सत्यमेव जयते

Airports Economic Regulatory Authority of India

IN THE MATTER OF
DETERMINATION OF FUEL INFRASTRUCTURE CHARGES FOR DELHI AVIATION FUEL FACILITY PRIVATE LIMITED (DAFFPL) AT IGI AIRPORT, NEW DELHI
(01.04.2021 – 31.03.2026)

07th October, 2021

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

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LIST OF ABBREVIATIONS

AAI	Airport Authority of India
AERA or the Authority	Airports Economic Regulatory Authority of India
Aero	Aeronautical
ARR	Aggregate Revenue Requirement
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

IGI Airport	Indira Gandhi International Airport, New Delhi
IND AS	Indian Accounting Standard
CPI	Consumer Price Index
INR or Rs.	Indian rupees
IOCL	Indian Oil Corporation Limited
IOSL	Indian Oil SkyTanking Limited
IRR	Internal Rate of Return
ITP	Into Plane Service Provider
JVC	Joint Venture Company
Re	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)
PESO	The Petroleum and Explosive Safety Organization
RAB	Regulatory Asset Base
SLM	Straight Line Method
Sq.m.	Square Metre

CHAPTER 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 terminal 2 and 3 of the IGI Airport. DAFFPL is also catering partly to the flights at Terminal-I. The concession period is for 25 years from the date of commencement of its operation i.e. 01.07.2010. DAFFPL had submitted that the fuel farm facility is based on "*open access model*" wherein airlines may source the fuel from any oil company and use the fuel farm's storage facilities at agreed price levels. During the third control period the operation of DAFFPL is extending to Terminal-I for which the major capital expenses are projected.

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 (01.04.2016 to 31.03.2021) would be INR 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 In response to AERA's letter dated 10.09.2020, DAFFPL submitted the MYTP for the third control period seeking approval of tariff for FIC of INR 804/ KL for the third control period from 01.04.2021 to 31.03.2026. DAFFPL has filed its MYTP submissions vide their letter dated 10.02.2021, and, suggested FY2019-20 to be considered the base year instead of FY2020-21 as base year since FY2020-21 had been an abnormal year because of the COVID-19 pandemic affecting fuel off take of DAFFPL.

1.4 Subsequently, the Authority requested additional details and clarifications on 02.03.2021, 16.04.2021 and 25.05.2021 and DAFFPL submitted the requested information on 26.03.2021, 17.05.2021, 28.05.2021 and 03.06.2021.

1.5 DAFFPL also submitted copy of its Annual Reports for the Financial Years 2016-17 to 2019-20 and projected accounts for the year 2020-21, initially. Subsequently the Audited Annual Report for FY 2020-21 was submitted by DAFFPL on 03.06.2021.

1.6 The depreciation rates for the purpose of the tariff determination exercise that have been considered are based on AERA's Order no. 35/2017-18 dated 12th January, 2018 as well as Amendment Order no. 35/2017-18 dated 9th April, 2018. The useful life of the assets as determined by AERA also forms the basis for the depreciation of assets of DAFFPL.

1.7 The Authority has reviewed the submissions made by DAFFPL with respect to various building blocks. Post analysis and discussion on various building blocks, the Authority issued Consultation Paper no.12/2021-22 dated 27th July 2021 inviting comments from stakeholders on various Building Blocks as per the proposals of the Authority with the following timelines:

- Date of Issue of Consultation Paper :27-07-2021
- Date for submission of written comments by stakeholders:26-08-2021
- Date for submission of counter comments :06-09-2021

The Consultation Paper issued by the Authority on 27.07.2021 was published on the AERA website. The Authority on request of stakeholders extended the last date of submission of comments from 26.08.2021 & counter comments from 06.09.2021. Hence, sufficient opportunity was given to Stakeholders for submission of comments and counter comments. Thus, the consultation process was concluded with the receipt of counter comments from DAFFPL on Stakeholder's views on 06.09.2021.

1.8. The following Stakeholders submitted their comments on the Consultation Paper:

Sl. No.	Stakeholders
1.	M/s Delhi International Airport Limited (DIAL)
2.	M/s Hindustan Petroleum Corporation Limited (HPCL)
3.	M/s Bharat Petroleum Corporation Limited (BPCL)
4.	M/s Indian Oil Corporation Limited (IOCL)
5.	M/s Federation of Indian Airlines (FIA)
6.	M/s International Air Transport Aviation (IATA)
7.	M/s Mumbai Aviation Fuel Farm Facility Private Limited (MAFFFL)
8.	M/s Delhi Aviation Fuel Facility Private Limited (DAFFPL)

The Authority examined the submission of DAFFPL and the comments of various stakeholders and after considering all the relevant aspects, has finalized this Tariff Order.

1.9. The Consultation Paper and the Order were prepared after examining the MYTP including verifying the data from various supporting documents including the Annual Reports submitted by Service Provider. Various building blocks of tariff determination were also examined to ensure that the treatment given to them are consistent with the Authority's methodology and approach. Further the comments of the stakeholders were also examined and suitably dealt with. All the issues raised in the stakeholder's comments were considered.

1.10. After the stakeholders consultation process was over, DAFFPL submitted a letter dated 14.9.2021 requesting that interest expenses on long term loan, which were not capitalized were omitted in the MYTP and the same may be considered in the true up for the Second Control Period. The amount claimed for the Second Control Period was Rs. 3098.24 lakhs, the year wise details are given below :

Detail of interest expenses charged to Profit & Loss Account					
	Amount in Rs. Lakhs				
Particulars	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Interest expenses on working capital loan considered in MYIP submission	42.00	55.00	142.00	177.00	87.00
Interest expenses on Term Loan omitted in MY'IP submitted by DAFFPL	975.51	727.53	724.18	421.27	249.75
Total Interest expense paid to bank/ charges to Profit & Loss	1,017.51	782.53	866.18	598.27	336.75

1.11. The Authority took note of the request. This issue was neither part of MYTP nor raised in the stakeholder's comments / counter comments by DAFFPL. Since the issue was raised much after the conclusion of stakeholder's consultation process as an afterthought, the Authority therefore, decides not to consider the same since it is against the principles of transparency and fairness to all the stakeholders under the consultation process.

