DELHI AVIATION FUEL FACILITY PRIVATE LIMITED

(Joint Venture of IOCL, BPCL & DIAL)

Regd. Office : Aviation Fuelling Station, Shahbad Mohammad Pur, Near Dwarka Sector-8 Metro Station
Indira Gandhi International Airport, New Delhi-110061, India

BEFOFE THE AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

AT NEW DELHI

SUBMISSION OF MULTI YEAR TARIFF PROPOSAL FOR AND ON BEHALF OF:

M/S DELHI AVIATION FUEL FACILITY PRIVATE LIMITTED

I, Manish Parikh aged thirty nine years (39) resident of New Delhi, India acting in my official capacity as Chief Financial Officer in M/s Delhi Aviation Fuel Facility Pvt. Ltd. having its registered office at Aviation Fuelling Station, Shahbad Mohammadpur, IGI Airport, New Delhi - 110061 do hereby state and affirm as under that :

1. That I am duly authorized to act for and on behalf of M/s Delhi Aviation Fuel Facility Pvt. Ltd. in the matter of making this submission before the Airports Economic Regulatory Authority of India, New Delhi ('the Authority');

2. I am competent to make this submission before the Authority;

3. I am making this submission in my official capacity and the facts stated herein are based on official records;

4. The contents of this submission which include inter alia (i) Business Plan; (ii) Information relating to the Regulatory Building Blocks; (iii) Competition Assessment; (iv) Historical and Forecasted Volumes; and (v) Historical Revenue, are correct and true to my knowledge and belief and nothing material has been concealed there from.

For **Delhi Aviation Fuel Facility Pvt Ltd**

Authorized Signatory

Delhi Aviation Fuel Facility Private Limited ★ New Delhi

Place : New Delhi

Date : 10.02.2021

DELHI AVIATION FUEL FACILITY PRIVATE LIMITED

(Joint Venture of IOCL, BPCL & DIAL)

Regd. Office : Aviation Fuelling Station, Shahbad Mohammad Pur, Near Dwarka Sector-8 Metro Station
Indira Gandhi International Airport, New Delhi-110061, India

BEFOFE THE AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

AT NEW DELHI

SUBMISSION OF PROPOSAL FOR DETERMINATION OF ANNUAL TARIFF FOR AND ON BEHALF OF :

M/S DELHI AVIATION FUEL FACILITY PRIVATE LIMITTED

I, Manish Parikh aged thirty nine years (39) resident of New Delhi, India acting in my official capacity as Chief Financial Officer in M/s Delhi Aviation Fuel Facility Pvt. Ltd. having its registered office at Aviation Fuelling Station, Shahbad Mohammadpur, IGI Airport, New Delhi - 110061 do hereby state and affirm as under that :

1. That I am duly authorized to act for and on behalf of M/s Delhi Aviation Fuel Facility Pvt. Ltd. in the matter of making this submission before the Airports Economic Regulatory Authority of India, New Delhi ('the Authority');

2. I am competent to make this submission before the Authority;

3. I am making this submission in my official capacity and the facts stated herein are based on official records;

4. The contents of the Annual Tariff Proposal submission which include inter alia

   (i) Estimated Maximum Allowed Yield per Unit and the proposed detailed break-up of Tariff(s) (in context to Estimated Maximum Allowed Yield per Unit where determined by the Authority) where the Authority has specified a price cap approach for the duration of the Control Period, pursuant to Clause 3.2;

   (ii) Justifications, are correct and true to my knowledge and belief and nothing material has been concealed there from.

For **Delhi Aviation Fuel Facility Pvt Ltd**

Authorized Signatory

Delhi Aviation Fuel Facility Private Limited New Delhi

Place : New Delhi

Date : 10.02.2021

Delhi Aviation Fuel Facility Private Limited (DAFFPL)

Multi Year Tariff Proposal

10 February, 2021

Contents

List of Abbreviations

AERA	Airport Economic Regulatory Authority of India
ARR	Aggregate Revenue Requirement
BPCL	Bharat Petroleum Corporation Limited
CAPM	Capital Asset Pricing Model
CGF	Cargo Facility, Ground-handling & Fuel Supply Services
FRoR	Fair Rate of Return
IOCL	Indian Oil Corporation Limited
JVC	Joint Venture Company
DAFFPL	Delhi Aviation Fuel Facility Private Limited
DIAL	Delhi International Airport Limited
MoCA	Ministry of Civil Aviation
MoP&NG	Ministry of Petroleum and Natural Gas
MYTP	Multi Year Tariff Proposal
PSU	Public Sector Undertakings
RAB	Regulated Asset Base

Units

INR / ₹	Indian National Rupee
KL	Kilo litre

1. Background

1.1. 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 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.

