to deliver the capitalization as per the plan.

5.5.7 In view of the above, the Authority decides to considered the Capital Expenditure for the 3rd control period as made in the Consultation Paper. The Capital Expenditure are given in Table 27 as under:



**Table 27: Capital Expenditure considered by the Authority for IOSPL, Bangalore for the 3<sup>rd</sup> Control Period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Land & Building	0.00	0.00	0.00	0.00	0.00	0.00
Plant and Machinery- FF & HS	422.00	6736.80	451.12	32.00	0.00	8206.22
Plant and Machinery- IPS	--	--	--	--	--	
Dead Stock	--	564.30	--	--	--	
Computers	--	--	--	--	--	
Office Equipment's	--	--	--	--	--	
Vehicles	--	--	--	--	--	
Furniture and Fittings	--	--	--	--	--	
Computer Software	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>422.00</b>	<b>7301.10</b>	<b>451.12</b>	<b>32.00</b>	<b>0.00</b>	<b>8206.22</b>

**5.6 Authority's Decisions regarding Capital Expenditure for the 3rd Control Period:**

Based on the material before it and its analysis, the Authority has decided:

- 5.6.1 To consider Capital Expenditure for the 3rd Control Period for IOSPL, Bangalore as per Table 27.
- 5.6.2 to readjustment (reduce) 1% of the non capitalized CAPEX from ARR/Target Revenue, as readjustment, in case any particular CAPEX is not completed as per the Capitalization schedule, in the True-up exercise for the 3rd Control Period during determination of tariff for the Next Control Period.
- 5.6.3 To true up the CAPEX based on actuals at the time of tariff determination for the Next Control Period.

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## CHAPTER 6. DEPRECIATION

### 6.1 IOSPL, Bangalore's submission on Depreciation for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.

6.1.1 IOSPL submitted that, as per the concession term they have to hand over the Fuel Farm assets to BIAL at zero cost at the end of concessional period i.e. May, 2028 and after 3rd control period the concession term would only be remain about 2 years. A true-up of depreciation in the last control period will lead to sudden spike in the tariff in the last control period. Hence, IOSPL considered the remaining number of years to the concession end date as the useful life of the asset. IOSPL submitted total depreciation on CAPEX of Rs. 14268.06 Lakhs for the 3rd Control Period as per Table 28 below:

**Table 28: Depreciation (Asset-wise) as projected by IOSPL, Bangalore for 3rd Control Period**

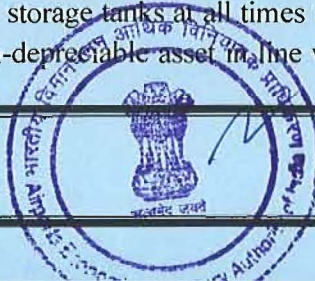
Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Land & Building	73.58	73.58	73.58	73.58	73.58	367.90
Plant and Machinery-FF & HS (including Dead stock)	1523.52	1606.96	3553.01	3553.01	3553.01	13789.51
Computers	0.00	0.00	0.00	0.00	0.00	0.00
Office Equipment	2.72	1.91	0.14	0.00	0.00	4.77
Vehicles	3.47	3.47	3.47	3.47	1.09	14.97
Furniture and Fittings	1.47	1.43	1.43	1.43	1.43	7.21
Computer Software	27.90	27.90	27.90	0.00	0.00	83.70
<b>Total Depreciation</b>	<b>1632.66</b>	<b>1715.26</b>	<b>3659.53</b>	<b>3631.50</b>	<b>3629.11</b>	<b>14268.06</b>

### 6.2 Authority's Examination and analysis regarding Depreciation for the 3rd Control Period at Consultation stage:

6.2.1 The Authority issued Order No. 35/2017-18 in the matter of "Determination of Useful life of Airport Assets" for determining appropriate depreciation rates in line with the provisions of the Companies Act 2013. Accordingly, the Authority considered the useful life and depreciation rates as prescribed in the aforesaid Order 35/2017-18 for IOSPL Bangalore.

6.2.2 The Authority observed that IOSPL computed the depreciation on the "straight line method" and considered the useful life of the assets up to the end date of concessional period i.e. May, 2028. Therefore, IOSPL adopted different depreciation rate for same class of assets. The Authority noted that there is a significant difference between the AERA approved CAPEX & Depreciation and actual CAPEX & Depreciation during the 2nd control period. Hence, the Authority proposed to consider the useful life of asset as per the Authority order no 35/2017-18 for calculating depreciation in 3rd Control Period. However, the Authority will take a cognizance view in this regard at the time of determination of tariff for the next control period, considering the actual CAPEX of the 3rd Control Period.

6.2.3 The Authority observed that IOSPL calculated depreciation at pro-rata basis on assets commissioned during the year. However, the Authority considered depreciation on average basis on the same assets. The Authority also observed that certain minimum level of Fuel (Deadstock) is to be stored in fuel storage tanks at all times for uninterrupted operations of the fuel farm. This is treated as a non-depreciable asset in line with the decision taken during the



tariff determination for the 2nd Control Period and considers appropriate adjustment in tariff at the time of disposal of such Dead stock in the last Control Period related to the concession period of the fuel farm operator. As per the IOSPL submission the value of addition in dead stock during the 3rd Control Period is given below:

**Table 29: Dead Stock considered by the Authority during the 3rd Control Period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26
Opening Balance	1451.42	1451.42	2015.72	2015.72	2015.72
Additions	0.00	564.30	0.00	0.00	0.00
Closing Balance	<b>1451.42</b>	<b>2015.72</b>	<b>2015.72</b>	<b>2015.72</b>	<b>2015.72</b>

6.2.4 Keeping in view of the above and depreciation rates & life of Assets, the Authority considered the depreciation for the 3rd Control Period as provided in the Table no. 30 below.

**Table 30: Revised Depreciation considered by the Authority for IOSPL, Bangalore for 3rd Control Period.**

Depreciation (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Plant & Machinery	1209.73	1505.68	1745.40	1757.08	1318.93	7536.81
Land & Building	16.03	16.03	16.03	16.03	16.03	80.14
Computer & Software	22.24	20.29	9.95	0.00	0.00	52.48
Furniture & Fixture	2.03	1.75	1.64	1.22	0.80	7.44
Vehicles	4.68	8.91	8.91	7.53	6.98	37.00
Office Equipment	2.40	1.68	0.87	0.00	0.00	4.95
<b>Total</b>	<b>1257.11</b>	<b>1554.34</b>	<b>1782.79</b>	<b>1781.86</b>	<b>1342.73</b>	<b>7718.83</b>

### 6.3 Stakeholders' Comments regarding Depreciation for the 3rd Control Period:

6.3.1 During the stakeholder consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 13/2020-21 with respect to Depreciation for the 3rd control period.

### 6.4 Authority's Decisions regarding Depreciation for the 3rd Control Period

Based on the material before it and its analysis, the Authority has decided:

- 6.4.1 To consider Depreciation for the 3rd Control Period as per Table 30.
- 6.4.2 To true up the depreciation based on actuals at the time of tariff determination for next Control Period.



## CHAPTER 7. REGULATORY ASSET BASE

### 7.1 IOSPL, Bangalore's submission on Regulatory Asset Base (RAB) for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.

