File No. AERA/20010/MYTP/DAFFPL/FF/CP-II/16-17/Vol-I

Order No. 32/2017-18

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Facility Private Limited at IGI Airport, New Delhi (01.04.2016 – 31.03.2021)

18th December, 2017

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

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1. LIST OF ABBREVIATIONS

AAI	Airport Authority of India
AERA or the Authority	Airport Economic Regulatory Authority of India
Aero	Aeronautical
ARR	Aggregate Revenue Requirement
ATA	Air Travellers Association
ATM	Air traffic movement
ATP	Annual Tariff Proposal
ATF	Aviation Fuel
BPCL	Bharat Petroleum Corporation Limited
CA	Concession & Operating Agreement between DAFFPL and DIAL
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
CGF	Cargo Facility, Ground Handling and Fuel Supply services
CGF Guidelines	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 dated 10.01.2011
Concession period	Concession term is for 25 years from date of commencement of CA i.e. 01.07.2010
CSR	Corporate Social Responsibility
DAFFPL/ Fuel Farm Operator	Delhi Aviation Fuel Facility Private Limited
DIAL/ Airport Operator	Delhi International Airport Private Limited
FIC or Infrastructure charge	Fuel Infrastructure Charge
FRoR	Fair Rate of Return
FY	Financial Year
GOI	Government Of India
IATA	International Air Transport Association
IGI Airport	Indira Gandhi International Airport, New Delhi
IND AS	Indian Accounting Standard
Inflation CPI	5% per annum for 5 years from 01.04.2017 as per RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 45th Round dated 6th April 2017
INR or ₹	Indian rupees
IOCL	Indian Oil Corporation Limited
IOSL	Indian Oil SkyTanking Limited
IRR	Internal Rate of Return
ISP	Independent Service Providers
ITP	Into Plane Service Provider
JVC	Joint Venture Company
Ke	Cost of equity
KL	Kilo litre
MYTO	Multi Year Tariff Order
MYTP	Multi Year Tariff Proposal
O&M	Operating and Maintenance
OPEX	Operating Expenditure
P&L	Profit and Loss
p.a.	Per annum
PAX	Passenger(s)
RAB	Regulatory Asset Base
SLM	Straight Line Method
Sq.m.	Square Metre
YPP	Yield per passenger

2. BACKGROUND

2.1 Delhi Aviation Fuel Facility Private Limited (DAFFPL) is a JVC between IOCL (37%), BPCL (37%) and DIAL (26%). DAFFPL undertakes the development, operation & maintenance of the fuel farm facility and fuel hydrant system at terminal 2 and 3 of the IGI Airport pursuant to Concession & Operating Agreement (CA) between DAFFPL and DIAL for a period of 25 years from date of commencement of CA i.e. 01.07.2010. DAFFPL has submitted that the fuel farm facility is based on open access model wherein airlines may source their own fuel from any oil company and use the fuel farm's storage facilities at agreed price levels.

2.2 The Authority had considered the MYTP (for the first Control Period from 01.04.2011 to 31.03.2016) submitted by DAFFPL for providing fuel farm services at IGI Airport and issued Order No. 07/2011-12 dated 29.08.2011 which, inter alia, provided the following:

2.2.1 The infrastructure charge in respect of the fuel farm services provided by DAFFPL at IGI Airport for the period prior to first control period (interim period) from 28.07.2010 to 31.03.2011 would be ₹755/ KL (inclusive of operator's fee);

2.2.2 The tariff for the first control period from 01.04.2011 to 31.03.2016 would be determined under price cap regulation.

2.3 After issue of the above Order, DAFFPL was required to submit their MYTP in terms of Airport Guidelines. DAFFPL sought additional time for submission of information upto 20.10.2012. However, DAFFPL did not submit the data within the stipulated period during which more than one and a half years of the first control period had already elapsed. Hence, in view of the above and vide Order No. 19/ 2012-13 the Authority ordered that:

2.3.1 W.e.f. 01.04.2011, the tariff in respect of supply of fuel services provided by DAFFPL would be continued at the same rate as were existing as on 31.03.2011 i.e. ₹755/ KL for the first control period, i.e. upto 31.03.2016;

2.3.2 DAFFPL may approach the Authority for revision in the charges, if any, on the basis of material, they may like to produce before the Authority in accordance with the Guidelines. The Authority will undertake appropriate exercise to consider the same, subject to stakeholder consultation at the material time.

2.4 Subsequently DAFFPL has approached the Authority with its MYTP seeking approval on tariff for FIC of ₹755/ KL for the second control period from 01.04.2016 to 31.03.2021. DAFFPL has filed its MYTP submissions vide their letter dated 7th March 2016 before the Authority. DAFFPL filed auxiliary submissions dated 01.12.2016, 22.02.2017, 06.04.2017, 27.04.2017, 02.05.2017, 03.05.2017 and 12.05.2017.

2.5 Further, vide Order No. 19/ 2016-17 dated 20th March, 2017 issued by the Authority, DAFFPL may be allowed to continue levy of the tariffs existing as on 31.03.2016 till determination of tariffs for the second control period.

3. METHODOLOGY FOR TARIFF CALCULATION

3.1 As stipulated in the CGF Guidelines, the Authority shall follow a three stage process for determining its approach to the regulation of a regulated service -

3.1.1 Materiality Assessment;

3.1.2 Competition Assessment;

3.1.3 Assessment of reasonableness of the User Agreements between the service providers and the users of the regulated services.

3.2 Based on the Authority's review as described above where the Regulated Service(s) provided are deemed:

3.2.1 'not material', the Authority shall determine Tariff(s) for Service Provider(s) based on a light touch approach for the duration of the Control Period

3.2.2 'material but competitive', the Authority shall determine Tariff(s) for Service Provider(s) based on a light touch approach for the duration of the Control Period

3.2.3 'material and not competitive' but where the Authority is assured of the reasonableness of the existing User Agreement(s), the Authority shall determine Tariff(s) for Service Provider(s) based on a light touch approach for the duration of the Control Period

3.2.4 'material and not competitive' and where the Authority is not assured of the reasonableness of the existing User Agreement(s), the Authority shall determine Tariff(s) based on price cap approach for the duration of the Control Period.

3.3 Based on DAFFPL's submission, materiality index (based on the fuel throughput at IGI Airport in comparison to fuel throughput at other major airports) is more than 5% materiality index fixed for assessing the materiality of the subject regulated service. Hence the service is deemed to be "material".

3.4 The CGF Guidelines provide that where a Regulated 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 and the determination of number of Service Provider(s) at a major airport shall include the Airport Operator, if the Airport Operator is also providing Regulated Service(s) at that major airport.

3.5 At present, fuel farm services at IGI Airport are being provided solely by DAFFPL. Hence, the service is deemed to be "not competitive".

3.6 The Authority has noted that as per the CGF Guidelines, based on the assessment of materiality and competition, when such regulated 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.

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

3.7.1 *"(i) The service provider submits existing User Agreement(s) between the Service Provider and all the User(s) of the Regulated Service(s), clearly indicating the tariff(s) that are agreed to between the Service Provider and the User(s) of the Regulated Service(s), and*

(ii) The User(s) of the Regulated 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."

3.8 In pursuance of the same, DAFFPL submitted Minutes of the User Consultation Meeting along with consent letters from Jet Airways (India) Limited and Air India Limited agreeing on the proposed FIC of ₹755/ KL for the second control period ending on 31.03.2021.

However, the Authority noted that DAFFPL was set up essentially to provide common access to all suppliers of fuel and remains a monopoly provider of infrastructure of fuel supply. Hence, the Authority has decided to determine tariff for fuel supply service provided by DAFFPL at IGI Airport under price cap regulation for the second control period.