1.2. The Authority had considered the MYTP (for the second Control Period from 01.04.2016 to 31.03.2021) submitted by DAFFPL for providing fuel farm services at IGI Airport and issued Order No. 32/2017-18 dated 18.12.2017 which, inter alia, provided the following:

1.2.1. The infrastructure charge in respect of the fuel farm services provided by DAFFPL at IGI Airport for the second control period from 01.04.2016 to 31.03.2021 would be ₹609/ KL (inclusive of operator's fee);

1.2.2. The tariff for the second control period from 01.04.2016 to 31.03.2021 would be determined under price cap regulation.

1.3. DAFFPL is approaching the Authority with its MYTP seeking approval on tariff for FIC of ₹804 /KL for third control period (01.04.2021 to 31.03.2026). DAFFPL has suggested FY20 to be considered the base year instead of FY21 as base year as FY21 has been an abnormal year because of the COVID-19 pandemic affecting fuel off take of DAFFPL.

2. Methodology for Tariff Calculation

2.1. The methodology adopted by the Authority to determine Aggregate Revenue Requirement ("ARR") has been based on AERA Act, 2008 and the Airport Guidelines issued by AERA.

2.2. As stipulated in the CGF Guidelines in Direction 04/2010-11, which states the Authority shall follow a three-stage process for determining its approach to the regulation of a regulated service-

2.2.1. Materiality Assessment;

2.2.2. Competition Assessment;

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

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

2.3.1. '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

2.3.2. '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

2.3.3. '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

2.3.4. '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.

2.4. The Authority deemed DAFFPL's fuel farm services to be "material" and "not competitive" during the 2nd control period's tariff application. Moreover, since 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, the Authority decided to determine tariff for fuel supply service under price cap regulation for the second control period.

2.5. Keeping in line with the second control period's approach, DAFFPL is submitting its MYTP under the price cap approach for the third control period. However, DAFFPL requests the Authority to consider a light touch approach basis the User Consultation and considering the capex plan during this control period.

2.6. The Authority determined the Aggregate Revenue Requirement (ARR) for the 3rd Control Period on the basis of the following Regulatory Building Blocks:

2.6.1. Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB);
plus
2.6.2. Depreciation (D);
plus
2.6.3. Operation and Maintenance Expenditure (O);
plus
2.6.4. Taxation (T);
minus
2.6.5. Revenue from services other than aeronautical services (NAR).

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

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

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - 30\% \; of \; NAR_t$$

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 revenue from services other than aeronautical services for the year 't'

2.8. 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.

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

3. True Up for 2nd control period (01.04.2016-31.03.2021)

3.1. True-up for the 2nd control period (01.04.2016-31.03.2021) has been calculated as the difference between:

3.1.1. Permissible fuel revenue calculated based on actual fuel off take and financials; and

3.1.2. Actual fuel revenue received by DAFFPL for the 2nd control period

3.2. Based on DAFFPL's working, the following is the true-up calculated for the 2nd control period:

Table 3-1

Particulars (in ₹ lakhs)	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
FRoR return on avg. RAB	2,546	2,322	2,113	3,871	5,649
Notional return allowed on SD by AERA	69	138	397	655	637
Depreciation	2,496	2,454	2,949	4,699	4,491
Operating expenses	2,312	2,308	2,249	2,451	2,412
Lease payment	1,723	1,852	1,981	-	-
Interest on working capital loan	42	55	142	177	153
Taxes	2,539	3,044	3,463	1,643	293
Less: Interest income on FD	(3)	(2)	(131)	(172)	-
Less: 30% of non-aero revenue	(93)	(61)	(60)	(35)	(36)
Actual ARR: Based on RAB working	11,631	12,110	13,102	13,290	13,598
Discounted ARR	18,939	17,458	16,722	15,011	13,598
Discounted ARR for the control period	**81,729**				
Actual volume (in KL)	1,806,135	2,101,535	2,382,854	2,368,398	1,200,000
Discounted fuel volumes for the control period (in KL)	**12,886,874**				
Tariff for the control period	**634**				