- 7.1.1 As per clause 9.2 of the CGF guidelines, RAB assets shall be all fixed assets proposed by the Service Provider(s), after providing for such exclusions therefrom or inclusions therein as may be determined by the Authority.
- 7.1.2 The assets that substantially provide services not related to or not normally provided as part of Regulated Service(s) may be excluded from the scope of RAB by the Authority, in its discretion.
- 7.1.3 The projected Regulatory Asset Base (RAB) for the 3rd control period as submitted by IOSPL, Bangalore as given in the Table 31 below:

**Table 31: Regulatory Asset Base (RAB) as per the submission by IOSPL, Bangalore for 3rd Control Period**

Particulars (Amount in Lakhs)	Amount (Rs. in Lakhs)					Total
	2021-22	2022-23	2023-24	2024-25	2025-26	
Opening RAB (A)	11942	10732	16318	13109	9510	61611
Additions (B) (Refer table No. 26 )	422	7301	451	32	0	8206
Disposals/Transfers (C)	0	0	0	0	0	0
Depreciation Charge (D) (Refer table No. 28 )	1633	1715	3660	3631	3629	14268
Closing RAB(A+B-C-D)=(E)	10732	16318	13109	9510	5881	55550
Average RAB (A+E)/2=(F)	11337	13525	14714	11305	7691	58572

### 7.2 Authority's Examination and Analysis regarding Regulatory Asset Base (RAB) for the 3rd Control period:

- 7.2.1 The Authority examined each element of RAB projected by IOSPL, Bangalore for the 3rd control period and its utilization as well as requirement in the functioning of the IOSPL, Bangalore.
- 7.2.2 The Authority, based on the clarification submitted by IOSPL, Bangalore and its discretion on revised CAPEX to be incurred for purchase of new Plant & Machinery and depreciation proposed by the Authority, proposed RAB to considered for the determination of ARR, as given in the Table 32 below:

**Table 32: RAB considered by the Authority for IOSPL, Bangalore the 3rd Control Period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Opening RAB (A)	12291.97	11456.85	17203.62	15871.95	14122.09	
Additions (B)(Refer table 27)	422	7301.12	451.12	32	0	8206.22
Disposals/Transfers (C)	0	0	0	0	0	
Depreciation Charge (D) (Refer table 28 )	1257.11	1554.24	1782.70	1781.86	1342.73	7718.83

Closing RAB(A+B-C-D)=(E)	11456.85	17203.62	15871.95	14122.09	12779.36	
Average RAB (A+E)/2=(F)	11874.41	14330.24	16537.79	14997.02	13450.73	

**7.3 Stakeholders' Comments regarding Regulatory Asset Base (RAB) for the 3rd Control Period:**

7.3.1 During the stakeholder consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 13/2020-21 with respect to Regulatory Asset Base (RAB) for the 3rd control period.

**7.4 Authority's Decisions regarding Regulatory Asset Base (RAB) for the 3rd Control Period:**

Based on the material before it and its analysis, the Authority has decided:

7.4.1 To consider the Regulatory Asset Base (RAB) for the 3rd Control Period as given in the Table 32 above.



## CHAPTER 8. FAIR RATE OF RETURN (FROR)

### 8.1 IOSPL, Bangalore's submission on Fair Rate of Return (FRoR) for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.

8.1.1 IOSPL, Bangalore considered Fair Rate of Return (FRoR) as 15.32% in MYTP for the 3rd control period.

8.1.2 As per the MYTP submission made by IOSPL, Bangalore stated that that it had taken debt of Rs 1551.56 lakhs in FY 2019-20 for purchase of plant & machinery and remaining capitalization activity is proposed to be funded by Equity for 3rd Control Period.

**Table 33: FRoR proposed by IOSPL, Bangalore for 3<sup>rd</sup> Control Period.**

Particulars (Amount in lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26
Debt	1108.26	664.96	221.65	0.00	0.00
Equity	4032.89	4032.89	4032.89	4032.89	4032.89
Debt + Equity	5141.16	4697.85	4254.55	4032.89	4032.89
Cost of Debt	8.50%	8.50%	8.50%	0	0
Cost of Equity	16%	16%	16%	16%	16%
Individual Year Gearing	21.56	14.15	5.21	0	0
(Debt + Equity)*Gearing	1108.26	664.96	221.65	0	0
Weighted Average Gearing	9.00%	9.00%	9.00%	9.00%	9.00%
Debt*Cost of Debt	94.20	56.52	18.84	0	0
Weighted Average Cost of Debt	8.50%				
Cost of Equity	16.00%				
Fair Rate of Return	15.32%				

### 8.2 Authority's Examination and Analysis regarding Fair Rate of Return (FRoR) for the 3rd Control Period at Consultation stage:

8.2.1 The Authority noted that IOSPL, Bangalore has proposed capitalization of its CAPEX addition with the mixer of debt and equity.

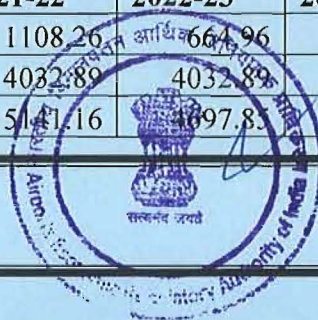
8.2.2 The Authority examined the various components of FRoR submitted by IOSPL, Bangalore and noted that FRoR determined for IOSPL, Bangalore is reasonable.

8.2.3 The Authority proposed to consider cost of debt @ 8.50% as submitted by IOSPL. The cost of equity proposed by IOSPL @ 16.00%, for the 3rd control period however, the Authority considered cost of equity @ 14.00%, as considered for most of the Airport Operators/Service Providers and also the same considered during the 2nd Control period.

8.2.4 After considering the revised cost of equity, the Authority calculated the Fair rate of return for the 3rd control period as given below:

**Table 34: FRoR considered by the Authority for IOSPL, Bangalore for 3<sup>rd</sup> Control Period.**

Particulars (Amount in lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26
Debt	1108.26	664.96	221.65	0.00	0.00
Equity	4032.89	4032.89	4032.89	4032.89	4032.89
Total	5141.16	4697.85	4254.55	4032.89	4032.89



Cost of Debt	8.50%	8.50%	8.50%	0.00	0.00
Cost of Equity	14%	14%	14%	14%	14%
Individual Year Gearing	22%	14%	5%	0%	0%
Weighted Average Gearing	9.00%				
Weighted Average Cost of Debt	8.50%				
Cost of Equity	14.00%				
Fair Rate of Return	13.50%				

### **8.3 FIA's Comments on review of Fair Rate of Return:**

- 8.3.1 FIA's submitted that presently, the Authority provides a Fair Rate of Return (FRoR) to IOSPL towards their investment. While such fixed/ assured return favours the service provider, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. However, due to such fixed/assured returns, service providers like IOSPL have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. In the present scenario any assured return on investment to any services providers like IOSPL, in excess of three (3) % (including those on past orders), i.e. being at par with bank fixed deposits, will be onerous for the airlines (Refer para 8.5 of the CP).
- 8.3.2 FIA's further submitted that in case the Authority is unable to accept FIA's recommendation mentioned above, the Authority is requested to conduct an independent study for determination of FRoR to be provided in favor of IOSPL. Such independent study can be exercised by the Authority in terms of powers conferred under the Airports Economic Regulatory Authority of India Act, 2008, as amended, and in line with studies being conducted by Authority in case of certain major airport operators.

### **8.4 IOSPL Bangalore's response to FIA's comments regarding review of Fair Rate of Return (FRoR):**

- 8.4.1 IOSPL has not submitted any response on FIA's comments regarding review of Fair Rate of Return (FRoR).

### **8.5 Authority's Examination and Decision regarding Fair Rate of Return (FRoR):**

- 8.5.1 The Authority noted the comments of FIA on Fair Rate of Return (FRoR) and observed that M/s IOSPL has met the CAPEX requirement with a combination of debt & equity during the 2<sup>nd</sup> & 3<sup>rd</sup> Control Period.
- 8.5.2 The Authority is of view that any service provider invests on capital assets particularly for aeronautical assets have a long term gestation period, in such a long term investment, the service provider needs a stable return on equity. Therefore, the Authority finds that it is not practical to cap the FRoR @ 3% when service provider have a combination of debt and equity proportionate to meet the requirement of CAPEX for purchase/replacement of capital assets. The Authority also noted the FIA comment to conduct an independent study for determination of FRoR for IOSPL. In this regard, the Authority believes that in future, the independent study may be undertaken wherever it is deemed necessary.