1.12. **Construct of the Tariff Order**:

1.12.1. The Tariff Order is structured under various chapters with the second chapter explaining the framework applied for determining the tariff for DAFFPL. The third chapter deals with the true up of various building blocks performance during the second control period. This starts with the submission of DAFFPL followed by Authority's analysis on various issues regarding the true up of the second control period as part of tariff determination for the third control period as brought out in the consultation paper. The comments of the stakeholders and the response of DAFFPL against the same, followed by the Authority's analysis and final decision have been brought out under each building block of tariff determination.

1.12.2. Chapters 4 to 9 bring out the submissions made by DAFFPL under various building blocks relating to the third control period i.e. RAB and Depreciation, Fuel throughput (Volume), Fair Rate of Return, Operating Expenses, Other Incomes, and Income tax. This is followed by the Authority's analysis on the each building block of consultation stage. These are followed by comments from various stakeholders along with the counter comments / response from DAFFPL followed by Authority's Analysis and final decision on the each building block.

1.12.3. Chapter 10 presents the revised Aggregate Revenue Requirement determined by the Authority after taking into account various changes and adjustments after considering the stakeholder comments and decision thereon.

1.12.4. Chapter 11 discusses the annual tariff proposal. This is followed by the summary of decisions (at chapter 12) and Order (at chapter 13). The tariff card for the third control period is given at Annexure-I.

CHAPTER 2. METHODOLOGY FOR TARIFF CALCULATION

2.1 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 -

2.1.1. Materiality Assessment;

2.1.2. Competition Assessment;

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

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

2.2.1. '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

2.2.2. '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

2.2.3. '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

2.2.4. '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.

2.3 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".

2.4 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.

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

2.6 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.

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

2.2.5. "(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."

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.

2.8 The formula for determining ARR is as follows:

$$\mathrm{ARR} = \sum_{t=1}^{5} (\mathrm{ARR}_t) \text{ and}$$

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

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'

2.9 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.

Basis of Tariff Determination and Till issue

2.10 DAFFPL is the only Fuel Farm Facility service provider at IGI Airport Delhi. Considering the volume of through put handled at IGI, the service provided by DAFFPL was considered material but not competitive. Further, the user agreements were not with all the users. Therefore, the tariff determination for the second control period was done under Price cap methodology under single till. However, under single till methodology the entire other income is used to subsidize the aeronautical income for which the determination is being undertaken. This was challenged by DAFFPL before Hon'ble TDSAT. The Hon'ble TDSAT in their order dated 27.09.2019, upheld the decision of the Authority to determine the tariff on price cap method under single till mechanism.

2.11 DAFFPL had submitted the MYTP for the third control period for determination under price cap methodology. At the same time DAFFPL had submitted the MYTP under hybrid till basis under which only 30% of Non Aeronautical Revenue is considered for cross subsidizing FIC charges. Considering the fact, the issue of methodology of tariff determination including the till issue has already been decided by Hon'ble TDSAT and DAFFPL is involved in providing only Fuel Farm Facility, the Authority proposes to determine the tariff for the third control period under Price cap methodology by following single till mechanism.

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

2.13 **Stakeholder's comments on methodology of tariff determination for 3rd Control Period**

2.13.1 **FIA's comments on methodology of tariff determination for 3rd Control Period**.

"FIA was of the view that

(a) The Authority issue clarifications/amendments to the CGF Guidelines that even in the light touch approach, the Authority would ensure that extraordinary profits do not accrue to the service provider and that the end user is not burdened with higher tariffs.

(b) In addition, the Authority should continue the applying the Price-Cap approach for reasons of consistency to ensure uniformity between DAFFPL and MAFFL & IOSL.

2.13.2 **IATA's comments on methodology of tariff determination**.

"IATA agrees with AERA's proposal to determine tariff for this control period under Price cap methodology and following the single till mechanism which is in line with the decision by Hon'ble TDSAT pertaining to tariff determination for the second control period".

2.14 **DAFFPL's response to stakeholder's comments on methodology of tariff determination for 3rd Control Period**

No specific comments offered by DAFFPL on methodology of tariff determination.

2.15 **Authority's Analysis/ examination of Stakeholder's comments, methodology of tariff determination for 3rd Control Period**

The Authority notes that the tariff determination for the 3rd control period was proposed on price cap methodology under single till. This is in-line with the approach adopted during the tariff determination for the 2nd control period. The decision of the Authority is supported by FIA and IATA.

2.16 Authority's decision regarding methodology of tariff determination for 3rd Control Period

Based on the material before it and based on its analysis, the Authority decides the following regarding methodology of tariff determination for 3rd Control Period:

2.16.1 The Authority has decided to adopt price cap methodology under single till for the **3rd** Control Period

CHAPTER 3. TRUE UP OF 2ND CONTROL PERIOD (01.04.2016-31.03.2021)

The Authority vide its Order no. 32/2017-18 dated 18th December 2017 relating to the 2nd Control Period, decided to True up each building blocks of the 2nd Control Period during the tariff determination for the 3rd Control Period. Accordingly, DAFFPL had submitted their calculations regarding the True up for the 2nd Control Period as under:

3.1 The tariff for the second control period was done on Price Cap Method. It was decided in the Order No. 32/2017-18 dated 18.12.2017 that the building blocks for the Second Control Period will be trued up during the tariff determination for the third control period. DAFFPL submitted the following details for the true up of Second Control Period.:-

As submitted by DAFFPL, True-up for the 2nd control period (01.04.2016-31.03.2021) had 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 which was calculated and submitted by DAFFPL for the 2nd control period:

Table no. 1 - DAFFPL's submission for True up for 2nd Control Period

Particulars (in Rs. Lakhs)	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
Return on avg. RAB	2,546	2,322	2,113	3,871	5,649	16,501
Notional return allowed on Security Deposit (SD) by AERA	69	138	397	655	637	1,896
Depreciation	2,496	2,454	2,949	4,699	4,491	17,089
Operating expenses	2,312	2,308	2,249	2,451	2,412	11,732
Lease payment	1,723	1,852	1,981	.	.	5,556
Interest on working capital loan	42	55	142	177	153	569
Taxes	2,539	3,044	3,463	1,643	293	10,982
Less: Interest income on Fixed Deposit (FD)	-3	-2	-131	-172	-	-308
Less: 30% of non-aero revenue	-93	-61	-60	-35	-36	-285
ARR	11,631	12,110	13,103	13,290	13,598	63,732
Discounted ARR	18,939	17,458	16,722	15,011	13,598	81,728
Discounted ARR for the control period			**81,729**			81,729
Actual volume (in KL)	18,06,135	21,01,535	23,82,854	23,68,398	12,00,000	98,58,922
Discounted fuel volumes for the control period (KL)			**1,28,86,874**			
Tariff for the control period (PKL) (In Rs.)			**634**			

3.3 Based on the working, DAFFPL submitted that they had earned a revenue of ₹64,669 lakhs during the second control period through FIC:

Table no.2 – FIC Revenue during the 2nd Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
FIC Revenue	13,477	15,832	17,991	14,424	7,308	**69,032**
Excess Collection	-	-379	-3,447	-	-	**-3,826**
Adjusted actual Revenue	-	-504	-32	-	-	**-536**
Total Revenue for the control period	13,477	14,949	14,512	14,424	7,308	**64,669**

3.4 Correspondingly, DAFFPL had observed a surplus of ₹3,886 lakhs for the second control period as follows:

Table no.3 - Calculation of excess recovery during SCP as submitted by DAFFPL

Particulars (in Rs. Lakhs)	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total**
Actual volume (in KL) [A]	18,06,135	21,01,535	23,82,854	23,68,398	12,00,000	**98,58,922**
Yield based on actual volume [B]	634	634	634	634	634	
ARR as per true-up computation [AxB]	11,455	13,328	15,112	15,020	7,610	**62,525**
Revenue as per actual tariff	**13,477**	**14,948**	**14,512**	**14,424**	**7,308**	**64,669**
Surplus (+)/shortfall (-)	2,022	1,620	-600	-596	-302	**2,144**
Present value of Surplus (+)/ shortfall (-)	3,292	2,336	-766	-674	-302	**3,886**
Present value of Surplus (+)/shortfall (-) for the 2nd control period.			**3,886**			

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

3.6 DAFFPL's actual revenue was 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 lots of domestic flights were moved there from T1. Further, in April 2018, 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. Due to facts above, the actual recovery for the entire 5 years had been on a higher side and has been offered in the true-up.

3.8 DAFFPL vide letter dated 16 December 2019, requested the Authority for considering WACC as fair return on security deposit wherein, AERA's response dated 16 January 2020 stated "*Authority is in the process of formulating the policy on the issues raised by DAFFPL in their aforesaid letter and till finalization on the 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 letter No. F.No. AV-13030/216/2016-ER dated 8th Jan'2020 relating to discontinuation of FTC. The airport operator has withdrawn the deposit amount that would come back to minimum threshold of Rs. 75 Crores. DAFFPL requested the Authority to take a considerate view on Security Deposit since its impact on the tariff is incredibly significant. DAFFPL is in the midst of a capex cycle and a low tariff would have impact on our cash flow 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.

3.8.5 The tariff order for Second Control Period 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 period. We request the regulatory authority to true-up the values from the date of the order i.e. 01st January 2018.

3.8.6 Finance cost included the finance cost on long term borrowings as well as the total capitalization of interest cost.

3.8.7 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.

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

Authority's examination on True Up for the Second Control Period at Consultation stage:-

3.9 The Authority *observed* that DAFFPL has calculated the excess recovery in the following manner:

3.9.1 Based on the Aggregate Revenue requirement recoverable as calculated (Refer Table No.1), the FIC rate recoverable to get the ARR has been calculated by dividing the ARR by the sum of discounted value of throughput volume.

3.9.2 DAFFPL has calculated over recovery in the Second Control Period as the difference between the actual revenue (Table no.2) and the revenue recoverable based on the yield calculated as per table no.3. The Net Present Value (NPV) of the over recovery during the Second Control period calculated on NPV basis works out to INR. 3886 lakhs.

3.9.3 The detailed calculations were not submitted by DAFFPL in their MYTP. However, the financial model was submitted by DAFFPL. Subsequently, DAFFPL submitted the additional information against the clarifications sought by the Authority.

3.10 The analysis and consideration of the Authority for True up of 2nd Control Period on each of the building blocks are as under:

3.11 **Capital Expenditure**

3.11.1 DAFFPL had submitted the following capital expenditure for the Second control period amounting to Rs.14002.00 lakhs. This also included capital expenditure incurred on Terminal-1 project. The year wise, component wise details are given below:

Table no.4 – Capital Expenditure during the Second Control Period as submitted by DAFFPL

Particulars (Rs. In lacs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Buildings	105.30	389.04	142.57	26.68	44.25	707.84
Plant & Equipments	390.94	154.44	333.14	1,255.66	187.70	2,321.88
Computers and Data Processing Unit	0.85	0.64	28.39	4.69	3.86	38.43
Furniture and Fixtures	0.05	2.20	4.84	1.50	0	8.59
Vehicles	0	0	0	4.76	0	4.76
Sub Total	497.14	546.32	508.94	1,293.29	235.81	3,081.5
Plant & Equipment's for T-1				6,409.83	4,511.47	10,921.3
Total	497.13	546.32	508.94	7,703.12	4747.28	14,002.00

3.11.2 The Authority had approved total capital expenditure of Rs. 4502 lakhs for the 2nd Control Period, the details of which are given below:

Table no.5 - Capital Expenditure as approved by the Authority for the Second Control Period