3.3. Based on the working, DAFFPL earned a revenue of ₹647 crores during the second control period through FIC:

Table 3-2

Particulars (in ₹ lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
ARR as per Actual tariff	13,477	15,832	17,991	14,424	7,308
Provision for FD	-	(379)	(3,447)	-	-
Provisions for Bad debt	-	(504)	(32)	-	-
ARR as per Actual tariff (adj.)	13,477	14,948	14,512	14,424	7,308
ARR as per actual tariff for the control period					64,668

3.4. Correspondingly, DAFFPL has observed a surplus of ₹39 crores for the second control period as follows:

Table 3-3

Particulars (in ₹ lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
Actual volume (in KL) [A]	1,806,135	2,101,535	2,382,854	2,368,398	1,200,000
Tariff for the control period [B]	634	634	634	634	634
ARR as per true-up computation [A x B]	11,455	13,328	15,112	15,020	7,610
ARR as per actual tariff	**13,477**	**14,948**	**14,512**	**14,424**	**7,308**
Surplus (+) / shortfall (-)	(2,023)	(1,621)	600	597	302
Present value of surplus (+) / shortfall (-)	(3,293)	(2,336)	766	674	302
Present value of surplus (+) / shortfall (-) for the 2nd control period	(3,886)				

3.5. The FRoR for the 2nd control period has been calculated based on a Cost of Equity of 14%.

3.6. DAFFPL's actual ARR is in line with the projections approved by AERA (Order No. 32/2017-18 dated 18.12.2017) however, the discrepancies are attributed to impact of COVID-19 on aviation sector, wherein the strict lockdown was imposed on domestic and international travels.

3.7. During 2017, T2 got fully operational and lot of domestic flights were moved there from T1. Further in April 2018, again substantial Indigo & SpiceJet domestic flights moved to T2 & T3. Due to this volume of DAFFPL for the second control period increased and was not in line with the projections and due to this the actual recovery for the entire 5 years has been on a higher side and has been offered in the true-up.

3.8. With reference to DAFFPL's letter dated 16 December 2019, the DAFFPL has requested for considering WACC as fair return on security deposit wherein the AERA replied via letter dated 16 January 2020 and mentioned " Authority is in the process of formulating the policy on the issue raised by DAFFPL in their aforesaid letter and till finalisation on same, the decision as per Order No. 32/2017-18 shall continue". We request AERA to reconsider our request of FRoR return on security deposit. We once again reiterate that the deposit has been paid as a pre-condition for getting the concession rights. Further based on Ministry of Civil Aviation and subsequent order, since the airport operator fees (thru-put charges) has been withdrawn the deposit amount would come back to minimum threshold of Rs. 75 Crores. We request the Authority to take a considerate view on Security Deposit since its impact on our tariff is incredibly significant. DAFFPL is in the midst of a capex cycle and a low tariff would have impact on our cashflow significantly. The Authority in its earlier order had classified the significant Security Deposit amount as an unusual transaction. Considering this, DAFFPL has made sincere efforts for reducing SD amount as detailed below:

3.8.1. Initially DAFFPL was able to create an upper capping of Security Deposit amount to Rs. 285 Crores.

3.8.2. Further it was agreed with the Airport Operator (DIAL) for waiver of Security Deposit at Terminal 1 related volume.

3.8.3. Subsequently based on withdrawal of FTC, the deposit amount would now come down to minimum threshold of Rs. 75 Crores.

3.8.4. DAFFPL is still in discussion with the Airport Operator to further consider waiver of deposit and look for alternative mechanism.

3.9. The tariff order for CP-2 came on 18th December 2017 and was applicable from 01st January 2018. So, from 01st April 2016 to 31st December 2017, DAFFPL continued to charge Rs. 755 per KL. The order states that all the building blocks would be trued up in the third control up. We request the honourable regulatory authority to true-up the values from the date of the order i.e. 01st January 2018.

3.10. Finance cost included the finance cost on long term borrowings as well as the total capitalisation of interest cost.

3.11. The depreciation used for 2nd Control period is as per Companies Act, 2013 and reported in Audited Financial by DAFFPL is considered in true-up.