**8.6 Authority's Decisions regarding Fair Rate of Return (FRoR) for the 3rd Control Period**

Based on the material before it and its analysis, the Authority has decided:

- 8.6.1 To maintain the cost of equity at 14% for the 3rd control period.
- 8.6.2 To adopt the cost of debt at 8.50% for the 3rd control period.
- 8.6.3 To adopt the revised FRoR as calculated in Table 34 for the 3rd control period.
- 8.6.4 To true up FRoR during the tariff determination for the fourth control period.



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## CHAPTER 9. AERONAUTICAL REVENUE

### 9.1 IOSPL, Bangalore's submission on Aeronautical Revenue for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.

9.1.1 As per IOSPL, Bangalore submission, the projected Aeronautical Revenue for the 3rd Control Period is given in Table 35 below:

**Table 35: Projected Aeronautical Revenue (Revenue from FIC Services) as per IOSPL, Bangalore for 3<sup>rd</sup> Control Period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Revenue from FIC services	6433.54	8047.86	9685.92	10172.59	10303.16	44643.07

9.1.2 IOSPL projected 12% CAGR for Aeronautical Revenue from Fuel Farm Services during the 3<sup>rd</sup> Control Period.

### 9.2 Authority's Examination and Analysis regarding Aeronautical Revenue for the 3rd Control Period at Consultation stage.

9.2.1 The Authority revised the projected Aeronautical Revenue for the 3<sup>rd</sup> Control Period as given in Table 36 below at consultation stage:

**Table 36: Aeronautical Revenue proposed by the Authority for 3<sup>rd</sup> Control Period at C.P. Stage.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Revenue from FIC services	3446.69	4409.48	4593.74	4790.72	5015.75	22256.38

### 9.3 Stakeholders' Comments regarding Aeronautical Revenue for the 3rd Control Period:

9.3.1 During the stakeholder consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 13/2020-21 with respect to Aeronautical Revenue for the 3rd control period.

### 9.4 Authority's Examination and Decision regarding Aeronautical Revenue for the 3rd Control Period

9.4.1 The Authority has revised the projected Aeronautical Revenue, keeping in view the revised fuel off take volume as detailed in Para 4.5 of chapter 4 for IOSPL Fuel Farm at KIA, Bangalore and its consequent effects on tariff rates for the 3rd Control Period as given below:

**Table 37: Aeronautical Revenue considered by the Authority for 3<sup>rd</sup> Control Period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Revenue from FIC services	2449.66	4388.14	4893.49	5335.46	5698.52	22765.27

### 9.5 Authority's Decisions regarding Aeronautical Revenue for the 3rd Control Period

Based on the material before it and its analysis, the Authority has decided:



9.5.1 To consider Aeronautical Revenue for the 3rd Control Period as per Table 37.

9.5.2 To true up the Aeronautical Revenue based on actuals at the time of tariff determination for next Control Period.



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**CHAPTER 10. OPERATION AND MAINTENANCE EXPENDITURE**

**10.1 IOSPL, Bangalore’s submission on Operation and Maintenance Expenditure for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.**

10.1.1 As provided in Clause 9.4 of the CGF Guidelines mentioned in Direction No. 04/2010-11, the Operational and Maintenance expenditure incurred by the Service provider(s) include expenditure incurred on security, operating costs, other mandated operating costs and statutory operating costs.

10.1.2 Operation and Maintenance (O&M) expenditure submitted by IOSPL, Bangalore is segregated into the following categories:

- a) Payroll Costs;
- b) Admin and general expenditure;
- c) Repair and maintenance expenditure;
- d) Utility Costs
- e) Rent/license fees

10.1.3 BIAL vide letter no. IOSL/finance/2020-21/01 dated 22nd February 2021 submitted that IOSPL had been leased approx. 44515.40 sq. mtr. of land by BIAL on March, 2006 for setting up Fuel Farm and associated infrastructure facilities at KIA Bangalore @ Rs. 1 per annum as user license fees. As per BIAL, after discontinuance of Airport operator fee form 15th Jan 2020, IOSPL is only paying Rs. 1 per annum as lease rental of 44515.40 sq. mtr. of land, wherein other ISP’s are paying lease rental @ Rs. 405/sq.mtr./month. Therefore, BIAL now proposed to charge lease rental for the land provided to IOSPL for fuel farm operation @ 405 sq./mtr effective from 1st April, 2021 with annual escalation between 5% to 7.5%. In its MYTP submission, IOSPL had not considered the lease rentals payable to BIAL. However, in its revised submission IOSPL proposed increase lease rent in O&M for the 3rd control period.

10.1.4 The summary of growth rates used by IOSPL, Bangalore for the projection of Operation and Maintenance expenditure for the 3rd control period has been presented in the Table 38 below:

**Table 38: Growth Rates in O&M as per IOSPL, Bangalore for 3rd Control Period.**

Particulars	CAGR
Payroll costs	10%
Administrative and General Costs	7%
Repairs and Maintenance Costs	8%
Utility Costs	5%
Rent/license fees	7.5%

10.1.5 Based on the above assumptions IOSPL, Bangalore, projected Operation and Maintenance Expenditure for the 3rd control as given in Table 39 below.

**Table 39: Projected Operation and Maintenance Expenditure - IOSPL, Bangalore.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Payroll costs	495.16	547.15	604.61	668.09	738.24	3053.25
Administrative and General Costs	182.60	195.26	208.89	223.57	239.40	1049.72
Repairs and Maintenance Costs	101.84	109.99	118.79	128.29	138.55	597.47
Utility Costs	140.06	147.06	154.42	162.14	170.24	773.92



Rent/license fees	2576.43	2339.66	2515.14	2703.77	2906.55	13041.55
<b>Total operating expenditure</b>	<b>3496.09</b>	<b>3339.12</b>	<b>3601.83</b>	<b>3885.86</b>	<b>4193.00</b>	<b>18515.91</b>

10.1.6 The details and assumption for projection of O & M expenditure for the 3<sup>rd</sup> Control Period as per IOSPL submission are given in Table below.

- **Payroll cost:-** IOSPL projected an increase of 10.50% CAGR for salaries & allowances & other staff benefits in 3<sup>rd</sup> Control Period. IOSPL submitted that man power cost will increase due to annual increment. IOSPL further submitted that staff benefits will increase due to the performance incentives and bonus paid to the employees on deputation by parent company.
- **Administrative & General Cost:-** IOSPL projected an increase of 7% CAGR for administrative expenses in 3<sup>rd</sup> Control Period. Administrative expenses & General expenses increase due to the legal fees, insurance & security expenses.
- **Repair & Maintenance cost:-** IOSPL projected an increase of 8% CAGR for Repair & Maintenance cost in 3<sup>rd</sup> Control Period.
- **Utility & Outsourcing Cost:-** IOSPL projected an increase of 5% CAGR for Utility & Outsourcing Cost in 3<sup>rd</sup> Control Period due to the increase in electricity charges & Diesel cost.
- **Apportionment of HQ Cost:-** IOSPL Central Headquarters (CHQ) expenses proportionately divided among all the station/airports based on the parameters such as average manpower, fuel throughput, asset and business risk involved & time allocated. (Details as shown on Table below.)

**Table 40: Allocation of expenses of Central Headquarters (CHQ) for the 3<sup>rd</sup> control period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Total Payroll Costs: BLR Fuel Farm	495.16	547.15	604.61	668.09	738.24	3053.25
Payroll Costs Corporate (Total)	406.03	437.72	483.68	534.47	590.59	2452.49
Payroll Costs Corporate (Allocated to BLR FF)	97.44	105.05	116.08	128.27	141.74	588.58

**10.2 Authority's Examination regarding Operation and Maintenance (O&M) Expenditure for the 3rd Control Period at Consultation stage:**

10.2.1 The Authority examined the submission made by IOSPL for operating & maintenance expenses and notes that the increase proposed by IOSPL for O&M components for the 3rd control period is in the range from 5% to 10%. The Authority considered FY 2019-20 as a base year for the projection of O&M for the 3rd Control Period and examined the various components of OPEX as given below:

10.2.2 For the component of Employee Benefit Expenses, IOSPL adopted CAGR of 10.50%. The Authority notes that IOSPL projected the constant number of employees i.e. 43 for all five years of the 3rd Control Period. Considering the projections of fuel throughput uptake which is observed to be decreasing over the years and constant number of employees during the 3rd Control Period, the Authority proposes to consider 8.00% YoY increase including 4.6% on account of CPI rate for the purpose of projection of "employee benefit expenses" for the 3rd Control Period.