3.9 For Regulated Service(s) 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) for the second control period on the basis of the following Regulatory Building Blocks:

3.9.1 Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB)

Plus

3.9.2 Operation and Maintenance Expenditure (O)

Plus

3.9.3 Depreciation (D)

Plus

3.9.4 Taxation (T)

Minus

3.9.5 Revenue from services other than aeronautical services (NAR)

3.10 Based on the building blocks provided above, the formula for determining ARR under Hybrid Till is as follows:

3.11 $ARR = \sum_{t=1}^{5}(ARR_t)$ *and*

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

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'

3.12 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 during the control period, the airport operator 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 airport operator will have to reduce its proposed tariff.

3.13 The detailed submissions provided by DAFFPL in respect of the Regulatory Building Blocks have been discussed in the subsequent sections.

Stakeholder's comments on issues pertaining to methodology for tariff calculation

3.14 With regard to the methodology of tariff calculation, DAFFPL was of the view that-

"The Authority has outlined its approach in Clause 3 of the CGF Guidelines 2011 wherein it has unequivocally stated that it would follow a 3-stage process to determine the approach of tariff determination, the assessment of:

1. Materiality;

2. Competition;

3. Reasonableness of existing user agreements.

From the foregoing it is evident that the Authority has undertaken to follow a step-wise procedure and only in a case where a service is found to be material and then non-competitive and subsequently on an analysis of the existing user agreements, if the Authority is not assured of the reasonableness of the said User Agreements, can the Authority determine the tariffs as per the price cap regulation mechanism.

However, in the Consultation Paper, the Authority after having reached Stage 3 and having satisfied itself of the reasonableness of the existing User Agreements, on the basis of the consents recorded by the users of facility, which clearly fulfil the criteria of reasonableness laid down in Clause 6 of the CGF Guidelines, has resorted to Stage 2 to state that the service provided by DAFFPL is a monopoly, and is therefore, non-competitive. Hence, the Authority has proceeded to regulate the Infrastructure charges on a price cap basis only, solely on the premise that it is non-competitive. This is against the very guidelines laid down by the Authority. Further, there is no observation of the Authority in the Consultation Paper stating that the Authority has not been assured of the reasonableness of the existing User Agreements which were submitted by DAFFPL. As such, it is evident that the Authority has forgone the assessment of reasonableness of the User Agreements even though the same has been mandated by the CGF Guidelines which have been relied upon by the Authority.

Hence, the Authority is requested to regulate the services provided by DAFFPL under the Light Touch Approach in accordance with the CGF guidelines which the Authority has itself promulgated."

3.15 With regard to the Single till considered under the Price cap methodology for tariff calculation, DAFFPL was of the view that-

"In the Consultation Paper, the Authority has decided to adopt the Price Cap methodology and for the same it has adopted the formula for determining ARR under the Hybrid Till. However, even though it has decided to use hybrid till, the formula as stated in Para 3.11 of the Consultation Paper is essentially that of single till as the entire Non-Aeronautical Revenue (NAR) has been used to cross-subsidize the Aeronautical Charge for the service which is against the Authority's own mandate to calculate the charges as per hybrid till wherein only a percentage (30% as per the National Civil Aviation Policy) of the NAR can be used to cross-subsidize the Aeronautical charges."

3.16 With regard to the methodology for tariff calculation, BAOA was of the view that-

"Fuel Charges should be regulated on 'price cap' approach, based on cost inputs and, not on 'light touch' approach."

3.17 With regard to the methodology for tariff calculation, DIAL was of the view that-

"Authority in its Consultation paper no. 27/ 2017-18 dtd. 20th Sept, 2017 proposed to adopt price cap approach on the basis that DAFFPL is the only infrastructure provider at the Airport and hence enjoy monopoly.

In this regard, we would like to submit that in order to maintain safety standard, quality and operational efficiency it is always recommended to have single infrastructure provider for fuel supply. Also, it won't be economical to have multiple infrastructure providers since they won't be able to attain economy of scale.

Further, we would also like to submit that DAFFPL has complied with the requirements of reasonableness of user agreement as per applicable tariff guidelines and hence it should be allowed light touch approach."

DAFFPL's reply to Stakeholder's comments on issues pertaining to method of tariff determination

3.18 With regard to BAOA's comments on the methodology of tariff determination, DAFFPL was of the view that-

"The Authority has outlined its approach in Clause 3 of the CGF Guidelines 2011 wherein it has unequivocally stated that it would follow a 3-stage process to determine the approach of tariff determination, the assessment of:

1. Materiality;

2. Competition;

3. Reasonableness of existing user agreements.

From the foregoing it is evident that the Authority has undertaken to follow a step-wise procedure and only in a case where a service is found to be material and then non-competitive and subsequently on an analysis of the existing user agreements, if the Authority is not assured of the reasonableness of the said User Agreements, can the Authority determine the tariffs as per the price cap regulation mechanism.

However, in the Consultation Paper, the Authority after having reached Stage 3 and having satisfied itself of the reasonableness of the existing User Agreements, on the basis of the consents recorded by the users of facility, which clearly fulfil the criteria of reasonableness laid down in Clause 6 of the CGF Guidelines, has resorted to Stage 2 to state that the service provided by DAFFPL is a monopoly, and is therefore, non-competitive. Hence, the Authority has proceeded to regulate the Infrastructure charges on a price cap basis only, solely on the premise that it is non-competitive. This is against the very guidelines laid down by the Authority. Further, there is no observation of the Authority in the Consultation Paper stating that the Authority has not been assured of the reasonableness of the existing User Agreements which were submitted by DAFFPL. As such, it is evident that the Authority has forgone the assessment of reasonableness of the User Agreements even though the same has been mandated by the CGF Guidelines which have been relied upon by the Authority.

Hence, the Authority is requested to regulate the services provided by DAFFPL under the Light Touch Approach in accordance with the CGF guidelines which the Authority has itself promulgated."

3.19 DAFFPL agrees to DIAL's comments on methodology of tariff determination.

Authority's examination of Stakeholder's comments on issues pertaining to method of tariff determination

3.20 With regard to DAFFPL's comments on the methodology of tariff determination, the Authority is of the view that Guidelines need not be followed in a routine manner. Besides, the Authority notes that there is no User Agreement with the airlines or the end-use customer. The Authority has adopted the Price-Cap approach in order to ensure uniformity in determination of tariffs for DAFFPL, IOSL and MAFFFL fuel farms. Further, even in Light Touch approach, the Authority examines the margins, the growth of profit and return on RAB to ensure that extraordinary profits do not accrue to the service provider and that the ultimate customer is not burdened with higher tariffs as the latter does not have a say in the User Agreements entered in to by the Fuel farms. The Authority is also contemplating certain amendments to the Guidelines which prescribe the Methodology for determination of tariff for CGF services.

The Authority has further noted that DAFFPL's profit margin for FY 2014-15 and FY 2015-16 with respect to its revenue is in the range of 20%-30%, which is considerably high. In view of the above, the Authority has decided to use a Price cap methodology for determining tariffs.

4. REGULATORY ASSET BASE (RAB) AND DEPRECIATION

4.1 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.

4.2 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.

DAFFPL's submission – RAB and Depreciation

Table 1: Capital Expenditure during the control period (in ₹ lakhs)

Particulars	Added upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	752	-	600	-	-	-
Plant & machinery (including deadstock)	27,782	1,030	683	349	738	681
Operating vehicles	45	-	-	-	-	-
Furniture & fixtures	12	-	-	20	-	-
Computer & IT assets	906	85	420	-	-	-
Intangible assets (including Security Deposits)	15,870	992	-	2,718	-	3,312
Total	**45,367**	**2,107**	**1,703**	**3,087**	**738**	**3,993**

4.3 As per DAFFPL, value of minimum level of fuel or deadstock ('Deadstock') stored in fuel storage tanks forming part of RAB during FY 15-16 was ₹2,068 lakhs. Deadstock has been considered as a part of plant & machinery and is being depreciated at the rate of depreciation of plant & machinery during the control period.