3.12. Adjustments were made for income earned through interest on fixed deposits and earnings on liquid funds. These incomes were subtracted from the total revenue.

4. Regulatory Asset Base (RAB)

4.1. As stated in clause 9.2 of the CGF Guidelines in Direction 04/2010-11, 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 capital expenditure for the 3rd control period that DAFFPL is expected to be incurred is provided below:

Table 4-1

Particulars (in ₹ lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Buildings	500	-	-	300	-	**800**
Plant and Equipment	775	400	550	-	200	
Computers and Data Processing Unit	5	5	5	-	-	**15**
Furniture and Fixtures	5	100	5	-	-	**110**
Deadstock	-	2,500	-	-	-	**2,500**
T-1 (Project CWIP) P & M	5,400	5,900	3,000	-	-	**14,300**
Interest during construction	590	884	165	-	-	**1,639**
Total	**7,275**	**9,789**	**3,725**	**300**	**200**	**21,289**

4.3. The company's rationale for capex are:

4.3.1. **Setting Up of Aviation Fuel Hydrant System at Terminal 1 of IGI Airport:** Airport has planned for revamping of complete Terminal 1. As per the DIAL master plan, the capacity of T1 will be increased from 20 million to 40 million and departure Terminal, T1D and arriving Terminal, T1 C, will be merged and expanded. The expansion works will be carried out alongside flight operations at T1. DIAL requested DAFFPL to lay an ATF Hydrant System at T1 from our existing Fuel Farm. Proposal includes creation of 82 aircraft parking stands with Fuel Hydrant System. Accordingly, an agreement was executed between DAFFPL and L&T Limited for setting up of Aviation Fuel

Hydrant System at Terminal 1 in coordination with DIAL EPC Contractor. Earlier the work was planned as a Green Field Project and later it was decided to execute the works as brown field project in various phases. The completion timeline of the project is June 2023. DAFFPL is in process of a User Consultation with all the applicable users of the fuel farm.

4.3.2. **Laying of New Receipt Header:** Currently DAFFPL has dedicated product receipt pipelines from IOCL and BPCL, for other suppliers there is a provision of Tank Truck receipt. These three sources are taken to 4 inlet filters with 08" dia lines. Currently, IOCL are operating one 08 Inch diameter pipeline for transfer of ATF from IOCL terminal at Bijwasan to Fuel Farm which is unable to meet their current demand even after utilization of BPCL pipeline. To ensure uninterrupted supplies to IGI Airport, IOCL proposed to replace the existing pipeline with a new 16 Inches pipeline to increase the ATF transfer capacity. The pumping capacity after enhancement is expected to be 593 KL per hour. As per projections, the estimated daily consumption volume of jet fuel will exceed the received volume. As such new jet fuel delivery options are to be considered to cover the shortage in supply. Supply lines shall be upgraded to ensure a minimum rate equal to or exceeding the daily jet fuel consumption that can be safely supplied to the fuel farm.

4.3.3. **Construction of New ATF Storage Tanks:** With revamp of T1 there will be requirement of increased number of stands equipped with Fuel Hydrant System. DAFFPL has undertaken the project for setting up of Fuel Hydrant System at Terminal 1. During the tenure of testing and commissioning of T1 Hydrant System only Four tanks of 6060 KL capacity will be available for operations. It would be difficult for operation of complete T3, T2 and Cargo Terminals with 04 No of Tanks. In addition to the above upgradation of IOCL Receipt Header will also add an additional benefit to ensure a minimum supply rate equal to or exceeding the daily jet fuel consumption.

4.3.4. **Construction of New Administrative Building:** The current facility of administrative building measuring 13,500 SqFt is not in good state and based on analysis of external consultant hired by DAFFPL the beams and columns are found to be deficient, considering this there is a requirement of construction of new administrative building.

4.3.5. **Aviation Fuel Hydrant Pump sets :** The current non-inverter duty type motors have been in use for about 28 years which is theoretically more than

the normal expected efficient life cycle of motors i.e. 25 years. As the existing motors of VFD operated pump sets are of non-inverter duty type (i.e. general purpose motors) without insulated bearing at NDE, it has been observed for quite some time in the past that bearings of these motors were getting heated up and ultimately getting damaged and thereby affecting the smooth operation of the Fuel Facility.