10.2.3 The Authority noted that the IOSPL, Bangalore projected Administrative & General Cost increase @ 7% CAGR during the 3rd control period. The Authority observed that IOSPL has taken some items like legal fees, insurance & security expenses etc. on a higher side. Hence, the Authority decided to consider 4.60% year on year increase i.e. CPI rate in operational expenses during the 3rd Control Period.

10.2.4 The Authority noted that the IOSPL, Bangalore projected repair & maintenance cost increase @ 8% CAGR during the 3rd control period. The Authority also noted that IOSPL taken diesel cost on a higher side. Hence, the Authority decided to consider 4.6% year on year increase i.e. CPI rate for operational expenses for the 3rd Control Period.

10.2.5 The Authority noted that BIAL proposed to charge lease rental for the land provided to IOSPL for fuel farm operation @ 405 sq./mtr for 44515.40 sq. mtr effective from 1st April 2021. However, as per the lease agreement submitted, IOSPL have to pay @ Rs 1 per annum. Further, BIAL submitted that after discontinuation of Airport operator fee from 15th Jan 2020, IOSPL is only paying Rs. 1/- per month as lease rental for 44515.40 sq. mtr. of land, whereas other ISP's are paying lease rental @ Rs. 405/sq.mtr./month. Therefore, BIAL proposes to charge lease rental to ensure equal treatment to all ISP,s within the KIA Bangalore. In this regard, the Authority is of the view that presently, IOSPL have to pay lease rent @ Rs 1/- per annum till 31st March, 2028 as per the existing lease agreement. Therefore, the Authority proposed not to consider the increased lease rental @ 405 sq./mtr. for 44515.40 sq. mtr. as proposed by IOSPL in its revised tariff proposal which is deviation from existing lease agreement submitted by IOSPL.

10.2.6 Based on the trends of O&M expenditure considering the actuals of 2nd Control Period and projections made by IOSPL for 3rd control period, the Authority proposed to consider FY 2021-22 as base for increase in Operation and Maintenance Expenditures for the FY 2022-23 to FY 2025-26 and proposed the following percentage (%) increase for each category of expenditure which has given in Table 41 below:

**Table 41: Proposed Percentage (%) Increase in Operation and Maintenance Expenditure considered by the Authority for IOSPL, Bangalore for the 3rd Control Period.**

Particulars	2022-23	2023-24	2024-25	2025-26
Payroll cost	8.00%	8.00%	8.00%	8.00%
Administrative & General cost	4.60%	4.60%	4.60%	4.60%
Repair & Maintenance cost	4.60%	4.60%	4.60%	4.60%
Utility & Outsourcing cost	4.60%	4.60%	4.60%	4.60%

10.2.7 The Authority, after considering the above growth rates, proposed to revise the Operating and Maintenance Expenditure, as given in the Table 42 below:

**Table 42: Operating and Maintenance Expenditure proposed by the Authority for the 3rd Control Period at C.P stage.**

Particulars (Amount in lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Payroll costs	470.44	508.07	548.72	592.62	640.02	2759.87
Administrative and General Costs	178.51	188.72	195.31	204.30	213.69	978.53
Repairs and Maintenance Costs	98.24	102.79	107.52	112.47	117.64	538.69
Utility Costs	139.53	144.44	152.66	159.68	167.03	764.83

Airport Operator Fees/Rent/License Fee	1.00	1.00	1.00	1.00	1.00	5.00
<b>Total operating expenditure</b>	<b>887.75</b>	<b>944.53</b>	<b>1005.21</b>	<b>1070.06</b>	<b>1139.38</b>	<b>5046.92</b>

**10.3 Stakeholders' Comments regarding Operating and Maintenance Expenditure for the 3rd Control Period:**

**IOSPL's & BIAL Comments on Licence fees for the 3rd Control Period:**

10.3.1 IOSPL & BIAL submitted the copy of agreement between BIAL and IOSPL through User License Amendment dated 09th September 2021 wherein BIAL and IOSPL have agreed to IOSPL paying BIAL a monthly rent of Rs. 180.56 Lakhs subject to escalations, with effect from 01st October 2021.

10.3.2 IOSPL further submitted that with this amendment the existing user license agreement stands amended and therefore IOSPL request the authority to consider land rentals as part of Operating and Maintenance expenditure as per Schedule C of Annexure I of amended User License Agreement.

**FIA's Comments on Operating and Maintenance Expenditure for the 3rd Control Period:**

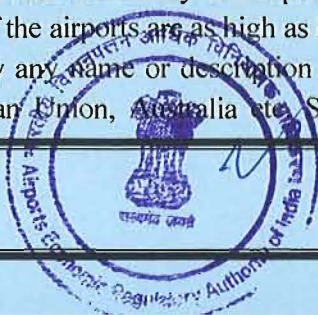
10.3.3 FIA submitted that whether IOSPL has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by IOSPL impacts the airlines, as such cost is passed through or borne by the airlines. The Authority may like to advise IOSPL to review its spending on operational expenditure and re-negotiate all the operational expenditure costs in a significant manner.

10.3.4 FIA further submitted that the Operational & Maintenance expenditure CAGR proposed by IOSPL is in the range of 5% to 10% (in para 9.5 of the CP). Instead of a significant reduction in cost items of operating expenses, the Authority has considered a percentage increase in the range of 4.6% to 8% (as per Table No. 39 of the CP). Such an increase in the name of escalation, in a highly uncertain environment, where airlines are operating under curtailed operations (60-65%), appears without any rationale and should be avoided.

10.3.5 FIA also submitted that although the activity level has gone down drastically, rather than significant reduction in the cost, the employee expenses have gone up for IOSPL, between 8% to 36% as compared to base year of 2021-over five (5) year control period. There should not be any increase in manpower till the existing manpower is effectively utilised. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced. It is also pertinent to note that due to high VAT on ATF in Karnataka, and much lower VAT at neighboring states the Fuel Off take will be lower and hence manpower resizing and other related costs needs to be reviewed and optimized.

**FIA's Comments on Abolishment of Royalty Charges for the 3rd Control Period:**

10.3.6 FIA submitted that royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. The rates of royalty at some of the airports are as high as forty-six (46) %. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport



operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit. FIA urge Authority to abolish such royalty which may be included in any of the cost items.

**10.3.7 IOSPL Bangalore's response to FIA's comments regarding O&M expenditure & abolishment of Royalty charges.**

10.3.8 In response to FIA comment's on O&M expenses, IOSPL submitted that the operating costs of the fuel farm are largely fixed in nature and therefore the reduction in volumes does not lead to cost savings to the full extent of the volume reduction. IOSPL took various cost control measures during Covid times and as a result of the same, operating costs for FY21 were INR 7.99 Crores v/s INR 8.33 Crores in FY20 (Excluding Airport Operator Fees). This implies an operating cost reduction of -4%. IOSPL believes in cost efficient, safe and delay free services for its end consumers and continues to improve upon these factors.

10.3.9 In response to FIA comment's on abolishment of Royalty Charges, IOSPL submitted that at Bangalore Fuel Farm, no royalty fees of any sort is being paid by IOSPL to the Airport Operator, therefore this comment by FIA is not applicable in IOSPL Fuel farm case.

**10.4 Authority's examination and decisions regarding Operation and Maintenance (O&M) Expenditure & Royalty charges for the 3rd Control Period:**

10.4.1 The Authority noted the comments of FIA and response of IOSPL thereon, the operating costs of the fuel farm are largely fixed in nature and not directly linked to volume. The Authority also noted that no royalty fees in any form is being paid by IOSPL Fuel Farm to the Airport Operator at KIA Bangalore.