Particulars Rs. In lakhs	**FY2016-17**	**FY 2017-18**	**FY 2018-19**	**FY2019-20**	**FY2020-21**	**Total**
Buildings			600			**600**
Plant & Machinery	17	807	1038	738	861	**3461**
Furniture & Fixtures			20			**20**
Computers	1		420			**421**
Total	**18**	**807**	**2078**	**738**	**861**	**4502**

3.11.3 As against the above capex outlay considered by the Authority, the actual spending by DAFFPL on capital assets is Rs 3081.50 lakhs during the 2nd Control Period. In addition, DAFFPL has also taken up the work of providing fuel pipelines infrastructure at Terminal-I which was not considered by the Authority during the tariff determination for the second control period as the same was not envisaged at the time of tariff determination. DAFFPL has taken up the work after approval of their Board of Directors, considering the importance of the work, which is still ongoing during the third control period. The total expenditure incurred on Terminal-I project during the 2nd Control Period was Rs.10921 Lakhs (i.e. Rs 6410 lakhs during 2019-20 and Rs 4511 lakhs during 2020-21). Therefore, the total amount spent on T1 project during the second control period amounting to Rs 10921 lakhs is in CWIP and is being carry forward to the third control period. The total capital expenditure incurred including the Terminal-I project comes to Rs 14002.79 lakhs during the 2nd control period.

3.11.4 The Authority also noted that the works not executed out of the total amount considered during the 2nd Control Period of. Rs. 1420.5 Lakhs (Rs. 4502 lakhs – Rs. 3081.5 lakhs) has been carried forward for the 3rd Control Period except one work i.e. "Rising level of underground tank truck pump house" amounting to Rs. 50 lakhs. The details of works not taken up during the second control period and carried forward to the third control period are given at Annexure – II.

3.11.5 The status of CWIP during the second control period is given below:

Table no.6 Status of CWIP as submitted by DAFFPL

Particulars	Amount (Rs. In lakhs)
Opening CWIP as on 1st Apr, 2016	75
Total Actual Capex as per Audited Financial	14,002
Total Actual Capitalisation as per Audited Financial	-2,783
Closing CWIP as per Audited Financials	11,294

3.12 Depreciation

3.12.1 The Authority had noted that DAFFPL had adopted the depreciation rates as per the Companies Act 2013. The rates adopted by them as per financial model submitted are given below:

Table no.7 Depreciation rates adopted by DAFFPL for the Second Control Period

Particulars	On Opening Balance	On New additions
Building	4.70%	7.69%
Plant & Machinery	6.67%	7.69%
Computers	1%	33.33%
Furniture	10.00%	10.00%
Vehicles	12.50%	12.50%
Deadstock	7.14%	7.69%

3.12.2 Deadstock is the minimum level of fuel that needs to be maintained at all times in the storage tanks and pipelines for uninterrupted operations of the fuel farm. It is observed that DAFFPL depreciates Deadstock as per their accounting policy. However, the Authority decided to treat the deadstock as a non-depreciable asset during the tariff determination for the second control period vide order no.32/2017-18. Accordingly, DAFFPL had submitted the multi-year tariff proposal for the third control period without inclusion of depreciation on deadstock.

3.12.3 DAFFPL had 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.

3.12.4 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. The useful life of assets and the depreciation rates proposed for calculation of depreciation in line with order no.35/2017-18 are give below:

Table No.8 Depreciation Rates considered for True up of Second Control Period by the Authority at consultation stage

Sl. No	Asset Class	Useful life as per Order No. 35/2017-18	Depreciation Rate Applied as per Order no.35/17-18
1	Buildings	60	1.67%
2	Roads	5	20%
3	Plant & Machinery	15	6.67%
4	Dead stock	0	0
5	Furniture	10	10%
6	Motor vehicles	8	12.5%
7	Office Equipment	5	20%
8	Computers	3	33.33%
9	Electrical Installation	10	10%

3.12.5 The amount of depreciation calculated and submitted by DAFFPL and the revised depreciation amount calculated by the Authority in accordance with the order no.35/2017-18 are given below:

Table no.9 - Depreciation amount considered by the Authority for true up of the Second Control Period at consultation stage.

Particulars (Rs, in lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
As submitted by DAFFPL in MYTP	**2496.00**	**2454.00**	**2949.00**	**4699.00**	**4491.00**	**17089.00**
As recalculated by the Authority	**1758.00**	**1693.00**	**1719.00**	**1699.00**	**1811.00**	**8680.00**

3.12.6 The depreciation claimed by DAFFPL also includes depreciation on right of use assets (capitalized value of lease payments to airport operator) and amortization of security deposit. Since, the actual amount paid as lease rent is decided to be allowed as operating expenses, the depreciation on right of use assets are adjusted. Since the Authority decides to give the return on actual security deposit, necessary adjustment has been done for the amortization on security deposit.

3.13 <u>Stakeholder's comments on issues pertaining to Depreciation for Second Control Period.</u>

3.13.1 <u>DAFFPL's comments on issues pertaining to Depreciation for Second Control Period</u>

"DAFFPL was of the view that"

(a) **Life of** assets **in line with the concession period.** DAFFPL wishes to submit that at the end of the concession period it has to transfer all assets at NIL cost to Airport operator. Accordingly, the useful life of any assets of DAFFPL would be maximum up to the end of concession period which is ending on 30th June 2035.

(b) As per the 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". The same has also been recommended by Authority in their order no 35/2017-18, where para 3.1 and 3.2 clearly state that "for the purpose of identifying the balance useful life, balance period remaining 01 I/ of the initial lease period plus the first extension at the option of/he operator should be considered. If the period of useful life of assets is considered differently, the Airport operator shall provide reasons / justification and basis for the period considered in determining the useful life of the assets for the purpose of tariff determination which shall be examined and considered by the authority".