4.4 Further, Security Deposits considered as part of RAB by DAFFPL represent the interest-free security deposits paid upto and during the control period by DAFFPL to DIAL as per the terms and conditions of Concession & Operating Agreement. As per the CA, *"Subsequent to the Commencement Date, at the end of every two Financial Years, the amount of the Security Deposit shall be reset to the higher of the following:*

(i) Aggregate of the Airport Operator Fee paid during the preceding 18 (eighteen) months, or

(ii) Rs.750,000,000/- (Rupees Seven Hundred Fifty Million)."

Airport Operator Fee is defined as the fee due and payable to DIAL for each kilolitre of ATF delivered through the Facility. As per DAFFPL's submissions the ATF for FY15-16 was ₹688.17 per KL with escalation of 7% per annum.

4.5 DAFFPL in its submission has depreciated various assets as follows:

Table 2: Depreciation on opening balance during the second control period (in ₹ lakhs)

Particulars	Rate	Upto 31.03.16	2016-17	2017-18	2018-19	2019-20	2020-21
Buildings	4.70%	177	35	26	39	39	39
Plant & machinery	7.14%	8,626	1,984	1,957	1,817	1,842	1,895
Operating vehicles	12.50%	16	3	3	3	3	3
Furniture & fixtures	10.00%	4	1	1	1	3	3
Computer & IT assets	33.33%	904	1	28	168	168	57
Intangible assets (including Security Deposits)	100%[1]	4	-	-	-	-	-
Total		**9,731**	**2,025**	**2,016**	**2,029**	**2,056**	**1,997**

Table 3: Depreciation on additions to assets during the second control period (in ₹ lakhs)

Particulars	Rate	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	4.70%	-	-	14	-	-	-
Plant & machinery	7.14%	3	36	24	12	26	24
Operating vehicles	12.50%	1	-	-	-	-	-
Furniture & fixtures	10.00%			-	1	-	-
Computer & IT assets	33.33%	-	14	69	-	-	-
Intangible assets (including Security Deposits)	100%	-	-	-	-	-	-
Total		**4**	**51**	**108**	**13**	**26**	**24**

Table 4: Disposals (net of depreciation) during the second control period (in ₹ lakhs)

Particulars	Upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	1	141	224	-	-	-
Plant & machinery	2	855	1,409	-	-	161
Operating vehicles	8	-	-	-	-	-
Furniture & fixtures	-	-	-	-	-	-
Computer & IT assets	-	-	-	-	-	-
Intangible assets (including Security Deposits)	-	-	-	-	-	-
Total	**11**	**996**	**1,633**	**-**	**-**	**161**

[1] Depreciation at 100% provided on intangibles (excluding security deposits)

Table 5: RAB during the second control period as per DAFFPL (in ₹ lakhs)

Particulars	Upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening RAB	-	35,620	34,656	32,602	33,647	32,302
Less: Depreciation on opening assets		2,025	2,016	2,029	2,056	1,997
Add: Additions	45,367	2,107	1,703	3,087	738	3,993
Less: Depreciation on additions to assets	9,735	51	108	13	26	24
Less: Disposals (net of depreciation)	11	996	1,633	-	-	161
Closing RAB	35,620	34,656	32,602	33,647	32,302	34,114
Average RAB	**-**	**35,138**	**33,629**	**33,124**	**32,974**	**33,208**

Authority's Examination – RAB and depreciation

4.6 The Authority has proposed to revise estimates for capital expenditure during FY16-17 based on audited figures provided by DAFFPL.

Table 6: Revised capital expenditure during the control period (in ₹ lakhs)

Particulars	Added upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	752	-	-	600	-	-
Plant & machinery	25,714	17	807	1,038	738	861
Operating vehicles	45	-	-	-	-	-
Furniture & fixtures	12	-	-	20	-	-
Computer & IT assets	906	1	-	420	-	-
Deadstock	2,068	-	-	-	-	-
Intangible assets	4	-	-	-	-	-
Total	**29,501**	**18**	**807**	**2,078**	**738**	**861**

4.7 The Authority noted 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. There are 2 possible accounting treatments for cost of Deadstock as observed in case of other fuel farms:

4.7.1 **Deadstock is treated as depreciable capital asset:** Cost of Deadstock is added to the capital asset (storage tank/ pipeline) cost and is depreciated at the rate of the capital asset since the fuel farm operator is required to transfer all assets at zero cost to the airport operator at the end of concession period.

4.7.2 **Deadstock is treated as non-depreciable capital asset:** Cost of Deadstock is accounted for as a separate capital asset (as 'Deadstock') which is not considered for depreciation since residual value of Deadstock might not fall below 5% of the original cost and hence depreciation cannot be provided for Deadstock in accordance with the provisions of the Companies Act, 2013.

4.8 The Authority in this regard has proposed to treat deadstock as a non-depreciable asset and consider appropriate adjustment in tariff at the time of disposal of such Deadstock in the last control period based on the concession period of the fuel farm operator.

4.9 The Authority noted that security deposits paid by DAFFPL to DIAL are not related to the operations of the fuel farm and cannot be considered as a part of RAB. The fuel farm does not derive any benefit for the security deposit made to DIAL and accordingly, the Authority has proposed to exclude the amount of security deposits up to and during the second control period from RAB. However, the Authority has proposed to allow a nominal return equal to the 5-year projected inflation rate of 5% per annum (as per RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 45th Round dated 6th April 2017) on the outstanding amount of Security Deposits each year during the control period as addition to the ARR, to partially compensate for the investment made to make up any loss in value of the deposit.

4.10 The Authority notes that on some of the assets the depreciation charged by DAFFPL is not in line with the Companies Act 2013. The Authority is of the view that adoption of depreciation rates as prescribed under the Companies Act at any point of time is appropriate, considering the variation in policies adopted by the fuel farm operators.

4.11 In this regard, the Authority has issued a consultation paper titled "Consultation Paper No. 9/ 2017-18 in the matter of Determination of Useful life of Airport Assets" dated 19th June 2017, to determine appropriate depreciation rates in line with the provisions of the Companies Act 2013. Accordingly, the Authority has proposed to revise the useful life and depreciation rates in line with the proposals set out in such consultation paper. The Authority will consider changes/ revisions (if any) in the order pursuant to the aforementioned consultation paper for adjustment in RAB or true up.

4.12 Revised depreciation during the control period is as follows:

Table 7: Revised Depreciation on opening balance during the second control period (in ₹ lakhs)

Particulars	Rate	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	3.33%	25	19	8	28	28
Plant & machinery	6.67%	1,714	1,621	1,499	1,568	1,617
Operating vehicles	10.00%	2	2	2	2	2
Furniture & fixtures	10.00%	1	1	1	3	3
Computer & IT assets	33.33%	1	0	0	0	0
Deadstock	0.00%	-	-	-	-	-
Intangible assets	100%	-	-	-	-	-
Total		**1,744**	**1,644**	**1,511**	**1,602**	**1,651**

Table 8: Revised Depreciation on additions to assets during the second control period (in ₹ lakhs)

Particulars	Rate	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Buildings	3.33%	0	0	10	0	0
Plant & machinery	6.67%	1	27	34	24	28
Operating vehicles	10.00%	0	0	0	0	0
Furniture & fixtures	10.00%	-	0	1	0	0
Computer & IT assets	33.33%	0	0	69	0	0
Deadstock	0.00%	-	0	0	0	0
Intangible assets	100%	-	0	0	0	0
Total		**1**	**27**	**115**	**24**	**28**

4.13 Revised RAB as per the Authority after considering the above proposals is shown below:

Table 9: Revised RAB during the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening RAB	19,755	17,032	14,536	14,989	14,100
Depreciation on opening assets	1,744	1,644	1,511	1,602	1,651
Additions	18	807	2,078	738	861
Depreciation on additions to assets	1	27	115	24	28
Disposals (net of depreciation)	996	1,633	-	-	161
Closing RAB	17,032	14,536	14,989	14,100	13,121
Average RAB	**18,393**	**15,784**	**14,762**	**14,544**	**13,611**