10.4.2 The Authority notes the comments of IOSPL & BIAL on the lease rental for the land provided by BIAL to IOSPL for Fuel Farm operations at KIA, Bangalore. The Authority noted that the land lease rental in the agreement was a nominal amount of Rs 1 per annum. The Authority is of the view that the proposed increase in the land lease rentals by IOSPL is without merit, given the current circumstances in the aviation sector which is impacted by Covid-19 pandemic.

The Authority also noted that increase in land lease rentals would lead to a sudden increase in fuel farm charges for the aviation stakeholders which are detrimental to the recovery of the sector. Further, the Authority in its order no. 11/2021-22 had not considered the land lease rentals from IOSPL for the 3<sup>rd</sup> control period to determine the tariffs of BIAL as the existing agreement did not had the proposed land lease rentals. Therefore, the Authority decides not to consider such expense payable by IOSPL to Airport operator at this stage.

10.4.3 In view of above, the Authority has decided to consider operating expenditure as proposed at the Consultation Stage.

**10.5 Authority's Decision on Operation and Maintenance Expenditure for the 3rd Control Period.**

Based on the material before it and its analysis, the Authority has decided

10.5.1 To consider Operation and Maintenance Expenditure as shown in the Table 42.

10.5.2 To true up the Operation and Maintenance Expenditure based on actuals at the time of tariff determination for next Control Period.





## CHAPTER 11. TAXATION

### 11.1 IOSPL, Bangalore's submission on Taxation for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.

11.1.1 As per clause 9.5 of CGF Guidelines, taxation represents payments by the Service Provider in respect of corporate tax on income from assets and services taken into consideration for determination of Aggregate Revenue Requirement. The Authority shall review forecast for corporate tax calculation with a view to ascertain inter alia the appropriateness of the allocation and the calculations thereof.

11.1.2 IOSPL, Bangalore projected income tax @ 34.61% (Basic rate 30%, Surcharge, Health and Education Cess 4.16%) on regulatory profits.

11.1.3 The tax projections submitted by IOSPL, Bangalore 3rd Control Period is given as per Table 43 below:

**Table 43: Provision for Taxation as per IOSPL, Bangalore submission for 3rd Control Period**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Aeronautical Revenues with revised tariffs	6353.32	7941.65	9562.96	10041.11	10174.12	44073.16
Aeronautical OPEX (excl. Depreciation)	3496.09	3339.12	3601.83	3885.86	4193.00	18515.91
Depreciation	1632.66	1715.26	3659.53	3631.50	3629.11	14268.06
Profit before tax	1224.57	2887.27	2301.59	2523.75	2352.01	11289.19
Tax rate (%)	34.61%	34.61%	34.61%	34.61%	34.61%	----
<b>Tax</b>	<b>423.82</b>	<b>999.28</b>	<b>796.58</b>	<b>873.47</b>	<b>814.03</b>	<b>3907.19</b>

### 11.2 Authority's Examination and Analysis: taxation for the 3rd Control Period at Consultation stage:

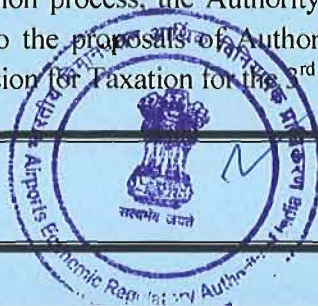
11.2.1 The Authority computed the following tax projections for the 3<sup>rd</sup> Control Period as given in Table 44 below:

**Table 44: Provision for Taxation for IOSPL, Bangalore for 3rd Control Period at C.P. stage.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Aeronautical Revenues with revised tariffs	3446.69	4409.48	4593.74	4790.72	5015.75	<b>22256.38</b>
Aeronautical OPEX (excl. Depreciation)	887.75	944.53	1005.21	1070.06	1139.38	<b>5046.92</b>
Depreciation	1257.11	1554.34	1782.79	1781.86	1342.73	<b>7718.83</b>
Profit before tax	1301.83	1910.61	1805.75	1938.81	2533.63	<b>9490.63</b>
Tax rate (%)	34.61%	34.61%	34.61%	34.61%	34.61%	
<b>Tax</b>	<b>450.56</b>	<b>661.26</b>	<b>624.97</b>	<b>671.02</b>	<b>876.89</b>	<b>3284.71</b>

### 11.3 Stakeholders' Comments regarding Provision for Taxation for the 3rd Control Period:

11.3.1 During the stakeholder consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 13/2021-22 with respect to provision for Taxation for the 3<sup>rd</sup> control period.



**11.4 Authority's examination regarding Provision for Taxation for the 3<sup>rd</sup> Control Period:**

11.4.1 The Authority after considering the effect of revised Fuel Throughput and, its consequent effect on Revenue, (having the effect in tariff), decides to revise the Provision for Taxation as given in Table 45 below:

**Table 45: Revised Provision for Taxation considered by the Authority for the 3<sup>rd</sup> Control Period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Aeronautical Revenues with revised tariffs (refer table 37 )	2449.66	4388.14	4893.49	5335.46	5698.52	22765.27
OPEX (refer table 42)	887.75	944.53	1005.21	1070.06	1139.38	<b>5046.92</b>
Depreciation (refer table 30)	1257.11	1554.34	1782.79	1781.86	1342.73	<b>7718.83</b>
Profit before tax	304.80	1889.27	2105.49	2483.54	3216.41	<b>9999.51</b>
Tax rate (%)	34.61%	34.61%	34.61%	34.61%	34.61%	
<b>Tax</b>	105.49	653.88	728.71	859.55	1113.20	3460.83

**11.5 Authority's decisions regarding Provision for Taxation for the 3<sup>rd</sup> Control Period:**

Based on the material before it and its analysis, the Authority has decided:

11.5.1 To consider the taxation as per Table 45 for determination of ARR for the 3<sup>rd</sup> control period.

11.5.2 To true up the provision for taxation based on actual tax paid at the time of tariff determination for next Control Period.



**CHAPTER 12. AGGREGATE REVENUE REQUIREMENT (ARR)**

**12.1 IOSPL, Bangalore’s submission on Aggregate Revenue Requirement for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.**

12.1.1 IOSPL, Bangalore submitted Aggregate Revenue Requirement (ARR) and Yield per Unit for the 3rd Control Period. The summary of ARR and Yield Per Unit has been presented in the Table 46 below:

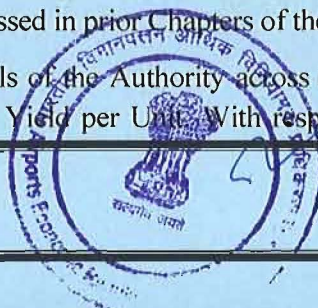
**Table 46: IOSPL, Bangalore’s submission of the Aggregate Revenue Requirement (ARR) and Yield as per Unit for the 3rd Control Period**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Average RAB	11337	13525	14714	11305	7691	58572.00
Fair Rate of Return RAB	15.32%	15.32%	15.32%	15.32%	15.32%	
Return on average RAB	1736.82	2072.03	2254.18	1731.92	1178.26	8973.21
O&M	3496.09	3339.12	3601.83	3885.86	4193.00	18515.90
Depreciation	1632.66	1715.26	3659.53	3631.5	3629.11	14268.06
Tax	423.82	999.28	796.58	873.47	814.03	3907.18
Less: Other Income	19.05	23.82	28.68	30.11	30.51	--
ARR per year	7270.34	8101.87	10283.44	10092.64	9783.89	45532.18
Discount Rate	15.32%	15.32%	15.32%	15.32%	15.32%	--
PV Discount Factor	0.87	0.75	0.65	0.57	0.49	--
PV of ARR based @ 15.32%	6304.23	6091.72	6701.94	5703.53	4794.33	29595.75
Volume	5.42	6.78	8.16	8.57	8.68	--
Tariff at increase rate	1187.00	1187.00	1187.00	1187.00	1187.00	--
Total Revenue at increase tariff	6433.54	8047.86	9685.92	10172.59	10303.16	44643.07
PV Discount	0.87	0.75	0.65	0.57	0.49	--
PV of Revenue	5578.63	6051.11	6312.52	5748.71	5048.78	28739.75
Shortfall/ Deficit	725.60	40.61	389.42	-45.18	-254.45	855.99

**12.2 Authority’s Examination and Analysis for the 3rd Control Period at Consultation stage:**

12.2.1 The Authority noted and examined the submissions made by IOSPL regarding ARR, proposed to determine ARR as per its own philosophy and guiding principles based on its analysis of building blocks/ RAB as discussed in prior Chapters of the Consultation Paper.