4.3.6. **Safety Considerations:** Following items have been envisaged for Safety within the Fuel Farm Premises:

a) Revamping of existing Fire Fighting Control system and redesign the system.
b) Designing, Engineering and Detailing for Smoke Detection & Water Sprinkler System
c) Adequate lighting in operational area
d) Gas Flooding System in Control Room
e) Upgradation of CCTV system

4.4. Following is the summary of the CWIP during the 3rd control period:

Table 4-2

Particulars (in ₹ lakhs)	**FY21-22**	**FY22-23**	**FY23-24**	**FY24-25**	**FY25-26**
Opening CWIP	12,102	18,492	27,376	-	-
Capex during the period	7,275	9,789	3,725	300	200
Commissioned assets	(885)	(905)	(31,100)	(300)	(200)
Closing CWIP	**18,492**	**27,376**	-	-	-

4.5. Following is the summary of the RAB during the 3rd control period:

Particulars (in ₹ lakhs)	**FY21-22**	**FY22-23**	**FY23-24**	**FY24-25**	**FY25-26**
Opening RAB	14,643	14,686	15,159	41,958	37,754
Financing allowances	1,231	1,846	184	-	-
Commissioned Assets	885	905	31,100	300	200
Depreciation	(2,073)	(2,278)	(4,485)	(4,505)	(4,516)
Disposals					
Closing RAB	**14,686**	**15,159**	**41,958**	**37,754**	**33,438**

4.6. Company has considered a suitable timeline for their capex project schedule, but the following factors are beyond their control which may cause delay in achieving the capex target.

4.6.1. Any restrictions on construction from state government or central government due to increase in pollution levels in Delhi NCR. During FY20 Supreme Court of India banned the construction activities in Delhi NCR by from 26th October 2019 to 17th December 2019 due to rising levels of pollution.

4.6.2. Any delay on account of restrictions imposed under COVID-19 on project work.

4.6.3. Operational hurdles and security constrain of an operating airport.

5. Depreciation

5.1. Following are the depreciation rates assumed for the third control period (in%):

Table 5-1 (New and existing assets)

Particulars	Useful life (# years)	Rate	Useful life (# years)	Rate
	Existing assets		Additional assets	
Buildings	21	4.70 %	13	7.69 %
Plant and Equipment	15	6.67 %	13	7.69 %
Computers and Data Processing Unit	100	1.00 %	3	33.33 %
Furniture and Fixtures	10	10.00 %	10	10.00 %
Vehicles	8	12.50 %	8	12.50 %
Deadstock	-	-	-	-

5.2. Depreciation is considered based on guidance provided under Companies Act, 2013 based on their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

5.3. DAFFPL has been granted a concession right for operating the integrated fuel farm for 25 years, at the end of concession period DAFFPL have to transfer all the assets at Nil cost to DIAL. Accordingly, the useful life of any asset of DAFFPL would be maximum up to the end of concession period i.e. 30th June 2035. As per depreciation schedule of Companies Act 2013, depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Further, the useful life of an asset is the period over which an asset is expected to be available for use by an entity.

5.4. Following is the summary of netblock during third control period

Table 5-2 (Net block)

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Gross asset	32,526	33,431	64,531	64,810	64,067
Accumulated depreciation	(21,944)	(24,149)	(28,741)	(33,332)	(36,881)
Net block[1]	**10,582**	**9,281**	**35,790**	**31,478**	**27,185**

5.5. Following is the summary of RAB during third control period

Table 5-3 (RAB)

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Opening RAB	14,643	14,686	15,159	41,958	37,754
Add: Financing allowance	1,231	1,846	184	-	-
Add: Additions	885	905	31,100	300	200
Less: Depreciation	(2,073)	(2,278)	(4,485)	(4,505)	(4,516)
Closing RAB	**14,686**	**15,159**	**41,958**	**37,754**	**33,438**

[1] This is as per Company's Accounting Policy of depreciating the Deadstock. However, the same has been excluded in RAB workings.