Stakeholder's comments on issues pertaining to RAB & Depreciation

4.14 With regard to the Security deposit considered in RAB & Depreciation, DAFFPL was of the following view-

"AERA has stated that the security deposits paid by DAFFPL are not related to the operation of the fuel farm and therefore, the same should not be included as a part of the RAB. However, while stating so, the Authority has failed to consider that in terms of Clause 2.4 of the Concession Agreement between DIAL and DAFFPL, DAFFPL is mandated to pay a security deposit to DIAL which is revised every two years and the higher of the following has to be maintained as a security deposit by DAFFPL with DIAL:

a) Aggregate of Airport operator fee paid during the preceding 18 months;

b) Rs. 75 Crore

As such, the payment of security deposits is a mandatory condition under the Concession Agreement and therefore, it is incorrect to state that the payment of security deposits is not linked to the operation of the fuel farm. It is submitted that without the payment of the security deposits, DAFFPL would not be compliant with the provisions of the Concession Agreement and therefore, would not be allowed to operate the fuel farm at all. Hence, the *payment of security deposits being a mandatory contractual condition precedent is intrinsically linked to the operation of the fuel farm by DAFFPL under the Concession Agreement.*

Any default in the payment of security deposits shall be breach of the Concession Agreement. Accordingly, in order to operate the Concession it is mandatory for DAFFPL to maintain security deposit and hence it is a mandatory investment for DAFFPL for providing regulatory service. Hence, this should be considered as part of the RAB.

The Authority has proposed to provide a nominal return of 5% p.a. on the outstanding amount of Security deposits during the control period as addition to the ARR.

In this regard, it is submitted that the Security Deposits which have been furnished by DAFFPL to DIAL have been funded through debt and equity and therefore, such security Deposits amount a return equal to the actual cost should be allowed."

4.15 With regard to the Depreciation, DAFFPL was of the following view-

"In respect to the Authority's contention that depreciation has not been charged as per the Companies Act, 2013, DAFFPL states that such contention is incorrect. DAFFPL in its submission has considered depreciation in accordance with the Companies Act, 2013. However, since the concession period and therefore, the useful life for which DAFFPL shall be using the assets which have been included in the RAB is 25 years, DAFFPL has considered the same for calculation of depreciation. Use of 25 years as the useful life of assets is also proper in view of the fact that at the end of the concession period, the assets are to be transferred by DAFFPL to DIAL at zero cost and therefore, the assets should depreciate at a rate according to which the value of the asset is zero at the time when it is to be handed over to DIAL by DAFFPL.

Further, the approach of the Authority in placing reliance on a Consultation Paper which has admittedly not resulted in an authoritative order and is therefore still a mere proposal of the Authority is incorrect and against the tents of regulatory jurisprudence. As such, the Authority is requested to accept the proposal of DAFFPL in calculating depreciation of assets while considering the useful life the assets as 25 years."

4.16 With regard to Additions to RAB, DAFFPL was of the view that-

"It is pertinent to mention that DAFFPL has planned capital expenditure for modernization and automation of their existing farm fuel facility to implement the recommendation of MB Lal Committee report."

4.17 With regard to the treatment for Deadstock, DAFFPL was of the view that-

"It is quite clear from Clause 15.2 of the Concession Agreement that it was a prerequisite for DAFFPL to procure and maintain deadstock even though the deadstock once deployed is a sunk cost to DAFFPL. Further, with respect to the residual value DAFFPL is of the view that as per the expiry provision of the concession wherein DAFFPL has to return back the facility

at Zero cost to the Airport operator at the end of the concession, hence the residual value of deadstock stands at Nil in the hands of DAFFPL and its a sunk cost.

Since, the deadstock has to be maintained by DAFFPL throughout the life of the Concession Agreement so as to be able to provide its services, DAFFPL requests the Authority to allow depreciation on the deadstock especially when the same would eventually be transferred to DIAL at zero cost at the end of the Concession Agreement. In case the deadstock has been excluded from RAB then DAFFPL will not be able to recover the amount invested in providing the fuel services, and the same will be against the regulatory principle. Hence, we request the Authority to consider the deadstock as part of RAB and accord depreciation on the same."

4.18 With regard to the treatment for Deadstock, IATA was of the view that-

"IATA agrees with AERA's proposal that deadstock be treated as non-depreciable capital asset and its impact on tariffs to be considered at the time of disposal of the deadstock."

4.19 With regard to the treatment for depreciation, IATA was of the view that-

"IATA agrees with AERA's revision to the asset depreciation rates which are more in line with the useful lives of the assets."

4.20 With regard to the treatment for Airport operator fee, IATA was of the view that-

"IATA looks forward to MRA issuing a suitable order on us from its consultation paper on capping the percentage of royalty/ revenue share payable to the Airport Operator (CP No. 8/2016-17). If AOF is not removed totally, at the very least it should be capped at a small percentage (eg. 5%} of the FIC and once this rate has been established the first time, the AOF should not be allowed to rise above it going forward. It should be noted that even if the AOF does not change, the fuel concession revenue to the airport would still increase because of increasing fuel throughput as traffic grows."

4.21 With regard to Infrastructure & Safety- Additions to RAB, ATA was of the view that-

"***Infrastructure****- We would like to submit that any infrastructure project should be established by evaluating overall economic impact from both users as well as operator perspective. There is no necessity to mandate two operators merely to create competition if they can't attain economy of scale. The cost of extra capex/ capacity is also effectively borne by passengers. Hence, we believe that the existing infrastructure should be sweat out to its fullest before implementing new infrastructure plans. We heard the fuel facility operators airing their views in the consultation meeting that any extension of the existing hydrant system by the same airport operator will ensure the much-wanted integration of this; otherwise it becomes capital intrusive system. Air Travellers Association sees merit in this stand point.*

Safety- As an Air Traveller Association, our objective is to support the measures meant to provide safe infrastructure for the air travellers. In this regards we believe that the Fuel Hydrant system is efficient and the safest way to re-fueling the aircraft. It does not only reduce the air side traffic movement but also helps airlines to get faster turnaround. DGCA also mandates measures that reduce air side traffic. Accordingly, we request authority to promote fuel hydrant Systems at all Indian Airports."

4.22 With regard to the Airport Operator fee, BAOA was of the view that-

"The Airport Operator fee (AOF) needs to be looked at de-novo, in line with recent AERA's policy not to allow any royalty/revenue share for aeronautical services at public airports. It is submitted that AOF to be removed completely. Please read this submission in conjunction with our plea to remove Fuel Throughput Charges (FTC) submitted in our letter Ref. No. BAOA/ AERA/ 06/ 2017-18 dt. 20 October 2017, in response to consultation papers on five major public airports."

4.23 With regard to Security deposit, DIAL was of the view that-

"As per the concession agreement, DAFFPL has to maintain security deposit. It is a commercial agreement between two contracting parties and hence the same should be honored. Security deposit in this case is a concession pre-requisite, hence form part of acquisition cost for the business. These costs are therefore considered part of the project cost.

The Security deposit has been funded either by debt or equity and Authority's proposal for providing 5% inflationary return on such deposits is not reasonable. Hence, we request authority to consider means of finance of security deposit and allow return equivalent to source of finance.

Further, in order to operate the concession, it is mandatory for DAFFPL to maintain security deposit and hence it is a mandatory investment for DAFFPL for providing regulatory service. Hence, this should be considered as part of Regulatory Asset Base."

4.24 With regard to the treatment of deadstock, DIAL was of the view that-

"As per DAFFPL concession agreement DAFFPL is not eligible for any residual value for the deadstock. As this is a Sunk cost for DAFFPL same should be considered by authority in RAB. As this is the only way by which DAFFPL would be able to recover its investment."