12.2.2 The observations and proposals of the Authority across the regulatory building blocks impact the computation of ARR and Yield per Unit. With respect to each element of the regulatory



building blocks considered by IOSPL, Bangalore in computation of ARR and Yield per Unit in above, the Authority proposed as below:

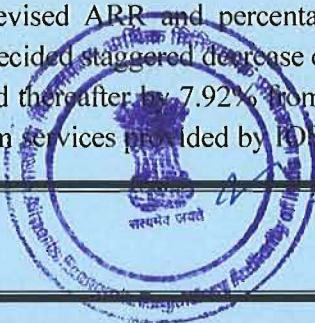
- To consider the average RAB in accordance with Table 32
- To consider the FRoR in accordance with Table 34
- To consider the O&M expenses as per Table 42
- To consider the depreciation as per Table 30
- To consider the tax as per Table 44
- To consider the Fuel throughput Volume in accordance Table 22

12.2.3 After considering the above, the Authority proposed the following ARR at C.P. stage as presented in the Table below:

**Table 47: Aggregate Revenue Requirement (ARR) proposed by the Authority for IOSPL, Bangalore for the 3rd Control Period. ( At Consultation Stage)**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Average RAB	11874.41	14330.24	16537.79	14997.02	13450.73	71190.18
Fair Rate of Return (refer Table 34)	13.50%	13.50%	13.50%	13.50%	13.50%	--
Return on Avg. RAB (A) (refer Table 32)	1603.05	1934.58	2232.60	2024.60	1815.85	9610.67
O & M (B) (refer Table 42)	887.75	944.53	1005.21	1070.06	1139.38	5046.92
Depreciation(C) (refer Table 30)	1257.11	1554.34	1782.79	1781.86	1342.73	7718.83
Income Tax (D) (refer Table 44)	450.56	661.26	624.97	671.02	876.89	3284.71
Gross Aggregate Revenue Requirement (E=A+B+C+D)	4198.46	5094.71	5645.57	5547.53	5174.85	25661.13
Other Income (F)	19.06	23.82	28.69	30.12	30.52	132.20
Adjusted Net ARR (G=E-F)	4179.41	5070.89	5616.88	5517.42	5144.33	25528.93
Discount Factor	1.00	0.88	0.77	0.68	0.60	--
PV of ARR (G)	4179.41	4467.74	4360.17	3773.53	3099.89	19880.74
Excess recovery in 2 <sup>nd</sup> Control Period (H)	2683.60					2683.60
Adjusted Net ARR (I=G-H)	<b>1495.81</b>	<b>4467.74</b>	<b>4360.17</b>	<b>3773.53</b>	<b>3099.89</b>	<b>17197.14</b>
Existing FIC per KL	633.00	633.00	633.00	633.00	633.00	--
Fuel Throughput (Lakhs/KL) (refer Table 22)	6.05	8.60	9.73	11.02	12.53	47.93
Revenue from regulated services @ Existing rate (J)	3829.65	5443.80	6159.09	6975.66	7931.49	30339.69
Proposed FIC per KL	<b>569.70</b>	<b>512.73</b>	<b>472.12</b>	<b>434.73</b>	<b>400.30</b>	
Revised Revenue from regulated services at proposed tariff	3446.69	4409.48	4593.74	4790.72	5015.75	22256.38
NPV of Revised Revenue from regulated services at proposed tariff (K)	<b>3446.69</b>	<b>3885.00</b>	<b>3565.95</b>	<b>3276.52</b>	<b>3022.40</b>	<b>17196.56</b>

12.2.4 The Authority based on the revised ARR and percentage decrease to meet the Aggregate Revenue Requirement (ARR) decided staggered decrease of existing tariff at the rate of 10% for FY 2021-22 & FY 2022-23 and thereafter by 7.92% from FY 2023-24 to FY 2025-26 for the 3rd Control Period for Fuel Farm services provided by IOSPL, at Bangalore Airport as per table



47.

**12.3 Stakeholders' Comments regarding Aggregate Revenue Requirement for the 3rd Control Period:**

**FIA's Comments regarding Aggregate Revenue Requirement for the 3rd Control Period:**

- 12.3.1 FIA submitted that airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffer from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % to seventy (70) % on the airlines. FIA would also like to urge the Authority to pass an order stating that FIC and ITP should be directly invoiced by IOSPL or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses' and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) % to seventy (70) % to Airlines.
- 12.3.2 FIA further urge the Authority to undertake a thorough investigation retrospectively to determine the actual cost of efficient operations and revenues collected by IOSPL till date. All excess recoveries to be passed on to the airlines and future tariff to be determined based on actual cost of efficient operations.

**IOSPL's Comments regarding Aggregate Revenue Requirement for the 3rd Control Period:**

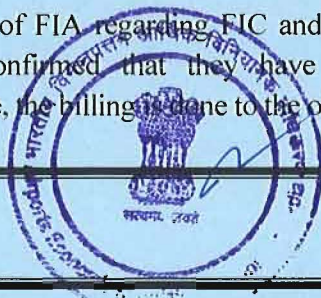
- 12.3.3 IOSPL submitted that in computing the Aggregate Revenue Requirement (ARR) the Authority has used a discount factor of 1.00 for FY22. This application of discount factor would have been correct if the tariff order had been issued on 01st April 2021 (i.e., at the beginning of the financial year). However, the present month is September 2021, and the tariff order is likely to be issued at a later stage. Considering this delay in the issuance of the tariff order by the authority, IOSPL request for the application of the appropriate discount factor (higher than 1.00), to account for the delay in the issuance of the tariff order. A similar precedent of the application of the discount factor as suggested by IOSL was established in Tariff Order Number 29 / 2017-18 for Bangalore Fuel Farm Services.

**12.4 IOSPL, Bangalore's response on FIA's comments regarding Aggregate Revenue Requirement:**

- 12.4.1 In response to the FIA comments on ARR, IOSPL submitted that under the principles of open access, any airline in the role of a fuel supplier is able to get into a contract with IOSPL for Fuel Farm services. IOSPL in its capacity as the operator of the fuel farm at Bangalore Airport has not prohibited any airline from entering into contacts with IOSPL. The matters of taxation on Fuel and its associated services are beyond IOSPL control and therefore IOSPL has no comments on that subject.

**12.5 Authority's examination and decision regarding Aggregate Revenue Requirement for the 3rd Control Period:**

- 12.5.1 The Authority noted the comments of FIA regarding FIC and ITP invoicing. The Authority further noted that M/s IOSPL confirmed that they have a agreement only with oil companies/importer of oils. Therefore, the billing is done to the oil companies/importer of oils.



12.5.2 The Authority observed that FIC and ITP charges are collected by two separate service providers independently and are being regulated separately.

12.5.3 The Authority also noted the comments of IOSPL regarding the treatment on discounting factor. In this regard, the Authority is using Discounted Cash Flow (DCF) technique in determination of Tariff of regulated services. As per the normal Principles of Discounted Cash Flow Technique or Cash Flow Accounting, the cash flows are assumed to accrue at the end of the year and the Present Value (PV) of cash flows for the year is calculated accordingly. Under the DCF Technique First year is treated as 0 year for determination of PV of the cash flow.

12.5.4 The Authority is of the view that the implementation of tariff order is being done in FY 2021-22 and it is logical the discounting factor of 1 should be considered for FY 2021-22.