6. Fair Rate of Return

6.1. Following table consists the proposed capital structure, funding mechanism, and FRoR:

Table 6-1

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Debt	9,470	12,743	11,786	9,428	7,071
Equity	27,505	34,054	38,156	43,251	49,080
Debt + Equity	36,976	46,798	49,942	52,679	56,151
Cost of debt	8.05%	8.05%	8.05%	8.05%	8.05%
Cost of equity	18.00 %	18.00 %	18.00 %	18.00 %	18.00 %
FRoR	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**

Cost of Equity

6.2. As per clause AI.5.2.3. of the CGF guidelines in accordance with the Direction No. 4/2010-11, the "Service Provider(s) shall submit its assessment of cost of equity based on the Capital Asset Pricing Model (CAPM)."

6.3. The CAPM model states that:

$$R_e = R_f + \beta(R_m - R_f)$$

6.4. Where,

6.4.1. R_e is the cost of equity;

6.4.2. R_f is the risk-free rate;

6.4.3. β is the market volatility; and

6.4.4. R_m is the market risk

6.5. The table below shows the computation of cost of equity based on above mentioned formula:

Table 6-2

Cost of Equity		
Variable	**Gearing Based on Target Gearing Ratio**	**Basis**
Asset Beta	0.591199	The equity betas for listed airports were estimated from the comparables' set, viz. AoT, MAHB and Sydney Airport from Bloomberg. The equity betas were un-levered to find the corresponding asset betas. The proximity score weighted average unlevered asset beta for DIAL was arrived at as 0.591199.
Gearing Ratio (D/E)	0.9231	As a benchmark, the Indian Infrastructure space was examined and it was found that infrastructure firms employ, on average, a market debt to (debt + equity) ratio of 47.86%. The estimate from this analysis is reasonably close to the 48% gearing ratio used on average by international airports
Gearing Ratio (D/D+E)	48.00%	
Equity Beta	0.9732	The proximity score weighted asset beta of DIAL, was re-levered to calculate equity beta whose value is arrived at 0.9732.
Risk Free Rate	7.56%	10-Year GOI Bonds, 18-Year Daily Avg.
Equity Risk Premium	8.06%	Equity Risk Premium (ERP) was derived as the simple average of the three independent study estimates (historical average, based on CDS and bond ratings, forward looking estimate as suggested by Grant Thornton) i.e. 8.06%
DIAL's Cost of Equity	15.41%	Risk free rate + Equity Risk Premium*Equity beta
Additional Risk for DAFFPL	2.5%	Details in Para 6.7
DAFFPL's Cost of Equity	18.00%	

Source: DIAL Consultation Paper No. 15/2020-21 Table No 86

6.6. The risk-free rate and market risk rates can be obtained based on government bonds and 5-year CAGR of Sensex. However, since there is no listed fuelling service provider in India, s suitable beta value for DAFFPL's operations cannot be arrived at.

6.7. However, the return on equity for DAFFPL would be based on the high-risk levels that the business is operating with:

6.7.1. Fuel is a dangerous good; hence fuel storage and handling involves various security and safety procedures as well as several risk aversion systems;

6.7.2. Providing an essential service (into dangerous goods) at a vulnerable area (high risk area) such as an airport possesses an additional risk;

6.7.3. Since DAFFPL depends on airport operator for utilities and other complementary services, any failure by the Airport Operator in providing the same would directly impact DAFFPL's operations;

6.7.4. Varying state policies and taxes results in changing prices of ATF across countries as well, thereby creating more volatility and risk;

6.7.5. Execution of an Integrated Fuel Farm project at the brownfield airport will require more precautions and clearances from regulatory bodies. This is likely to result in hindrance in project execution;

6.7.6. With Noida International Greenfield Airport development under consideration, there is a risk of lower recovery due to significant traffic risks

6.8. Due to the higher levels of risk involved in DAFFPL's operations, business conditions, and environment, DAFFPL proposes a 18% Cost of Equity rate to be considered for the 3rd control period. It may also be noted that, as per Concession & operating agreement, the return on equity has also been agreed at 18%.

Cost of Debt

6.9. The project loan has been sanctioned by State Bank of India at their MCLR rate of 8.05% (variable) amounting to Rs. 165 Crores mainly to fund the requirements of T1 hydrant expansion project. This loan would significantly help in leveraging the company's financials. Rate would change based on prevailing rate as on renewal date (which is done annually). During November 2020, due to COVID-19 impact the bank rates have been at nearly all time low and the rate got revised to 7.05%. For a period of 5 years i.e. the third control period we have assumed the average borrowing rate to be 8.05% i.e. the pre-COVID borrowing rate which is significantly lower than our actual borrowing cost for the second control period.