(c) Based on literal interpretation of the above order, it is clearly stated that the higher useful life would be considered only "if the option to extend the lease period is at the option of the operator". However, as per the Concessionaire Agreement with the Airport operator DAFFPL doesn't have such option available with it. Therefore, we request Authority to consider useful life of assets as per the life given in the companies' act, 2013 or till the end of concessionaire agreement whichever is earlier. This will also save reconciliation issues regarding depreciation as per the Authority and DAFFPL books and rationalised impact of depreciation which would become substantially more in the last control period (i.e., FY2031-2036) and simultaneously impact FIC charges of the last control period. if the Authority proposed useful life to be considered than it would have more burden on the consumers of the last control period . Just to have a better perspective, it may be seen that the likely depreciation charges during the last control period (2031-35) shall be as given below:

Depreciation (in lacs)	2031-32	2032-33	2033-34	2034-35	2035-36	Total
As per DAFFPL books	2,878	2,868	2,868	2,681	2,545	**13,841**
As per AERA order	2,286	2,276	2,275	2,275	10,562	**19,673**

(d) The above table compares: (i) depreciation charges are as per DAFFPL (till the end of concession period); and (ii) depreciation charges are as per Authority. There would be additional impact of Rs.5,832/- lacs on the consumers in the last control period in form of additional FIC charges.

(e) In view of above, DAFFPL request the Authority to consider useful life of the Assets to the extent of concession period and allow depreciation charges as per DAFFPL MYTP submission, as this would ensure the impact of depreciation on tariffs more uniformly.

(f) **Useful life of Building.** As per the Second Control Period Order, the Authority has considered the useful life of buildings as 30 years (ref table no.7 & 8 on page no 14 & 15 of the 2nd control period order). However, while calculating depreciation for true-up of second control period and FIC charges for the Third Control Period, the Authority has proposed to charge depreciation considering useful life of building as 60 years. The Authority may note that the Authority's internal Order No. 35/2017-18, dated 09 April 2018 states that the useful life of building may be 30/60 years as evaluated by the Airport Operator. Additionally, In DAFFPL's case the fuel farm facility is operational in 3 shifts 24x7. In view of round the clock and multi shift operations, the Authority is requested to re-consider the useful life of buildings as 30 years, which is also in line with the useful life mentioned in the Companies Act, 2013.

(g) **Depreciation for the year of addition:** While calculating depreciation for true up years (FY 2016 to FY 2021), it seems the Authority has overlooked the Depreciation on Fixed Assets for the year of addition of the fixed asset. We request the Authority to also consider Depreciation on the fixed assets for the year of addition during each of the financial year(s).

3.13.2 **<u>GMR's comments on issues pertaining to Depreciation for Second Control Period</u>**

"GMR was of the view that"

(a) 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.

(b) 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 . 9th April'2018 has categorically captured the balance useful life of the asset in case of restrictive lease period:

(c) 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:

(d) 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.

(e) 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 for extension of the concession period in case of DAFFPL. Accordingly GMR stated that the lease period has to be considered as 25 years. DAFFPL has also 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.

3.13.3 **<u>IOCL's comments on issues pertaining to Depreciation for Second Control Period</u>**

"IOCL was of the view that"

As the concession period of DAFFPL is left to 13 years only & DAFFPL is expected to transfer its facility once concession period is over, hence for the purpose of calculation of depreciation, the useful life may be considered only up-to the validity of concession period

3.13.4 **<u>MAFFFL's comments on issues pertaining to Depreciation for Second Control Period</u>**

"MAFFFL was of the view that"

(a) 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.

(b) 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.

3.13.5 FIA's comments on issues pertaining to Depreciation for Second Control Period

FIA requests Authority to reconsider the Useful Life of 05 years proposed to be considered for 'Roads', as the Authority order No. 35/2017-18 mentions the Roads to have a Useful life of "05/10" years, and hence the depreciation applied should be 10% instead of 20%.

3.13.6 IATA's comments on issues pertaining to Depreciation for Second Control Period

IATA fully supports the adoption of useful life and depreciation rates for various assets owned by DAFFPL in line with the Authority's order No. 35/2017-18.

3.14 DAFFPL's response to Stakeholder's comments depreciation for second control period

3.14.1 With regard to stakeholders comment on depreciation for second Period, DAFFPL agrees with the views expressed by GMR, IOCL and MAFFFL

3.14.2 As far as comment of FIA and IATA on depreciation for second Period is concerned, DAFFPL would like to submit that DAFFPL has not owned and capitalized any assets falling in the category of Road and hence the point is not applicable in case of DAFFPL.

3.15 Authority's Analysis on Stakeholder's comments on depriciation for second control period.

(a) **Life of assets in line with the concession period** The Authority noted the comments of various stakeholders. The balance of Depreciation remaining unabsorbed will be considered in the last control period. This stand was also upheld by the Hon'ble TDSAT in their judgment dated 27.09.2019 in respect of Second Control Period of DAFFPL and observed that Considering practical possibilities of extension because there is no bar, we find no error in the view taken by the Authority to grant depreciation in line with the provisions of Companies Act while keeping option of writing off such assets during the relevant period in case the agreement is not extended by DIAL.

Therefore no change is considered in the life of assets.

(b) **Depreciation rates for roads.** The Authority notes that DAFFPL has not accounted for any roads in the assets. The life/percentage shown in the table no.8 is only for information

(c) **Useful life of Building.** The Authority notes that in the Second Control Period Order (Order No 32/2017-18 dt 18.12.2017) the rate of depreciation was considered as 3.33% and the life of buildings as 30 years. However in the CP it was proposed that the life of building would be considered as 60 years in line with the CP issued in respect of MAFFFL.

- As per order No 35/2017-18 dt 12.01.2018, the life of the building would be considered as 30 years or 60 years as evaluated by the airport operator.
- Since DAFFPL has requested to .consider the life of buildings as 30 years because of 24 x 7 multi shift operations, it is decided to consider the same.

(d) **Depreciation for the year of addition:** The Authority notes that the depreciation for the year of commissioning was not included due to error in the formula. The depreciation at 50% of the normal rate has been considered and included in the depreciation for the year of commissioning.