DAFFPL's reply to Stakeholder's comments on issues pertaining to RAB & Depreciation

4.25 With regard to the IATA's comments on treatment of deadstock, DAFFPL was of the view that-

"In terms of the Concession Agreement, it was a prerequisite for DAFFPL to procure and maintain deadstock. The deadstock once employed is a sunk cost for DAFFPL. Further with respect to residual value, following expiry of the Concession DAFFPL has to return back the facility at Zero value to the airport operator. The residual value of deadstock stands Zero in

the hands of DAFFPL at the end of concession period. Hence the depreciation should be allowed on the same to recover the aforestated cost."

4.26 With regard to the IATA's comments on treatment of depreciation, DAFFPL was of the view that-

"The concession period of DAFFPL is 25 years and therefore, the useful life for which DAFFPL shall be using the assets which have been included in the RAB is 25 years. DAFFPL has considered the same for calculation of depreciation. Use of 25 years as the useful life of assets is also proper in view of the fact that at the end of the concession period, the assets are to be transferred by DAFFPL to DIAL at zero cost and therefore, the assets should depreciate at a rate according to which the value of the asset is zero at the time when it is to be handed over to DIAL by DAFFPL."

4.27 With regard to the IATA's & BAOA's comments on Airport operator fee, DAFFPL was of the view that-

"The proposed tariff for DAFFPL does not include AOF and hence the same is not applicable on us."

4.28 With regard to the ATA's comments on Infrastructure & Safety, DAFFPL was of the view that-

"The current infrastructure at DAFFPL is running at approx. 50% of the capacity. This existing fuel storage facility can take care of the entire demand of T1 after modernization. Our proposal is to extend the hydrant line to all the bays at the T1.

This will reduce the high cost of putting the additional storage facility at T1 and reach better economies of scale. It can take care of all the safety, security and quality measures hence we agree with the ATA comments on Infrastructure and Safety submitted to AERA."

4.29 DAFFPL agrees to DIAL's recommendations for Security deposit & treatment of deadstock.

Authority's examination of Stakeholder's comments on issues pertaining to RAB & Depreciation

4.30 The Authority has carefully considered the comments from the stakeholders and DAFFPL on RAB & depreciation.

4.31 With regard to DAFFPL's & DIAL's comments on Security deposit, the Authority has noted that DAFFPL is a unique case amongst the fuel farms that an interest free security deposit is made by DAFFPL to DIAL. It is also noted that these deposits are not directly related to the business operations of the fuel farm. The purpose for these deposits is also not clear in the Agreement between DIAL and DAFFPL. The Authority is of the view that in case such large value of deposits are allowed as part of RAB of the ISP's, then it would increase the cost of service of ISP at the Airport. Hence, such deposits should be avoided in future as these indirectly burden the ISP unnecessarily.

In case the Airport operator is providing any infrastructure facilities to the ISP's, then the cost of such facilities should be directly charged to the ISP instead of accepting a large deposit in lieu of such charges for the facilities. The practice of accepting deposits only results in minimizing the revenue share payable by the Airport operator or to the Government entities.

If a WACC return on such large deposit is provided to ISP, then the corresponding return earned by the Airport operator has to be clawed from their respective ARR. As the Authority has so far not considered any notional revenue in the books of the Airport operator for the ARR computation, in case a WACC return is allowed to ISP, then a retrospective calculation of the same may have to be made while truing up the revenue for the airport operator in the coming control period. On the contrary, in case no return for a large deposit of a long tenure is allowed to ISP, it would result in the reduction of the real value of such deposits at the end of the contract period.

Hence, after taking into the account the above factors, the Authority is of the view that DAFFPL may be compensated for the security deposits by way of a partial return equivalent to WPI on such deposits.

4.32 With regard to DAFFPL's & DIAL's comments on treatment of deadstock the Authority has decided to treat deadstock as a non-depreciable asset forming part of RAB and consider appropriate adjustment in tariff at the time of disposal of such Deadstock in the last control period based on the total concession period of the fuel farm operator.

4.33 With regard to DAFFPL's comments on Depreciation, the Authority notes that the Agreement can be extended and hence have a life of more than the period of the agreement. If the agreement ends in the last control period, and is not getting extended by the Airport operator, then the Authority would take into account the write off for such assets during that control period.

4.34 With regard to DAFFPL's comments on planned capital expenditure in Addition to RAB, the Authority notes that adequate evidence has not been provided for the planned Capex, and currently the contract is not awarded to DAFFPL. Therefore, this has not been considered as a part of additions to RAB and hence not considered for tariff determination.

4.35 With regard to ATA's comments on Infrastructure & Safety, the Authority agrees to its views that hydrant system should be provided wherever possible.

Decision No. 1 <u>**Regarding RAB and depreciation**</u>

1.a. The Authority in this regard has decided to treat deadstock as a non-depreciable asset and consider appropriate adjustment in tariff at the time of disposal of such Deadstock in the last control period based on the concession period of the fuel farm operator.

1.b. The Authority has decided to exclude the amount of security deposits upto and during the second control period from RAB and allow a nominal return equal to the long term inflation rate of 5% per annum (as per RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 45th

Round dated 6th April 2017) on the outstanding amount of Security Deposits during the control period as addition to the ARR.

1.c. **The Authority has decided to true up depreciation as and when the decision to revise the depreciation rates is taken at the time of determination of tariff for the third control period.**

1.d. **The Authority has decided to true up the average RAB to be based on the actual date of capitalization at the time of determination of tariff for the third control period.**

1.e. **The Authority has decided to consider revised average RAB during the second control period for calculation of ARR as shown in Table 9.**

5. FAIR RATE OF RETURN (FRoR)

DAFFPL's submission - FRoR

5.1 DAFFPL in its submission has proposed the capital structure, funding mechanism, and FRoR as provided below:

Table 10: Capital structure, funding mechanism and FRoR of DAFFPL during the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Equity (A)	16,400	16,400	16,400	16,400	16,400
Reserves & Surplus (B)	5,118	6,481	8,788	11,091	13,237
Shareholders Fund (A+B)	**21,518**	**22,881**	**25,188**	**27,491**	**29,637**
Debt	10,163	8,443	6,330	4,439	2,389
Debt + Equity	**31,681**	**31,324**	**31,518**	**31,930**	**32,026**
Average Gearing	20%				
Interest Cost	1,114	1,027	855	660	449
Average Debt	10,619	9,303	7,386	5,384	3,414
Average cost of debt	**11.70%**				
Cost of equity	**20.50%**				
Fair Return	**18.73%**				

Authority's Examination - FRoR

5.2 The Authority has proposed to consider fair return on equity at 14% p.a. since the business operations of fuel farms are inherently monopolistic with virtually no risk where returns are guaranteed by back to back agreements. The above rate shall be considered in the tariff determination process for other fuel farms as well.

5.3 The Authority noted that DAFFPL has considered an annual increase of 0.5% in interest cost during the second control period. The actual interest cost for FY15-16 as submitted by DAFFPL was 9.65% per annum. In the absence of any basis for the proposed annual increase of 0.5% in interest cost during the control period, the Authority has proposed to consider the interest cost of 9.40% per annum for FY15-16 as the interest cost for all the years during the second control period.

5.4 FRoR on the basis of revised return on equity at 14% p.a. and interest cost of borrowings at 9.83% p.a. works out to 13.26% p.a as shown below:

Table 11: Revised capital structure, funding mechanism and FRoR of DAFFPL during the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Equity (A)	16,400	16,400	16,400	16,400	16,400
Reserves & Surplus (B)	9,994	11,539	14,238	16,945	19,627
Shareholders Fund (A+B)	**26,394**	**27,939**	**30,638**	**33,345**	**36,027**
Debt	10,163	8,410	6,617	4,768	2,760
Debt + Equity	**36,557**	**36,350**	**37,255**	**38,113**	**38,787**
Average Gearing	17.67%				
Interest Cost	1,032	904	730	561	380
Average Debt	10,619	9,287	7,514	5,693	3,764
Average cost of debt	**9.83%**				
Cost of equity	**14.00%**				
Fair Return	**13.26%**				

Stakeholder's comments on issues pertaining to FRoR

5.5 With regard to Return on equity, DAFFPL was of the view that-

"Firstly, there is no basis for the proposal of 14% RoE as proposed in Para 5.2 of the Consultation Paper. The Authority has taken an approach which has no study, basis or backing and is therefore not the correct approach.