Debt-Equity Ratio

6.10. DAFFPL has planned to finance the Capex based on cashflow proceeds from business proceeds and external debt accordingly the projected debt to equity ratio for DAFFL in next control period will be:

6.11. Table 6-3

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Debt to equity ratio	0.34	0.37	0.31	0.22	0.14

6.12. Following is the summary of FROR during third control period

6.13. Table 6-2 (FROR summary)

Particulars (in ₹ lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Total shareholder's funds	27,506	34,055	38,156	43,251	49,079
Debt	9,470	12,743	11,786	9,428	7,071
Cost of equity	18.00 %	18.00 %	18.00 %	18.00 %	18.00 %
Cost of debt	8.05%	8.05%	8.05%	8.05%	8.05%
Applicable FRoR for the control period	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**	**15.94 %**

7. Operation and Maintenance Expenditure

7.1. 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.

7.2. Operation and Maintenance expenditure submitted by DAFFPL has been segregated into:

7.2.1. Employee costs
7.2.2. Utilities and Outsourced expenses
7.2.3. Repair and Maintenance expenses
7.2.4. Administration and General expenses
7.2.5. Other O&M expenses

7.3. The following table contains the proposed operation and maintenance expenditure for the 3rd control period:

Table 7-1

S No.	Particulars (in INR lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26
A	Employee Expenses	193	212	233	256	282
B	Operating expenses	2,246	2,461	2,813	3,071	3,353
C	Other expenses	176	194	253	278	306
F	CSR	60	46	67	126	142
G	**Total**	**2,675**	**2,913**	**3,366**	**3,732**	**4,083**

7.4. Following are the assumptions considered for each item of Operation and Maintenance

Table 7-2

S No.	Item	Assumptions and basis
A	**Employee Expenses**	Based on inflation adjustment and to ensure continuity of employees having experience in the field of oil and gas, it is expected that there would be at least 10% average annual salary increase going forward.
B	**Operating expenses**	Operating expenses were deferred during 2020-21 on account of liquidity concerns caused due to business disruption from Covid-19 pandemic. Subsequently it is estimated that the operating expenses would gradually come back to pre-covid levels since the Delhi fuel farm is a very old location and regular maintenance activities are required to ensure smooth operations. There has been a major increase in operating expenses from 2023-24 after commissioning of T1 Hydrant line. There would be additional manpower and other maintenance budget requirement for the new asset which would be required to be operated. Further with growing age of T2 & T3 terminals, the maintenance expenses are also increasing.
C	**Other expenses**	Employee benefit expense projected at 10.0% p.a. escalation on FY21. During 2020-21 insurance premium which is the major component of other expenses increased more that 40% due to change in guidelines by IRDAI (Insurance Regulatory). Subsequently during 2023-24 again once T1 hydrant system is commissioned, there would be additional outgo of insurance premium.

7.6. As per the Judgement of Telecom Disputes Settlement & Appellate Tribunal New Delhi, dated 16th December 2020 with reference to AERA Appeal No.8 of 2018, AERA Appeal No.3 of 2014 and AERA Appeal No.1 of 2014 the Telecom Disputes Settlement & Appellate Tribunal New Delhi has directed that "The decision of the Authority to not allow CSR expenditure as a cost of the Airport Operator is not proper and is set aside. The Authority shall pass consequential orders so as to prevent loss of or reduction in the determined fair return to the equity holders. Necessary truing-up exercise shall be done accordingly". Considering this the CSR expenses have been considered for computing True-up and for computation on Tariff for this Control period.

8. Projected Volumes

8.1. Following are the projected fuel offtake volumes for the 3rd control period:

Table 8-1

In (KL)	2021-22	2022-23	2023-24	2024-25	2025-26
Yearly Volume	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970

8.2. The above projections are made based on the recovery expectations given Aviation experts including the projections given by IATA wherein they have stated that pre-COVID volumes are expected to be by 2023-24. Since FY 2020-21 was an unusual year due to the impact of the Covid-19 pandemic on air traffic, the escalation rates have been adjusted accordingly. In 2020-21 we have reached nearly 50% of Pre-COVID volumes. Further going forward, once T1 gets commissioned in 2023-24 (June), additional volume which is currently handled by oil marketing companies at T1 would get added to DAFFPL volumes.