Considering the above, the depreciation reworked for the 2nd control period is given below:

Table no.10 Revised Depreciation considered by the Authority for true up of Second Control Period

Particulars (Rs. In lakhs)	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Total
Depreciation at CP stage	1758.00	1693.00	1719.00	1699.00	1811.00	8680.00
Addl Depreciation considered	13.00	30.00	18.00	74.00	20.00	155.00
Total	1771.00	1723.00	1737.00	1773.00	1831.00	8835.00

3.16 **Regulatory Asset Base (RAB)**

3.16.1 The Regulated Asset Base recalculated by the Authority at consultation stage for the second control period is given below:

Table no.11 RAB proposed to be considered by the Authority for true up of Second Control Period at Consultation stage

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	**Total**
Opening RAB	19755.00	17776.00	16520.00	15081.00	14153.00	
Capitalized Assets	18.00	538.00	287.00	771.00	1169.03	**2783.03**
Depreciation	1758.00	1693.00	1719.00	1699.00	1811.00	**8680.00**
Disposals	239.00	101	1	0	9.19	**350.19**
Closing RAB	17776.00	16520.00	15081.00	14153.00	13501.84	
Average RAB	18765.50	17148.00	15800.50	14617.00	13827.42	

3.17 **<u>Stakeholder's comments on RAB for Second Control Period</u>**

3.17.1 **<u>MAFFFL's comments on issues pertaining to RAB for Second Control Period</u>.**

In the Second Control Period order, the opening balance of assets for the year FY 2016-17 was calculated by considering the value of Dead Stock at Rs.2068 lakhs which was the depreciated value as per books. Since the Authority treats it as a non-depreciable asset it should have been considered at Rs 3052 lakhs at gross value.

3.18 **<u>Authority's Analysis on Stakeholder's comments on RAB for Second Control Period</u>**

The Authority notes that the tariff determination for the first control period was done on light touch basis. Since DAFFPL has taken the benefit of depreciation on Dead stock in the first control period the opening balance for FY 2016-17 has to be considered as per books only. Therefore no change is required in the opening balance of FY 2016-17.

3.19 **<u>Right of Use Assets</u>**

3.19.1 For the years 2016-17, 2017-18 and 2018-19, DAFFPL has treated the land lease payments to the Airport Operator as a part of Operating Expenses. From the year 2019-20 onwards this has been shown as Right of Use Assets (Lease Assets) and included in the RAB. Accordingly depreciation is also claimed on the same. DAFFPL has disclosed the same in their Annual Report (2019-20) as given below:

"The Company's lease asset classes primarily consist of lease for land. The Company, at the inception of contract, assesses whether the contract is a lease or not lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a time in exchange for a consideration. This policy has been applied to contracts existing and entered on or after April 1 , 2019 based on applicability of IndAS 116-Leases.

The Company recognizes a right to use asset and a lease liability at the lease commencement date for lease which is previously classified as operating lease. The right-of-use asset is initially measured at an amount equal to the lease liability.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. It is re measured when there is a change in in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise purchase, extension or termination option. When the lease liability is re measured in this way, a corresponding adjustment is made in the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero."

3.19.2 The purposes of the Standards are to set out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessee and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

3.19.3 It may be noted that the Authority determines the tariff under price cap mechanism whereby the tariff is determined based on the actual cost/expenditure incurred in providing the service and a reasonable return/profit on amount invested in creation of the infrastructure for providing service. DAFFPL has valued and capitalized the cost of leased land base on IndAS accounting guideline. The land value has been depreciated and the depreciation is charged as expenses which may be different from actual lease amount paid to the owner of the land. The Authority calculates the cost on actual cost to be paid to the land owner and not on book entry system under IndAS standard. Accordingly, the Authority has considered the lease amount under operating cost and not considered the depreciation on leased land value as done by DAFFPL.

3.19.4 Therefore, the Authority proposes that the amount of lease payments made to the Airport Operator during the years 2019-20 and 2020-21 also be recognized as a part of Operating Expenses as it was proposed by DAFFPL for the years 2016-17, 2017-18 and 2018-19.

3.20 **Stakeholder's comments on issues pertaining to Right of Use Assets**

3.20.1 **MAFFFL's comments on issues pertaining Right of Use Assets:**

(a) 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.

(b) 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 recognized as a Tangible Asset in the Balance sheet, the same should form part of RAB and depreciation for ARR calculation.

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

3.20.2 **DAFFPL's comments on issues pertaining Right of Use Assets:**

(a) It is observed that the Authority has not followed Ind AS 11 6 for the treatment of Lease Rent/ License fees paid/payable to the Airport operator.

(b) Since, DAFFPL is required to prepare its Financials in compliance with Ind-AS, and Companies Act, 20 13 and as per the Direction 4 and Direction 5 of AERA, MYTP has to be prepared based on Audited Financials of the Company. Therefore, in the MYTP submission, DAFFPL has considered depreciation and Fair Rate of Return (FROR) on the lease asset considering it as a part of Regulatory Asset Base (RAB).

(c) It may also be noted that going forward, Financial Statements would be prepared using the Ind-AS, as applicable and keeping track of balances using IGAAP Financial [erstwhile reporting method] may not be practically possible.

(d) Therefore, we request the Authority to re-consider the approach of considering Financials as per Ind AS 116 for Lease assets.

3.20.3 **IOCL's comments on issues pertaining Right of Use Assets:**

(a) IOCL understand Ind AS is the new accounting methodology being followed by the companies, hence the same may also be considered for this case also.

(b) The above may be considered in order to maintain positive cash flow to enable them to maintain the high Quality and safety standard as desired by industry.

(c) However, the order may be issued for Fuel Infrastructure Charges on prospective basis only from the first day of subsequent month in which AERA issues the order.

3.20.4 **IATA comments on issues pertaining Right of Use Assets:**

(a) IATA agrees with AERA that including the lease amount paid to the landowner under operating expense is a more appropriate treatment than depreciation on the value of the leased land.

