

MAFFFL-FIN-1471

20th August' 2021

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

Sub: Response to CP no 12/2021-22 (file no. AERA/20010/MYTP/DAFFPL/FF/CP-III/2021-26) in the matter of determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Farm Facility Pvt Ltd (DAFFPL) at IGI Airport, New Delhi for the Third Control period (01.04.2021-31.03.2026)

Dear Sir,

Enclosed, please find our response of DAFFPL's Consultation paper no 12/201-22 dated 27.07.2021, in the matter of determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Farm Facility Pvt Ltd (DAFFPL) at IGI Airport, New Delhi

Request you to consider the same favourably.

Thanking You,
Yours Sincerely,

For Mumbai Aviation Fuel Farm Pvt Ltd



Debasish Goswami
Chief Executive Officer

CC:

The Chairman,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110 003.

Mumbai Aviation Fuel Farm Facility Private Limited

Regd. Office : Opp. ITC Maratha, Sahar Police Station Road, CSI Airport, Sahar, Andheri (East), Mumbai - 400099.
Tel.: +91 22 2682 9881 Email : info@mafffl.in Web : www.mafffl.in

CIN: U63000MH2010PTC200463

4.15.5 DAFFPL has adopted different depreciation rates based on the agreement with the Airport Operator that the assets would be handed over to the Airport Operator without any compensation on expiry of the contract. In the second control period, the Authority indicated that if the agreement is not extended by the Airport Operator, the Authority would take this in to account to write off such assets during the relevant control period. The stand of the Authority was accepted by the Hon'ble TDSAT judgement dated 27th September 2019

4.15.6 In view of the above, the Authority proposes to recalculate the depreciation in line with the rates specified in the order no.35/2017-18

MAFFFL Response –

It is observed that Authority has not considered the applicable depreciation rate considering that the assets would be handed over to the Airport Operator without any compensation on expiry of the concession period.

The Authority agrees to however, take into account to write off such assets in the relevant last control period. As this will have an impact of substantial amount in the last control period, Authority is requested to re-consider and allow depreciation at the uniform rate in order to fully depreciate at the end of concession period.

4.19.1 In addition, the licence fee Consultation Paper No. 12/2021-22 Page 17 of 52 paid to the airport operator was shown as opex in the years 2016-17, 2017-18 and 2018-19. In the years 2019-20 and 2020-21 the same has been taken as a part of right of use assets as per Ind AS 116. In order to maintain uniformity and also reflect the true cost of operations, the Authority proposes to consider the licence fee paid to the airport operator as a part of operating expenses.

MAFFFL Response –

It is observed that the Authority has not followed Ind AS 116 for the computation of Lease Rent/ License fees for the operator.

As per IND AS accounting standards, Ind AS 116 is mandatory with effect from 01.04.2019 and the books of accounts of the company is being maintained considering IND AS 116 from FY 2019-20 onwards in compliance of the IND Accounting standard. As the Right of Use of Assets considered under IND AS 116 are recognised as a Tangible Asset in the Balance sheet, the same should form part of RAB and depreciation for ARR calculation.

Hence, in our opinion, Authority should reconsider lease rent/license fees under IND AS 116.

5.5.5 The Authority noted that DAFFPL has claimed Financing Allowance Rs 2856 lakhs on the CWIP in addition to the IDC of Rs 1639 lakhs during the third control period. The Authority is of the view that such allowance is essentially the IDC for a project and should be provided only on the Debt portion of the project fund. Accordingly, the Authority has considered only the IDC amounting to Rs 1639 lakhs

MAFFFL Response –

The FRoR on RAB is applicable only on commissioning of the assets and the operator starts getting return only when the asset is completed and becomes part of RAB.

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Though the interest on the capital funded through debt is capitalized and forms part of RAB when the assets are capitalized, the notional return on equity capital does not form a part of RAB. Hence the actual interest paid on the debt taken for the asset is considered while the notional return on equity is not considered while arriving at the RAB and consequently there is no return on equity for the period the expenditure is incurred on the capital asset and the asset is capitalized.

In view of the above, DAFFPL has claimed Financing Allowance equal to FRoR on equity portion of capital employed for this period.

In view of above, we feel Authority should reconsider this proposal.

5.7.4 The Authority proposes to re work the RAB of DAFFPL, Delhi for the fourth control period by reducing the RAB by 1% of the delayed cost of the projects, if DAFFPL fails to Commission and capitalize the projects as per MYTP submitted

MAFFFL Response –

The Authority has proposed to rework the RAB of DAFFPL for the fourth Control Period, by reducing the RAB by 1% of the delayed cost of the projects, if DAFFPL fails to commission and capitalize the projects as per MYTP submitted.

It is in the operator's interest to complete the project within the committed time schedule as there will be a loss of return as well as depreciation in case of delayed completion and capitalization.

However, there could be delays due to reasons beyond the operator's control especially due to covid-19 pandemic and other unforeseen events. Any delay in commissioning and capitalizing the project implies denial of return on such asset and depreciation. Imposition of 1% penalty by reducing the RAB of the delayed cost of the projects therefore is harsh.

We request the Authority to reconsider this proposal and remove the penalty clause.

6.14.1 The Authority proposes to maintain the cost of equity at 14% for the third Control Period.

MAFFFL Response:

The Authority has proposed to maintain cost of equity for DAFFPL for third control period at 14%. We observe that for MIAL, the Authority has considered cost of equity at 15.13% in their tariff order for 3rd control period. For DIAL, the same has been considered at 15.41%.

DAFFPL is also subject to all the usual risks an airport operator is subjected to. In addition, DAFFPL is a much smaller company compared to MIAL or DIAL, and also has a single source of revenue (FIC which is totally depending on fuel volumes) unlike airport operators who are much larger companies with more diversified revenue streams. Moreover, as DAFFPL is dealing with hydrocarbons, they are subjected to tighter regulations by statutory bodies like PESO etc. and carry a higher risk associated with handling of hydrocarbons.

In view of the above, in our opinion, Authority should reconsider this proposal and allow cost of equity at least equal to that considered for DIAL.

Subant Joon