Secondly, the Authority's view that having monopoly will eliminate all risk of the business is without any basis. Similar to other monopolistic business, DAFFPL is also affected by various risk parameters such as economic risk, traffic risk, fuel prices, competition etc. which should be taken into account while calculating the RoE. Further, as per clause 9.1.3 of the guidelines the cost of equity has to be determined on the basis of CAPM formula which has not been done in the present.

Thirdly, while on the one hand the Authority has sought to go behind the User Agreements by adopting the price cap methodology and thereby disentitling DAFFPL to the tariff assured in the said User Agreements, on the other hand the Authority has relied on the same User Agreements in Para5.2 to grant a lower RoE to DAFFPL by stating that returns are guaranteed to DAFFPL in the User Agreements. While the Authority by its proposal has forgone the sanctity of the User Agreements and effectively sets them aside, it Is now relying on the same User Agreements to disentitle DAFFPL to a reasonable rate of return.

Fuel Farm business has inherited the risk that an airport operator carries and therefore, should be entitled to a similar rale of return on its equity contribution. With respect to Airports, Ministry of Civil Aviation (MoCA) has conducted a detailed study through SBI CAPS according to which the cost of equity for an airport operator should lie within a range of 18.5% to 20.5% on the basis of which DAFFPL has also considered the RoE as 20.5% in its submission.

Accordingly, we request the Authority to consider the submission of DAFFPL which is based on the SBI CAP report for deciding cost of equity as it is based on CAPM methodology and specific for Airports."

5.6 With regard to Gearing ratio, IATA was of the view that-

"On Fair Rate of Return, it is noted that DAFFPL projects to progressively reduce its gearing ratio from an already low 28% in FY 16-17 to 7.1% in FY 20-21. Accordingly to AERA's consultation paper on normative approach to building blocks in economic regulation of major airports issued in June 2014 (CP No. 05/2014-15), the Authority had proposed to follow a normative debt to equity ratio of 70:30 for the purposes of calculation of Weighted Average Cost of Capital with 30% equity regarded as ceiling. The Central Electricity Regulatory Commission (CERC) already practices this approach. There is no good reason to allow an inefficient financing structure to become even more inefficient. IATA proposes that for gearing ratio beyond FY 16-17, the existing value of 28% should be at least maintained and DAFFPL should be required to work towards utilizing a more efficient financing structure by raising its gearing ratio to an optimal level."

5.7 With regard to Return on equity, DIAL was of the view that-

"MoCA has conducted study on Return on Equity in airport sector. According to the same study the equity return should be within range of 18.5% to 20.5%. As this report is airport sector the same should be applicable to DAFFPL."

DAFFPL's examination to Stakeholder's comments on issues pertaining to FRoR

5.8 With regard to IATA's comments on Gearing ratio, DAFFPL was of the view that-

"The gearing ratio as submitted to the Authority is calculated as per the AERA guidelines. Due to the repayment of the loan over the period, debt of a company declines and hence it is impracticable to maintain a certain level of gearing ratio. Also, the normative approach is not applicable on the fuel farm operators."

5.9 DAFFPL agrees to DIAL's recommendations for Return on equity.

Authority's examination of Stakeholder's comments on issues pertaining to FRoR

5.10 The Authority has carefully considered the comments from the stakeholders and DAFFPL on fair rate of return.

5.11 With regard to DAFFPL's and DIAL's comments on return on equity, the Authority has noted that the DAFFPL Fuel Farm facility is the only fuel storage provider at Delhi airport and there is no business risk involved. Therefore, the cost of equity of 14% adopted by the Authority is reasonable.

5.12 With regard to IATA's comments on Gearing ratio, the Authority acknowledges the importance of an efficient low cost capital structure and is in the process of establishing broad framework to be followed in relation to capital structure as part of tariff determination.

Decision No. 2 **Regarding FRoR**

2.a. **The Authority has decided to consider the Cost of Equity at 14% p.a., interest cost of borrowings at 9.83% p.a. and FRoR at 13.26% p.a. for DAFFPL for the second control period.**

2.b. **The FRoR will be trued up based on the actual debt-equity ratio and the cost of debt and equity as determined at the time of tariff determination for the third control period.**

6. OPERATION AND MAINTENANCE EXPENDITURE

6.1 As provided in Clause 9.4 of the CGF Guidelines, the operational and maintenance expenditure shall include all expenditures incurred by the Service Provider(s) including expenditure incurred on statutory operating cost and other mandated operating costs.

DAFFPL's submission - Operating and Maintenance expenditure

6.2 DAFFPL has submitted details and basis for each of the proposed O&M expenditure in their submission. The details of the assumptions made by DAFFPL for each item of operation and maintenance expenditure are provided in the following paras.

Table 12: Actual and projected aeronautical O&M expenditure by DAFFPL for the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Operating Cost	1,726	1,899	2,089	2,298	2,527
Lease rent	1,714	1,843	1,981	2,130	2,290
Loss on Sale value of old/discarded asset	930	1,462	-	-	135
Manpower / Employee Cost	120	138	159	182	210
CSR	96	127	156	183	189
Other business administrative Cost	59	68	79	90	104
Insurance Cost	51	58	67	77	89
Professional, Legal, Audits & Consultancy Cost	14	16	19	22	25
Staff Welfare Expenses	2	3	4	4	5
Foreign Exchange loss	1	1	1	2	2
Interest on Short term loan	5	-	-	-	-
Total	**4,720**	**5,616**	**4,555**	**4,988**	**5,576**

Table 13: Assumptions made by DAFFPL for each item of Operation and Maintenance Expenditure

Item	Assumption and basis
Operating cost	The Operating cost is reimbursement of Fuel farm operator's expenses plus operating fee of 16% on the actual reimbursement. The reimbursement is the sum of the costs incurred by Operator in providing the services as per the best industry practice and in line with the procedures, standards and requirements for maintaining quality standards at fuel farm facility it is pertinent to mention here that older the facility, higher will be the operating cost. As per the terms, the cost incurred by operator towards (a) Manpower expenses- Apart from the dedicated manpower of IOSL, It includes the cost of staff deployed by Bharat Petroleum for fuel farm facility. (b) Facility operating expenses –Inspection and testing, utilities, security, insurance, waste disposal etc. (c) Facility Maintenance expense – It includes the cost incurred in maintaining the facility and related facility, Hydrant system, IT software maintenance, vehicle etc. (d) Administrative expenses – It includes the expenses related to travelling, telecom,

Item	Assumption and basis
	bank charges, office expenses and other miscellaneous expenses.
Lease rent	• As per the terms of the concession and operating agreement, lease rent is to be paid to the Airport operator with an annual incremental of 7.5%
Loss on Sale value of old/discarded asset	• To upgrade the facility and make it to global standard, further to comply the safety and security norms, company has undertaken the projects to modernize the facility and during the process the old and obsolete assets will be discarded and will replace those assets with new improved assets. The realizable value of assets company is assumed at 5% of the gross value and the anticipate loss on account of sale of assets is Rs 25.27 crore during the period.
Other expenses	• Annual increment of 15% has been considered for all other expense heads.

Authority's Examination - Operating and Maintenance expenditure

6.3 The Authority has proposed to revise estimates for operating and maintenance expenditure during FY16-17 based on audited figures provided by DAFFPL.

6.4 The Authority has noted that more than 50% expenses of total expenses are on account of operating cost and lease rent.