3.21 **DAFFPL's response to Stakeholder's comments on Right of Use Assets**.

(a) We agree with the views of MAFFFL and IOCL.

(b) As far as the comments of IATA is concerned, we would like to submit that treatment of lease rent as per Ind AS will rationalize Fuel infrastructure charges of all the control periods.

3.22 **Authority's Analysis on Stakeholder's comments on Right of Use Assets for second control period**

3.22.1 The Authority determines tariff under price cap mechanism whereby the tariff is determined based on actual cost / expenditure incurred in providing the service and reasonable returns / profit on amount invested in creation of the infrastructure. DAFFPL has valued and capitalized the land rent payable during the concession period on Ind AS accounting guidelines and the land value has been depreciated and depreciation is charged as expenses which may be different from actual lease amount paid to the owner of the land. The Authority calculates the cost on actual cost paid to the land owner and not on book entry system under Ind AS. Accordingly the Authority has considered the lease amount under Operating Expenses

3.22.2 The Authority notes that pass through of an expenditure cannot be more than the actual cost/ outflow. Since the actual cost is allowed as Opex, there is no loss to the operator

3.22.3 After considering the revised depreciation, the revised RAB worked out by the authority for the true up for the Second Control Period is given below:

Table no.12 Revised RAB considered by the Authority for true up of Second Control Period

Particulars (Rs. In lakhs)	FY 16-17	FY17-18	FY 18-19	FY 19-20	FY 20-21	Total
Opening RAB	19755.00	17763.00	16477.00	15026.00	14024.00	
Add : Asset capitalisation	18.00	538.00	287.00	771.00	1169.03	2783.03
Less : Depreciation	1771.00	1723.00	1737.00	1773.00	1831.00	8835.00
Less : Disposals	239.00	101.00	1.00	0.00	9.19	350.19
Closing RAB	17763.00	16477.00	15026.00	14024.00	13352.84	
Average RAB	18759.00	17120.00	15751.50	14525.00	13688.42	

3.23 **Security Deposit**

3.23.1 DAFFPL had submitted security deposit to the Airport Operator as a precondition for the award of Building and Operating the Fuel infrastructure facility at Delhi Airport. Since the security deposit is not used in the business of the service provider, the Authority in its order no.32/2017-18 dated 18th December 2017 relating to the second control period decided to allow a return to cover the inflation. This was challenged by DAFFPL in Hon'ble TDSAT and the judgment dated 27th September 2019 thereon observed that " *While the equity money has to be used necessarily for the operation of the required service or activity, in the present case the security deposit has no such purpose and therefore only on account of an unusual and peculiar arrangement between DIAL and the appellant, it would be unfair to other stakeholders who pay for such aeronautical service relating to fuel farms to compensate the appellant for a deposit which is not related to the operations of fuel farm and cannot be considered as a part of RAB. In such a scenario, the nominal return on account of inflation cannot be held to be arbitrary or inadequate.*" Since the decision of the Authority has been upheld and there are no fresh grounds for reconsideration, it is proposed to continue with the nominal rate of return (5%) allowed in the second control period for the true up of the second control period.

3.23.2 DAFFPL in their Annual Report for the year 2019-20 disclosed that "Security Deposit has been valued at fair value at initial recognition and will be measured at amortized cost considering Effective Interest Rate (EIR) method. With respect to the impact of the valuation at the time of initial recognition, the company has treated the same as Prepaid Expenses and has written off the same on straight line basis for remaining period of concession & operating agreement."

3.23.3 Even though DAFFPL has requested a return on fair value calculated (which is lesser than the actual amount), the amortization of security deposit (as a part of depreciation and amortization) is also being claimed. In order to provide transparency and allow the actual costs to be included in the tariff determination, it is proposed to provide the nominal return on the actual amount of deposit outstanding.

3.23.4 The year wise security deposit and return on the same proposed to be considered for the true up of the second control period are given below:

Table no.13 Details of return on SD claimed by DAFFPL during the Second Control Period.

Particulars (Rs. In lakhs)	2016-17	2017-18	2018=19	2019-20	2020-21	Total
Security Deposit at Fair value	1063.56	1063.56	5059.12	5059.12	4439.03	16684.39
Amount claimed as return by DAFFPL	69.00	138.00	397.00	655.00	637.00	16684.39
Amortisation of SD	637.00	638.26	806.94	811.69	608.96	33368.78
Total amount	706.00	776.26	1203.94	1466.69	1245.96	**5398.85**

Table no.14 Details of SD proposed to be considered for truing up of Second Control Period by the Authority at Consultation stage.

Actual SD	16929.27	16929.27	20924.83	20924.83	16245.74	72136.41
Return @ 5% on actual SD.	846.46	846.46	1046.24	1046.24	812.29	**4597.69**

3.24 **Operating Expenses and CSR**

3.24.1 The component wise details of the Operating expenses were not given in the MYTP submitted by DAFFPL though the financial model was submitted along with the MYTP. Subsequently the details were given vide mail dated 17.05.2021. It was also clarified by DAFFPL that the fuel farm operating expenses were netted from the revenue in the annual accounts. In addition, the licence fee 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 decided to consider the licence fee paid to the airport operator as a part of operating expenses. The expenses including CSR were also cross checked with the Annual Reports for the years 2016-17 to 2020-21.

3.24.2 Based on the judgment of Hon'ble TDSAT dated 16th December 2020 in respect of Bangalore Airport, DAFFPL has requested for consideration of CSR expenses in tariff determination in the third control period. The year wise expenses of operating expenses and CSR expenses proposed to be considered in the true up for the second control period are given below:

Table no.15 Operating Expenses as submitted by DAFFPL for the Second Control Period.

