

Letter No: DIAL/2021-22/Regulatory/317

Dated: 26<sup>th</sup> Aug'2021

Director (P&S, Tariff)  
Airports Economic Regulatory Authority of India (AERA),  
Administrative Complex, Safdarjung Airports,  
New Delhi – 110003, India

Subject: Response to the consultation paper in the matter of third control period of Delhi Fuel Farm  
Facility operated by DAFFPL

Reference: Consultation paper no 12/2021-22 dtd. 27<sup>th</sup> July'2021

Dear Sir,

This is with reference to abovementioned consultation paper issued by authority in the matter of determination of Fuel Infrastructure charge for third control period in case of Delhi Fuel Farm facility (DAFFPL), please find below our point wise comments for your kind consideration:

**1. Useful life of assets:**

DAFFPL in its tariff proposal for third control period has considered depreciation based on the useful life as per companies act and order no. 35/2017-18 however restricted the useful life of the asset to the end of the concession period as DAFFPL has to return the asset at NIL value to DIAL. However, Authority has considered normal useful life of the asset as per order no 35/2017-18.

The approach considered by DAFFPL is in accordance with Companies Act, 2013 as well as AERA's own order no 35/2017-18. Authority at clause 3.2 of the amendment no. 1 to order no 35/2017-18 dtd. 9<sup>th</sup> April'2018 has categorically captured the balance useful life of the asset in case of restrictive lease period:

*In order to bring in clarity and to consider the cases where the first extension is not automatically available, the Authority amends the notes to the Annexure as follows:*

*"4. ... For the purpose of identifying the balance useful life, balance period remaining out of the initial lease period plus the first extension at the option of the Operator should be considered. If the period of useful life of assets is considered differently, the Airport Operator shall document and provide the reasons/ justification and basis for the period considered in determining the useful life of assets for the purpose of tariff determination which shall be examined and considered by the Authority.*

In case of DAFFPL the concession period is twenty five (25) years from the commencement date, unless terminated earlier for any reason in accordance with the terms of the respective agreement. There is no option of extension of the concession period in case DAFFPL accordingly the lease period has to be considered 25 years. Also, DAFFPL has considered the same treatment in their books of accounts. Accordingly, we request Authority to consider only the balance concession period while allowing depreciation to new asset additions.

## **2. Computation of FRoR**

Authority in case of DAFFPL while calculating return on RAB has considered different FRoR for every year during the control period. This approach is not in accordance with the tariff guidelines and earlier tariff determination exercise undertaken by AERA in case of DAFFPL.

In accordance with clause 9.1 of the tariff guidelines for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines, 2011 dtd. 10<sup>th</sup> Jan'2011, the fair rate of return has to be calculated as a constant number over the control period. Such single FRoR value is calculated basis the weighted average cost of various means of finance and the weighted average gearing for the full control period. Accordingly, there should be one FRoR for full control period. The approach adopted by the Authority in case of DAFFPL is not aligned to tariff guidelines and also contrary to the tariff determination adopted by AERA in case of second control period of DAFFPL. Accordingly, we request AERA to follow the tariff determination process in accordance with tariff guidelines and this will also ensure the consistency across the control period of DAFFPL.

## **3. Return on Security Deposit**

As per the concession agreement, DAFFPL has to maintain security deposit. The security deposit has been funded either by debt or equity and Authority's proposal of 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 means of finance in order to reimburse at least the opportunity cost of such deposits.

## **4. Financing Allowance**

Authority in case of DAFFPL at para 5.5.5 of the said consultation paper has opined that the financing allowance is essentially the IDC for a project and should be provided only on the Debt portion of the project fund. Authority's view point is contrary to the tariff guideline in the matter of Cargo, Ground Handling and Fuel. In accordance with the tariff guidelines the ISP is eligible to claim return on both debt and equity invested in the project during construction phase. Para 9.2.7 of the tariff guideline provides the methodology of calculation of financing allowance. Authority should consider the same and accordingly financing allowance should be allowed in case of DAFFPL. In order to fund the project DAFFPL has to invest both debt and equity/internal accruals and accordingly Authority should allow return on both debt and equity. Equity or internal accruals also has an opportunity cost which the service provider has to pay and accordingly the same should be reimbursed in a regulated environment.

The Authority has considered financing allowance as a guiding principle for other airports. Authority has allowed financing allowance to BIAL and GHIAL during second control period. Following is the relevant extract of BIAL CP2 order no 18/2018-19:

*Para 9.2.22 The Authority noted that BIAL had considered Financing' allowance for addition to RAB as provided in direction 5- Airports guidelines, against interest cost during construction which will be capitalised as cost of assets....*

*Further Authority at Table 26 of the same order while arriving at the project cost has considered financing allowance as part of project cost.*

In view of the above we request authority to consider financing allowance as part of tariff determination process of DAFFPL.

Yours sincerely,

For **Delhi International Airport Limited**



**K Narayana Rao**  
**Director**