6.5 The Authority has proposed to consider annual increment of 8% in case of other expenses instead of DAFFPL's proposed annual increment of 15% to reflect a more conservative impact of inflation.

6.6 Further the Authority has proposed to exclude CSR expenses from operating and maintenance expenses as these are in the nature of appropriation of profits rather than an expense related to operations.

6.7 Accordingly, the reworked Operating and Maintenance expenditure is shown in the table below.

Table 14: Revised Operation and Maintenance Expenditure as per the Authority (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Operating Cost	1,768	1,944	2,139	2,353	2,588
Lease rent	1,723	1,852	1,991	2,141	2,301
Loss on Sale value of old/discarded asset	226	1,462	-	-	135
Manpower / Employee Cost	124	134	144	156	168
CSR	-	-	-	-	-
Other business administrative Cost	45	49	52	57	61
Insurance Cost	38	41	44	48	52
Professional, Legal, Audits & Consultancy Cost	31	33	36	39	42
Total	**3,954**	**5,515**	**4,407**	**4,792**	**5,347**

6.8 The Authority has proposed to true up the Operating and Maintenance expenditure in the third control period based on the actual expenditure during the second control period.

Stakeholder's comments on issues pertaining to Operating and maintenance expenditure

6.9 With regard to operating cost & lease rent, IATA was of the following view-

"On Operation and Maintenance Expenditure, IATA disagrees with the proposal by the Authority to provide DAFFPL with higher operating cost and lease rent than what it had asked from FY 17-18 onwards on the basis that the audited figures for one year (FY 16-17) are higher than earlier projection. IATA proposes that the operator's original proposal for operating cost and lease rent from FY 17-18 onwards be used instead."

6.10 With regard to truing-up of operating and maintenance expenditure, IATA was of the following view -

"IATA does not agree that Operating & Maintenance Expenditure should be trued up in the third control period as it runs contrary to incentivizing operational efficiency and fiscal discipline."

6.11 With regard to manpower/ employee costs, IOSL was of the following view -

"Currently, no employee of BPCL is with IOSL, and hence submission by DAFFPL in Table No. 13 of the Consultation Paper with regards to manpower expenses that it includes the staff deployed by BPCL is incorrect."

6.12 With regard to manpower/ employee costs, IOSL was of the following view -

"We request the authority to indicate the Facility charges of DAFFPL and operating expenses of operator separately in the tariff approval so that the operating costs are efficiently utilized for operating and maintaining the facility without compromising the safe operations of the facility."

DAFFPL's reply to Stakeholder's comments on issues pertaining to Operating and maintenance expenditure

6.13 With regard to IATA's claims on operating cost & lease rent, DAFFPL suggests that-

"The company has claimed the increase of 7.5% for lease rent each year which is as per the concession agreement and 10% increase for operator's expenses each year. The authority has taken the audited numbers of FY 2016-17 as the base year for the calculation of increase in the expense of SBC and operator's cost.

Since the actual numbers were available before the issue of the consultation paper, the actuals should be considered for calculation."

6.14 With regard to IATA's recommendation on truing-up of operating & maintenance expenditure, DAFFPL was of the view that-

"We agree to the view that the operating and maintenance expenditure should not be trued up in the third control period. However, there could be some uncontrollable expenses which cannot be forecasted and hence authority should take the due consideration of the same."

6.15 With regard to IOSL's comments on manpower/ employee costs, DAFFPL was of the view that-

"The operating cost as mentioned in the Table 12 contains the operating cost of the operator which does not contain cost of staff deployed by Bharat Petroleum for fuel farm facility.

However, the Manpower/ Employee cost of DAFFPL mentioned in Table 12 contains the cost of deputed staff of BPCL."

6.16 With regard to IOSL's comments on operating costs, DAFFPL was of the view that-

"The operator is appointed and is governed by the terms and conditions of the Concession and operating agreement where its operating cost and the operator's fee are accordingly paid on the actual basis. The numbers submitted to the Authority are projections and actuals might be different from the projected numbers.

Also, the consultation paper is for the tariff determination of the DAFFPL and cannot be used as the means of getting approval of expenses of some other organization."

Authority's examination of Stakeholder's comments on Issues pertaining to Operating and maintenance expenditure

6.17 The Authority has carefully considered the comments from the stakeholders and DAFFPL on operating and maintenance expenditure.

6.18 With regard to the IATA's comments on truing-up of operating & maintenance expenditure, the Authority is of the view that the true up would be resorted to only when the service provider justifies the increase in cost. In most of the cases, the Authority has observed that the Opex provided for is more than the actuals, and is required to be trued up for the benefit of stakeholders.

6.19 With regard to IOSL's comments on manpower cost, the Authority has shall seek explanation from DAFFPL and consider adjustments as part of true-up in next control period, if necessary.

Decision No. 3 <u>**Regarding Operating and Maintenance expenditure**</u>

3.a. The Authority has decided to accept DAFFPL's submissions relating to Operating and Maintenance expenditure as shown in Table 14.

3.b. The Authority has decided to true up the Operating and Maintenance expenditure in the third control period based on the actual expenditure during the second control period.

7. TAXATION

7.1 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.

7.2 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.

DAFFPL's submissions - Taxation

Table 15: Tax liability as per DAFFPL's submission

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Profit before Tax	8,907	8,339	9,797	9,805	9,568
Add: Depreciation – Companies Act	2,076	2,123	2,042	2,082	2,021
Add: Loss on fixed assets	930	1,462	-	-	135
Add: CSR Expenditure disallowed	95	125	153	180	186
Less: Depreciation - I T Act	1,874	1,949	1,640	1,450	1,319
Profit chargeable to tax	**10,135**	**10,101**	**10,352**	**10,617**	**10,592**
Average corporate tax rate	34.61%	34.61%	34.61%	34.61%	34.61%
Tax - Normal provisions	**3,507**	**3,496**	**3,583**	**3,674**	**3,666**
Tax – MAT					
Profit before Tax	8,907	8,339	9,797	9,805	9,568
MAT @ 21.34% p.a.	1,901	1,780	2,091	2,092	2,042
Higher of a & b	**3,507**	**3,496**	**3,583**	**3,674**	**3,666**

Authority's examination – Taxation

7.3 The Authority has proposed to revise tax as per the provisions of Income Tax Act, 1961. Tax has been computed on revised revenue based on revised tariff and revised book depreciation.

7.4 Revised taxation considering revisions in other building blocks is shown below:

Table 16: Revised tax liability as per the Authority for the second control period (in ` lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Profit before Tax	3,805	2,794	4,415	4,646	4,451
Add: Depreciation – Companies Act	1,745	1,670	1,625	1,626	1,679
Add: Loss on fixed assets	226	1,462	-	-	135
Add: CSR Expenditure disallowed	66	91	82	73	79
Less: Depreciation - I T Act	1,727	1,517	1,648	1,497	1,336
Profit chargeable to tax	**4,115**	**4,500**	**4,475**	**4,849**	**5,009**
Average corporate tax rate	34.61%	34.61%	34.61%	34.61%	34.61%
Tax - Normal provisions (a)	1,424	1,557	1,549	1,678	1,733
Tax – MAT (b)					
Profit before Tax	3,805	2,794	4,415	4,646	4,451
MAT @ 21.34% p.a.	812	596	942	991	950
Higher of a & b	**1,424**	**1,557**	**1,549**	**1,678**	**1,733**

Authority's Examination - Taxation

7.5 The Authority has decided to consider tax as given in Table 16.

7.6 The Authority has decided to true up amount of tax in the third control period based on the actual tax liability during the second control period.

Decision No. 4 **<u>Regarding taxation</u>**

4.a. The Authority has decided to consider tax as given in Table 16

4.b. The Authority has decided to true up amount of tax in the third control period based on the actual tax liability during the second control period.