12.5.5 After considering the changes as discussed in the previous chapters regarding various building blocks of tariff determination, the revised ARR considered for the 3rd control period is given below.

**Table 48: Aggregate Revenue Requirement (ARR) considered by the Authority for IOSPL, Bangalore for the 3rd Control Period.**

Particulars (Amount in Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Average RAB	11874.41	14330.24	16537.79	14997.02	13450.73	71190.18
Fair Rate of Return (refer Table 34)	13.50%	13.50%	13.50%	13.50%	13.50%	--
Return on Avg. RAB (A) (refer Table 32)	1603.05	1934.58	2232.60	2024.60	1815.85	9610.67
O & M (B) (refer Table 42)	887.75	944.53	1005.21	1070.06	1139.38	5046.92
Depreciation(C) (refer Table 30)	1257.11	1554.34	1782.79	1781.86	1342.73	7718.83
Income Tax (D) (refer Table 45)	105.49	653.88	728.71	859.55	1113.20	3460.83
Gross Aggregate Revenue Requirement (E=A+B+C+D)	<b>3853.39</b>	<b>5087.32</b>	<b>5749.31</b>	<b>5736.07</b>	<b>5411.16</b>	<b>25837.26</b>
Other Income (F)	19.06	23.82	28.69	30.12	30.52	132.20
Adjusted Net ARR (G=E-F)	<b>3834.34</b>	<b>5063.50</b>	<b>5720.62</b>	<b>5705.95</b>	<b>5380.64</b>	<b>25705.05</b>
Discount Factor	1.00	0.88	0.77	0.68	0.60	--
PV of ARR (G)	<b>3834.34</b>	<b>4461.24</b>	<b>4440.70</b>	<b>3902.48</b>	<b>3242.28</b>	<b>19881.03</b>
Excess recovery in 2 <sup>nd</sup> Control Period (H)	2683.60					2683.60
Adjusted PV of ARR (I=G-H)	<b>1150.74</b>	<b>4461.24</b>	<b>4440.70</b>	<b>3902.48</b>	<b>3242.28</b>	<b>17197.44</b>
Existing FIC per KL	633.00	633.00	633.00	633.00	633.00	--
Fuel Throughput (Lakhs/KL) (refer Table 23)	3.92	7.61	8.84	10.04	11.17	41.58
Revenue from regulated services @ Existing rate (J)	2481.36	4817.13	5595.72	6355.32	7070.61	26320.14
Proposed FIC per KL*	<b>601</b>	<b>577</b>	<b>554</b>	<b>531</b>	<b>510</b>	
Revised Revenue from regulated services at proposed tariff**	2449.66	4388.14	4893.49	5335.46	5698.52	22765.27
NPV of Revised Revenue from regulated services at proposed tariff (K)	<b>2449.66</b>	<b>3866.28</b>	<b>3798.63</b>	<b>3649.09</b>	<b>3433.83</b>	<b>17197.41</b>

\* With effect from 01.01.2022.



*\*\*Revenue for FY2021-22 has been computed considering the existing rate from 01.04.2021 to 31.12.2021 and the revised rate for 01.01.2022 to 31.03.2022.*

12.5.6 The Authority based on the revised ARR and percentage decrease to meet the Aggregate Revenue Requirement (ARR) has decided to decrease the existing tariff at the rate of 5.11% in FY 2021-22 and thereafter by 4.00% YoY from FY 2022-23 onwards for Fuel Farm services provided by IOSPL, at KIA, Bangalore for the 3rd Control Period as per Table 48. The revised FIC has been rounded off to the nearest rupees.

12.5.7 The one time decrease required from the existing level to meet the ARR was 25.10% at consultation stage. This has been reworked to 13.92% because of the following reasons:

- Projection of Fuel Throughput Volume decreased from 47.96 lakhs KL to 41.58 lakhs KL during the 3<sup>rd</sup> Control Period.
- At consultation stage the FIC rate of Rs. 569.70 was considered for the computation of revenue for the year FY 2021-22. Now, the present FIC rate of Rs. 633/KL has been considered upto 31<sup>st</sup> December, 2021 and revised FIC rate of Rs. 601/KL has been considered from 1st January, 2022 to 31st March, 2022.

12.5.8 Based on the detailed analysis and approach on each building block, The Authority noted that the ARR recoverable calculated as above results in a onetime decrease of 13.92% on the existing tariff. However, in order to reduce the impact of drastic reduction in the tariff, the Authority proposes to stagger the decrease over the entire 3rd control period. The year wise FIC rates during the 3rd control period are given below:-

**Table No. 49 - FIC Rate decided by the Authority for 3rd Control Period**

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revised rate (In INR)	601*	577	554	531	510
Decrease %	5.11%	4.00%	4.00%	4.00%	4.00%

\*Effective from 01.01.2022

**12.6 Authority's Decisions on Aggregate Revenue Requirement (ARR) for the 3rd Control Period.**

Based on the material before it and its analysis, the Authority has decided:

12.6.1 To consider the ARR for IOSPL, Bangalore for the 3rd Control Period as per table 49.

12.6.2 To true up the ARR based on actuals at the time of tariff determination for next Control Period.



## CHAPTER 13. ANNUAL TARIFF PROPOSAL

### 13.1 IOSPL Bangalore's submissions on Annual Tariff Proposal for the 3rd Control Period (FY 2021-22 to FY 2025-26) as part of MYTP.

- 13.1.1 M/s Indian Oil Skytanking Private Limited (IOSPL), Bangalore submitted Multi Year Tariff Proposal (MYTP) for the 3rd Control Period (FY 2020-21 to FY 2025-26) and proposed Rs. 1187/KL as Airport infrastructure charge for the 3rd control period..
- 13.1.2 The Existing tariff for IOSPL, Bangalore for FY 2020-21 as approved by the Authority vide order No 29/2017-18 dated 18.12.2017 was Rs 1700/KL under the two components as given No 50 below. However, IOSPL discontinue charging the Airport Operator fees of Rs 1067/ KL from 15.01.2020 as advised by the AERA on the decision of MoCA and charge Rs 633/- KL only as Fuel Infrastructure Charge at KIA Bangalore.

**Table 50: Tariff components approved by the Authority for 2nd Control Period.**

S.no.	Components	Tariff Rates
1.	Airport Operator Fee's	Rs 1067/KL
2.	Fuel Infrastructure Charge	Rs 633/ KL

### 13.2 Authority's Examination and Analysis regarding tariff proposal for the 3rd Control Period at Consultation stage:

- 13.2.1 The Authority further noted that the tariff proposal submitted by IOSPL, Bangalore for Fuel Farm Services at Kempegowda International Airport, Bangalore for the 3rd Control Period shows more than 87.51% increase in Tariff in FY 2021-22 over the tariff approved by AERA for FY 2020-21 of the 2<sup>nd</sup> Control Period.
- 13.2.2 The Authority, based on the Aggregate Revenue Requirement (ARR) proposed to revise tariff rate with staggered decrease of existing tariff at the rate of 10% for FY 2021-22 & FY 2022-23 and thereafter by 7.92% YoY from FY 2023-24 to FY 2025-26 for the 3rd Control Period for Fuel Farm services provided by IOSPL, Bangalore as per Table 51 below:

**Table 51: FIC Rate Proposed by the Authority for IOSPL, Bangalore for the 3rd Control Period. (at Consultation stage)**

Particulars	2021-22	2022-23	2023-24	2024-25	2025-26
Decrease %	10.00%	10.00%	7.92%	7.92%	7.92%
Revised rate (Rs/KL)	569.70	512.73	472.12	434.73	400.30

### 13.3 HPCL's Comments on Tariff Rate for the 3rd Control Period:

- 13.3.1 HPCL submitted that FIC tariff rates are "Pass Through" in the pricing mechanism. Since FIC tariff is one of the component in the pricing mechanism, HPCL requested to the Authority to applicable new tariff on prospective basis.