8.3. As per the current proposition Jewar Airport is expected to be commissioned in 2023-24. So, it is expected that there would be a definite impact on the volume. Since the said airport is going to be in the vicinity of NCR and the IGI Airport, there can be a significant change in the volumes. Further with the increasing use online meeting platforms there is a significant risk of reduction in business meetings & travels. This is going to impact the ATF fuel consumption pattern.

8.4. Volumes pertaining to operations from T1 were already shifted to T2 hence it was added to DAFFPL business since 2017-18. Therefore we expect that airlines which were originally operating out of T1, will move back to T1 once the T1 will be fully operational. Hence there may not be that significant volume increase after the completion of hydrant system in T1. However, it may have long term benefits for secured operations of the Airport. The volume break-up is as given below for reference:

Particulars (KL)	2016-17	2017-18	2018-19	2019-20	2020-21
Due to shift from T1	-	40,000	205,000	225,000	250,000
DAFFPL Volume at T1	-	-	-	-	-
Other volume	1,806,135	2,061,535	2,177,854	2,143,398	950,000
Total Volume	1,806,135	2,101,535	2,382,854	2,368,398	1,200,000

Particulars (KL)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Due to shift from T1	300,000	360,000	378,000	396,900	416,745
DAFFPL Volume at T1	-	-	200,000	210,000	220,500
Other volume	1,500,000	1,800,000	1,890,000	1,984,500	2,083,725
Total Volume	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970

9. Taxation

9.1. 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 ARR.

9.2. Following are the tax liabilities for DAFFPL for the 3rd control period:

Table 9-1

Particulars	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Adjusted Earning before tax	7,154	9,683	8,333	8,758	9,548
Add: Book Depreciation	2,135	2,205	4,592	4,612	4,493
Less: IT Depreciation	(1,189)	(1,133)	(3,366)	(5,214)	(4,466)
Taxable Profit / (Loss)	8,102	10,756	9,559	8,156	9,574
Taxable Income post set off losses	8,102	10,756	9,559	8,156	9,574
Corporate Tax	**2,039**	**2,707**	**2,406**	**2,053**	**2,410**

9.3. A corporate tax rate of 25.17% is considered under new tax regime.

10. Aggregate Revenue Requirement

10.1. Following table consists the ARR for the third control period (in ₹ lakhs):

Table 10-1

Particulars (in ₹ Lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Average RAB	14,664	14,922	28,559	39,856	35,596
Average lease asset	27,195	25,222	23,249	21,276	19,304
Average fair value of security deposit	4,650	3,659	2,573	2,818	3,086
FROR	15.94 %	15.94 %	15.94 %	15.94 %	15.94 %
Return on avg. RAB	6,670	6,397	8,256	9,742	8,748
Add: Security deposit	741	583	410	449	492
Add: Depreciation	4,655	4,520	6,727	6,747	6,758
Add: Operating expenses	2,675	2,913	3,366	3,732	4,083
Add: Interest on WC loan	56	-	-	-	-
Add: Taxes	2,039	2,707	2,406	2,053	2,410
Less: Other income	(39)	(42)	(45)	(49)	(52)
Add: True-up for next CP	(3,887)	-	-	-	-
ARR	**12,911**	**17,078**	**21,119**	**22,674**	**22,438**
Fuel throughput (KL)	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970
Annual FIC	**804**	**804**	**804**	**804**	**804**

11. Fuel Throughput and Revenue from Aeronautical Services

11.1. Following table summarizes the projected fuel throughput during the 3rd control period:

Table 11-1

Particulars (in KL)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Uplift of fuel in a year	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970

11.2. Following table summarizes the projected revenue from aeronautical services during the 3rd control period:

Table 11-2

Particulars (in ₹ Lakhs)	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Total revenue	14,514	17,411	19,891	20,887	21,933

11.3. Following table consists the assumptions and basis for the aeronautical revenue projected by DAFFPL:

Table 11-3

S No.	Particulars	Assumptions/Basis
1	**Fuel Revenue**	Revenue from FIC has been projected on the basis of the projected fuel offtake volumes for the 3rd control period. A tariff of ₹804/KL was assumed for the 3rd control period.