8. AGGREGATE REVENUE REQUIREMENT (ARR) AND ANNUAL FIC

DAFFPL's submissions – ARR and Annual FIC

Table 17: ARR as per DAFFPL for the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Uplift projections	16.81	16.99	17.17	17.35	17.53	**85.58**
Return on RAB	**6,581**	**6,299**	**6,204**	**6,176**	**6,220**	**31,480**
Add: Depreciation	2,076	2,123	2,042	2,082	2,021	**10,344**
Add: Tax as per I.T. Act	3,507	3,496	3,583	3,674	3,666	**17,926**
Add: Lease Rent	1,714	1,843	1,981	2,130	2,290	**9,958**
Add: Operating Cost	1,726	1,899	2,089	2,298	2,527	**10,539**
Add: Other Admin Expenses	1,278	1,873	482	558	756	**4,947**
Less: Other (Rental) Income	(24)	(26)	(28)	(30)	(33)	**(142)**
Aggregate Revenue Requirement	**16,859**	**17,506**	**16,352**	**16,887**	**17,446**	**85,051**
Discount Factor	**1.00**	**0.84**	**0.71**	**0.60**	**0.50**	
Present Value (PV) of Target Revenue	**16,859**	**14,744**	**11,600**	**10,090**	**8,779**	**62,072**
Tariff yield	993	993	993	993	993	

Authority's Examination

8.1 As discussed in proposal 1.a, a nominal return equal to 5-year projection CPI inflation rate of 5% per annum on the amount of security deposits paid by DAFFPL to DIAL has been added to the ARR during the control period.

8.2 The Authority has proposed that the date of order shall be considered as 01.01.2018 for calculating discount factors.

8.3 The Authority has proposed to revise the ARR (earlier ₹755/ KL as submitted by DAFFPL) and consider the recomputed annual FIC of ₹609/ KL as against FIC of ₹605/ KL considered in the Consultation Paper No. 27/2017-18 due to minor revision in additions to RAB.

Table 18: Revised ARR and Annual FIC for the second control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Average RAB [1] as per Table 9	18,393	15,784	14,762	14,544	13,611	**77,094**
FRoR [2] (%) as per Table 11	13.26%	13.26%	13.26%	13.26%	13.26%	
Discount Factor (#)	1.10	0.97	0.86	0.76	0.67	
Return on Average RAB [3] = [1] * [2]	2,439	2,093	1,957	1,929	1,805	**10,223**
Add: Nominal return on Security Deposit [3A] as per proposal 1.a	843	843	1,011	1,011	1,227	**4,935**
Add: Depreciation [4] as per Table 9	1,745	1,670	1,625	1,626	1,679	**8,346**
Add: Operating expenses [5] as per Table 14	3,954	5,515	4,407	4,792	5,347	**24,016**

Add: Taxation [6] as per Table 16	1,424	1,557	1,549	1,678	1,733	**7,942**
Add: Under / (Over) Recovery from Previous Control Period [7]	-	-	-	-	-	-
Less: Other income and Interest income [8]	(80)	(26)	(28)	(31)	(33)	**(199)**
ARR [9] = [3] + [3A] + [4] + [5] + [6] + [7] - [8]	10,324	11,653	10,521	11,005	11,759	**55,262**
Discounted ARR	11,344	11,304	9,011	8,320	7,849	**47,828**
∑ PV (Discounted ARR) [10]	-	-	-	-	-	**47,828**
Fuel throughput [11] (lakhs KL)	**17.14**	**17.65**	**18.18**	**18.72**	**19.28**	**91**
Annual FIC [12] (₹)	**609**	**609**	**609**	**609**	**609**	**609**
Revenue from FIC [13] = [12] * [11]	10,435	10,747	11,069	11,401	11,742	55,394
PV of revenue from FIC	11,465	10,426	9,481	8,619	7,838	47,828
∑ PV of revenue from FIC [14]	-	-	-	-	-	**47,828**

8.4 Further, the Authority has proposed to consider the true up of all building blocks in the third control period.

Stakeholder's comments on issues pertaining to Fuel Infrastructure charges

8.5 With regard to operating cost & lease rent, BPCL & HPCL was of the following view-

"Any revision in the Fuel Infrastructure charges should be approved on prospective basis only."

DAFFPL's reply to Stakeholder's comments on issues pertaining to Fuel Infrastructure charges

8.6 DAFFPL agrees to the recommendations proposed by BPCL & HPCL.

Authority's examination of Stakeholder's comments on issues pertaining to Fuel Infrastructure charges

8.7 The Authority has carefully considered the comments from the stakeholders and DAFFPL on ARR & annual FIC.

8.8 With regard to the BPCL's and HPCL's comments on fuel infrastructure charges, the Authority agrees with their views that the revisions be approved on prospective basis only.

Decision No. 5 <u>**Regarding ARR and annual FIC**</u>

5.a. The Authority has decided to consider ARR and recomputed annual FIC of ₹609/ KL as shown in Table 18.

5.b. The Authority has decided to consider the true up of all building blocks in the third control period.

9. FUEL THROUGHPUT AND REVENUE FROM AERONAUTICAL SERVICES

DAFFPL's submissions – Fuel throughput and revenue from aeronautical services

Table 19: Projected fuel throughput during the control period as per DAFFPL (lacs KL)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Uplift of fuel in a year	16.81	16.99	17.17	17.35	17.53

9.1 As per DAFFPL, fuel throughput is projected to increase by 1.06% per annum during the control period based on the historical CAGR of fuel volume at IGI Airport.

Table 20: Projected revenue from aeronautical services during the control period as per DAFFPL's submissions (₹ lacs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Fuel Infrastructure charges	16,700	16,876	17,054	17,234	17,416
Other revenue	24	26	28	30	33
Total	**16,724**	**16,902**	**17,082**	**17,264**	**17,449**

Table 21: Assumptions made by DAFFPL for each item of revenue from aeronautical services

S. No.	Item	Assumption and basis
A	Fuel Infrastructure charges	Revenue from FIC has been calculated based on the projected fuel throughput multiplied by per KL charge of ₹933
B	Other income	A small portion of the administrative building is provided to users i.e Oil marketing companies and Into Plane Agents for better operational coordination. Company charge rental, which is treated as other income and being deducted from ARR.

Authority's Examination – Fuel throughput and revenue from aeronautical services

9.2 The Authority has noted that growth in projected fuel throughput should be assumed as 50% of the projected growth in historical ATM traffic as furnished in IGI airport, Delhi tariff order. Accordingly the Authority has revised the growth rate assumed for fuel throughput projections to 2.99% p.a. i.e. 50% of 5.99% p.a. of growth of projected ATM traffic in IGI airport, Delhi tariff order.

Table 22: Revised projected fuel throughput during the control period (lacs KL)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Uplift of fuel in a year	17.14	17.65	18.18	18.72	19.28

9.3 Further, the Authority notes that revenue from FIC is subject to change as and when FIC is approved by the Authority pursuant to the ongoing tariff review of DAFFPL for the second control period. Hence, such revenues will be trued up in the third control period based on the actual revenue from aeronautical services during the second control period.

Decision No. 6 <u>Regarding fuel throughput and revenue from aeronautical services</u>

6.a. The Authority has decided to accept projected volume of fuel throughput as given in Table 22.

10. SUMMARY OF DECISIONS

11. ORDER

In exercise of powers conferred by Section 13(1)(a) of the Act and based on the above decisions the Authority hereby orders that:

i. The Fuel Infrastructure Charge (FIC) in respect of the fuel farm services provided by DAFFPL at IGI Airport, New Delhi is determined @ Rs. 609/KL (inclusive of operator's fee) for the second control period up to 31.03.2021. These rates will be effective from 1st January 2018.

By the Order and in the name of the Authority

(Puja Jindal)
Secretary

To

Delhi Aviation Fuel Facility Private Limited
Aviation Fuelling Station, Shahbad Mohammad Pur,
Near Dwarka Sector – 8 Metro Station,
Indira Gandhi International Airport,
New Delhi – 110 061

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AERA