### 13.4 IOSPL, Bangalore's response on HPCL's comments regarding Tariff Rate for the 3rd Control Period:

- 13.4.1 IOSPL, Bangalore agreed with the comments made by Hindustan Petroleum Corporation Limited that the tariff should be determined on prospective basis.





### 13.5 Authority's examination and decisions on Tariff Rate for the 3rd Control Period

13.5.1 The Authority noted the comment of HPCL regarding any increase in tariffs should be on a prospective basis, the Authority clarifies that tariffs are applicable from the date of issue of Order or from a specific date in future.

13.5.2 The Authority further revised the tariff rates due to the revision in Fuel throughput as detailed at para 4.5 of chapter 4 and its consequent effect on the revenue. Hence, the staggered decrease in tariff works out to 5.11 % in FY 2021-22 and thereafter by 4.00% YoY from FY 2022-23 onwards of the 3rd Control Period.

13.5.3 The revised tariff rates as given in Table No. 52 below:

**Table 52: FIC Rate considered by the Authority for IOSPL, Bangalore for the 3rd Control Period.**

Particulars	2021-22	2022-23	2023-24	2024-25	2025-26
Revised rate (Rs/KL)	601*	577	554	531	510
Decrease %	5.11%	4.00%	4.00%	4.00%	4.00%

\* Effective from 01.01.2022.

### 13.6 Authority's Decisions on Tariff Rate for the 3rd Control Period.

Based on the material before it and its analysis, the Authority has decided:

13.6.1 To consider the Tariff Rate for IOSPL, Bangalore for the 3rd Control Period (Effective from 01.01.2022 to 31.03.2026) as per **Annexure-I**.

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## CHAPTER 14. SUMMARY of AUTHORITY'S DECISIONS

The below mentioned provides a summary the Authority's decisions (given under each chapter) regarding the tariff determination of IOSPL, Bangalore for the 3rd Control Period (FY 2021-22 to FY 2025-26):

Chapter and Para		Summary Of Authority's Decisions	Page No.
<b>Chapter No 2</b>	2.9.1	The Authority decides to adopt "Price Cap Approach" on 'Single Till' basis for Tariff determination for IOSPL, Bangalore for the 3rd Control Period.	14
<b>Chapter No 3.</b>	3.37.1	The Authority decides to consider the depreciation for the 2nd Control Period as per Table 10	24
	3.37.2	The Authority decides to true up the Regulatory Asset Base as per Table 12.	
	3.37.3	The Authority decides to consider the Operational & Maintenance expenses for true up of 2nd Control Period as per Table 14	
	3.37.4	The Authority decides to consider Income Tax for the 2nd Control Period as per Table 16.	
	3.37.5	The Authority decides to true up the FRoR for the 2nd Control Period as per Table 18.	
	3.37.6	The Authority decides to consider shortfall as per the above Table 19 for the 2nd Control Period which is proposed to be recovered from ISP in the 3rd Control Period	
<b>Chapter No 4.</b>	4.6.1	The Authority decides to consider Fuel Throughput Forecast for the 3rd Control Period for IOSPL, Bangalore as per Table 23.	28
	4.6.2	The Authority decides to true-up the Fuel Throughput (volume) on the basis of actual off take in 3rd Control Period while determining tariffs for the Next Control Period.	
<b>Chapter No 5.</b>	5.6.1	The Authority decides to consider Capital Expenditure for the 3rd Control Period for IOSPL, Bangalore as per Table 27.	34
	5.6.2	The Authority decides to readjustment (reduce) 1% of the non capitalized CAPEX from ARR/Target Revenue, as re-adjustment, in case any particular CAPEX is not completed as per the Capitalization schedule, in the True-up exercise for the 3rd Control Period during determination of tariff for the Next Control Period.	
	5.6.3	The Authority decides to true up the CAPEX based on actuals at the time of tariff determination for Next Control Period.	
<b>Chapter No 6.</b>	6.4.1	The Authority decides to consider Depreciation for the 3rd Control Period as per Table 30.	36
	6.4.2	The Authority decides to true up the depreciation based on actuals at the time of tariff determination for next Control Period.	
<b>Chapter No 7.</b>	7.4.1	The Authority decides to consider the Regulatory Asset Base (RAB) for the 3rd Control Period as given in the Table 32.	38



<b>Chapter No 8.</b>	8.6.1	The Authority decides to consider to maintain the cost of equity at 14% for the 3rd control period.	41
	8.6.2	To adopt the cost of debt at 8.50% for the 3rd control period.	
	8.6.3	To adopt the revised FRoR as calculated in Table no.34 for the 3rd control period.	
	8.6.4	To true up FRoR during the tariff determination for the fourth control period.	
<b>Chapter No 9.</b>	9.5.1	The Authority decides to consider Aeronautical revenue for the 3rd Control Period as per Table 37.	43
	9.5.2	The Authority decides to true up the Aeronautical revenue based on actuals at the time of tariff determination for next Control Period.	
<b>Chapter No 10.</b>	10.5.1	The Authority decides to consider Operation and Maintenance Expenditure as shown in the Table 42.	48
	10.5.2	The Authority decides to true up the Operation and Maintenance Expenditure based on actuals at the time of tariff determination for next Control Period.	
<b>Chapter No 11.</b>	11.5.1	The Authority decides to consider the taxation as per table 45 for determination of ARR for the 3rd control period of IOSPL, Bangalore.	50
	11.5.2	The Authority decides to true up the provision for taxation based on actual tax paid at the time of tariff determination for next Control Period.	
<b>Chapter No 12.</b>	12.6.1	The Authority decides to consider the ARR for IOSPL, Bangalore for the 3rd Control Period as per Table 49.	55
	12.6.2	The Authority decides to true up the ARR based on actuals at the time of tariff determination for next Control Period.	
<b>Chapter No 13</b>	13.6.1	The Authority decides to consider the Tariff Rate for IOSPL, Bangalore for the 3rd Control Period (01.01.2022 to 31.03.2026) as per Annexure-I.	57

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## CHAPTER 15. ORDER

Upon careful consideration of the material available on records, the Authority, in exercise of powers conferred by Section 13(1) (a) of the Airport Economic Regulatory Authority of India Act, 2008 hereby orders that:

- (i) IOSPL, Bangalore is permitted to levy the tariff for FIC as per **Annexure-I** for the 3rd Control Period.
- (ii) The levy of new tariffs shall be **effective from 1<sup>st</sup> Janaury, 2022.**
- (iii) The tariff rates approved herein are ceiling rates, excluding taxes, if any, and, as applicable.
- (iv) The Airport Operator shall ensure compliance of the Order.

By the Order of and in the name of the Authority



(Col. Manu Sooden)  
Secretary

To,

**Shri T.S. Dupare**  
Chief Executive Officer,  
Indian Oil Skytanking Private Ltd  
Bangalore international airport, Devenahalli,  
Bangalore-560 300

### Copy to:

1. **Secretary, Ministry of Civil Aviation**  
Rajiv Gandhi Bhawan,  
Safdarjung Airport,  
New Delhi – 110 003.
2. **Shri Hari Marar,**  
Chief Executive Officer,  
Bangalore International Airport Limited  
Kempegowda International Airport Bengaluru, Devanahalli,  
Bangalore – 560300, India.



**AERA APPROVED MAXIMUM TARIFF RATE**

For Indian Oil Skytanking Private Limited (IOSPL) providing Fuel infrastructure services at Kempegowda International Airport, Bangalore for the 3rd control period (FY 2021-22 to FY 2025-26).

<b>Tariff Year</b>	<b>FIC Rate per KL (In Rs)</b>
FY 2021-22 (Effective from 01.01.2022 to 31.03.2022)	601
FY 2022-23 (From 01.04.2022 to 31.03.2023)	577
FY 2023-24 (From 01.04.2023 to 31.03.2024)	554
FY 2024-25 (From 01.04.2024 to 31.03.2025)	531
FY 2025-26 (From 01.04.2025 to 31.03.2026)	510

Note : The rates approved herein are ceiling rates, excluding taxes, if any, and, as applicable as per Government Orders issued from time to time.

