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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

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DAFFPL/AERA/2017-18/CP-2

October 16, 2017

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To,
The Secretary,
Airport Economic Regulatory Authority,
Administrative Complex,
Safdarjung Airport,
New Delhi – 110003

Subject : Reply to stakeholder comments on consultation paper no. 27/2017-18 dated September 20, 2017

Respected Madam,

This is with reference to the comments of stakeholders on consultation paper no. 27/2017-18 in respect of Delhi Aviation Fuel Facility Private Limited.

We are hereby submitting our response to the stakeholder queries as received by us on October 11, 2017.

Thanking you,

Yours truly,

Delhi Aviation Fuel Facility Private Limited
New Delhi

B.K.Singh
Chief Executive Officer
Delhi Aviation Fuel Facility Private Limited

Enclosures:
1. Reply on IATA comments
2. Reply on ATA comments
3. Reply on BAOA comments
4. Reply on IOSL comments
5. Reply on DIAL comments
6. Reply on BPCL comments
7. Reply of HPCL comments

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Annexure I

In response to the IATA comments, we would like to submit as under:

S.No.	IATA's comments	DAFFPL Remarks
1	IATA agrees with AERA's proposal that deadstock be treated as non-depreciable capital asset and its impact on tariffs is to be considered at the time of disposal of the deadstock.	In terms of the Concession Agreement, it was a prerequisite for DAFFPL to procure and maintain deadstock. The deadstock once deployed 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 25 years. Hence the depreciation should be allowed on the same to recover the aforestated cost.
2	IATA agrees with AERA's revision to the asset depreciation rates which are more in line with the useful lives of the assets.	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.
3	On Fair Rate of Return, it is noted that DAFFPL projects to progressively reduce its gearing ratio from an already low 28% in FY16-17 to 7.1% in FY20-21. According 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	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.

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	reason to allow an inefficient financing structure to become even more inefficient. IATA proposes that for gearing ratio beyond FY16-17, 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.	
4	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 for from FY17-18 onwards on the basis that the audited figures for one year (FY16-17) are higher than earlier projection. IATA proposes that the operator's original proposal for operating cost and lease rent for FY17-18 onwards be used instead.	The company has claimed the increase of 7.5% for the 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.
5	IATA also does not agree that Operating and Maintenance Expenditure should be trued up in the third control period as it runs contrary to incentivizing operational efficiency and fiscal discipline.	We agree to the view that the operating and maintenance expenditure should not true 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	**Airport Operator Fee** IATA looks forward to AERA issuing a suitable order 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 (e.g. 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 becuase of increasing fuel throughput as traffic grows.	The proposed tariff for the DAFFPL does not include AOF and hence the same is not applicable on us.

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Annexure II

In response to the ATA comments, we would like to submit as under:

S.No.	ATA's comments	DAFFPL Remarks
1	**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 intensive system. Air Travellers Association sees merit in this stand point. **Safety** As an Air Traveller Association, our key objective is to support the measures meant to provide safe infrastructure for the air travelers. 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.	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

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Annexure III

In response to the BAOA comments, we would like to submit as under:

S.No.	BAOA Comments	DAFFPL's reply
1	Fuel Charges should be regulated on 'price cap' approach, based on cost inputs and, not on 'light touch' approach.	The Authority in its Consultation Paper No. 27/2017-18 dated 20.09.2017 ("Consultation Paper") has placed reliance on the 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 ("CGF Guidelines") for the determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Facility Private Limited (DAFFPL) for IGI Airport, New Delhi. It is submitted that the in Clause 3 of the 2011 Guidelines the Authority has outlined its approach to regulation of Regulated Services, which includes the service of supply of fuel to the aircraft at an airport. The stage-wise process for determining the approach to regulation of Regulated entity as per the guidelines are as under: Stage 1: assessment of materiality. If the service is deemed 'not material' then the Authority shall follow a light touch approach and if the service is deemed 'material' then the Authority shall advance to Stage 2; Stage 2: assessment of 'competition'. If the service is deemed 'competitive' then the Authority shall follow a light touch approach and if the service is deemed 'not competitive' then the Authority shall advance to Stage 3; Stage 3: assessment of reasonableness of existing User Agreements. If the Authority is assured of the reasonableness of the existing User Agreements then the Authority shall follow a light touch approach and if the Authority is not assured of the reasonableness of the existing User Agreements, the Authority shall determine tariffs based on a price cap approach.

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		In this regard, it is pertinent to note that in Clause 6 of the CGF Guidelines, the Authority has laid down the criteria for assessment of reasonableness of existing User Agreements and the same is as under: "6.1 The Authority shall consider the existing User Agreement(s) as reasonable provided that : 6.1.1 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 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 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." 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, 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. It is submitted that DAFFPL had submitted the existing User Agreements before the Authority. Further, the DAFFPL had followed the process of User Consultation and also signed agreement with users which were submitted before the Authority. DAFFPL has also submitted the Minutes of Meeting dated 04.11.2015 wherein the Users have agreed to the tariff agreed in the User Agreement(s). As per the criteria laid down in the CGF Guidelines, DAFFPL should be regulated as per the light touch approach and not the price cap method as has been decided by the Authority in the Consultation Paper.

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DAFFPL

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2	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.	The proposed tariff for the DAFFPL includes only FTC and hence the same is not applicable on us.

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Annexure IV

In response to the IOSL comments, we would like to submit as under:

S.No.	IOSL's comments	DAFFPL Remarks
1	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 cost of the staff deployed by BPCL is incorrect.	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.
2	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.	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.

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Annexure V

In response to the DIAL comments, we would like to submit as under:

S.No.	DIAL's comments	DAFFPL Remarks
1	**<u>Tariff Approach</u>** 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.	We agree on the DIAL's recommendations.
2	**<u>Security Deposit</u>** As per the concession agreement, DAFFPL has to maintain security deposit. It is a commercial agreement between two contracting parties and hence 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 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	We agree on the DIAL's recommendations.

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	and hence it is a mandatory investment for DAFFPL for providing regulatory service. Hence, this should be considered as part of Regulatory Asset Base.	
3	**Return on Equity** 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.	We agree on the DIAL's recommendations.
4	**Deadstock** 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.	We agree on the DIAL's recommendations.

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New Delhi

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Annexure VI

In response to the BPCL comments, we would like to submit as under:

S.No.	BPCL's comments	DAFFPL Remarks
1	We would like to submit that the Fuel Infrastructure Charges at the above airports may kindly be revised on prospective basis.	We agree to the BPCL's recommendation.

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Annexure VII

In response to the HPCL comments, we would like to submit as under:

S.No.	HPCL's comments	DAFFPL Remarks
1	Any revision in Fuel Infrastructure charges should be approved on prospective basis only.	We agree to the HPCL's recommendations.

Fuel Facility Private Limited New Delhi