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Operating Expenses	2246.00	2189.00	2099.00	2309.00	2315.00	**11158.00**
Interest on working capital	42.00	55.00	142.00	177.00	153.00	**569.00**
Lease Payments	1723.00	1852.00	1981.00	0.00	0.00	**5556.00**
Total	4011.00	4096.00	4222.00	2486.00	2468.00	**17283.00**

3.24.3 DAFFPL had considered the lease payment as revenue expenditure during the years FY 2017, FY18 and FY19. From the FY 20 the same was considered as right of use assets (lease assets) and included in the RAB. The Authority has decided to consider lease expenditure as part of operating expenses during the entire control period, because of the reasons explained in Para 4.17. The Authority also decides to consider CSR in the second period also. The revised operating expenses are given below:

Table no.16 Operating Expenses proposed to be considered for true up of Second Control Period by the Authority at consultation stage.

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Fuel farm operating expenses	1767.56	1836.12	1855.60	2027.72	1799.00	**9286.00**
Employee benefit expenses	123.10	121.79	143.64	160.83	178.33	**727.69**
Lease payments	1723.14	1852.44	1981.46	2130.07	2289.83	**9976.94**
Interest on working capital loan	42.00	55.00	142.00	177.00	87.00	**503.00**
Loss on sale of Assets	241.56	110.09	0.57	0.00	8.80	**361.02**
Other expenses	113.59	120.79	98.61	121.16	165.41	**619.56**
CSR expenses	66.34	119.15	149.70	141.64	96.68	**573.51**
Total	4077.29	4215.38	4371.58	4758.42	4625.05	**22047.72**

3.25 Stakeholder's comments on Operating Expenses for the Second Control Period

3.25.1 IATA comments on Operating Expenses for the Second Control Period

Notwithstanding TDSAT's decision to include CSR as operating cost, there should be objective criteria formulated to ensure the reasonableness of the amount of CSR expenses.

3.26 DAFFPL's response to Stakeholder's comments on Operating Expenses for the Second Control Period

We would like to submit that CSR expenses is governed in terms of the provision of the Companies Act 2013, and the CSR expenses are based on provision of Companies Act only.

3.27 Authority's Analysis on Stakeholder's comments on Operating Expenses for the Second Control Period

The Authority notes that the CSR expenses are considered as per the companies Act. Therefore the Authority decides to consider the CSR expenses as per the audited accounts. It is also decided to consider the operating expenses for truing up the Second Control Period as per table No 16.

3.28 Income Tax

DAFFPL had submitted the income tax expenditure as given below:

Table no.17 Income Tax as submitted by DAFFPL for the second control period.

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Income Tax	2539.00	3044.00	3463.00	1643.00	293.00	10982.00

3.28.1 The Income Tax being a statutory payment, it is proposed at consultation stage to consider the expenses as per the Annual Report as actually provided as given below:

Table no.18 Income Tax proposed to be considered by the Authority for the true up of second control period at consultation stage.

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Income Tax	2448.93	3325.29	3333.98	1112.76	407.71	10628.67

3.28.2 During the stakeholder consultation process, the Authority has received no comments/ views from stakeholders in response to proposal of Authority in the Consultation Paper No 12/2020-21 with respect to income tax for the second control period. Therefore, no change is considered in the Income Tax for the Second Control Period.

3.29 Other Income

Since the tariff determination for DAFFPL is being done on a single till basis, the entire other income needs to be considered. Even though DAFFPL has shown in their MYTP "*30% of other income*", it is noted that the other income has been considered in full as per accounts. The details as submitted by DAFFPL is given below:

Table no.19 Other Income as submitted by DAFFPL for the second control period

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Interest Income	3.08	2.46	130.76	172.17	0.00	**308.47**
Other Income	93.00	61.00	60.00	35.00	36.00	**285.00**
Total	**96.08**	**63.46**	**190.76**	**207.17**	**36.00**	**593.47**

The Authority noted the some of the other income like profit on sale of assets were not considered by DAFFPL. Accordingly, the other income has been modified taking into account all the miscellaneous income. The year wise details of other income which was proposed to be considered at CP stage for the true up of second control period are given below

Table no.20 Other Income proposed to be considered by the Authority for the true up of second control period at Consultation stage.

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Interest Income	3.08	2.46	130.76	172.17		**308.47**
Rental Income	24.61	26.64	30.60	33.87	36.00	**151.72**
Other Income	68.62	33.95	29.84	0.96	55.57	**188.94**
Total	**96.31**	**63.05**	**191.20**	**207.00**	**91.57**	**649.13**

3.29.1 During the stakeholder consultation process, the Authority has received no comments/ views from stakeholders in response to proposal of Authority in the Consultation Paper No 12/2020-21 with respect Other Income for the second control period Therefore, no change is considered in the other income for the Second Control Period.

3.30 Fair Rate of Return

3.30.1 DAFFPL has adopted a rate of return of 14% on equity during the second control period for true up, which is in line with the rate adopted by the Authority in its determination of tariff for the second control period. DAFFPL has considered interest on bank loan as 8.95%. The FRoR of 12.95% has been adopted for the true up calculations. The FRoR recalculated based on the actual interest cost for the second control period for true up at consultation Stage is given below:

Table no.21 Revised cost of Debt proposed to be considered for the Second Control Period by the Authority at consultation stage

Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
Loan Amount	9170.35	7384.79	5596.56	4255.40	2030.40
Interest rate	8.60%	8.35%	8.60%	8.10%	7.50%
Loan amount		0.02	3.41	1778.25	4892.82
Interest rate		8.35%	8.60%	8.05%	7.00%
Weighted average rate	8.60%	8.35%	8.60%	8.08%	7.15%

3.31 **Stakeholder's comments on Cost of Debt for the Second Control Period**

3.31.1 **DAFFPL's comments on Cost of Debt for the Second Control Period**

(a) Authority has proposed to consider cost of Debt based on weighted average of" Bank interest rate(s) as offered by the bank" and "outstanding loan amount at the end of each tariff year" shown in table no. 19 of the consultation paper.

(b) DAFFPL would like to submit that whenever actual interest cost and outstanding loan amount is available, the Cost of debt should be computed based on actuals after dividing interest cost with outstanding loan amount. This will factor in fluctuations in interest rate(s) during the period and/or time gap on various loans, new loan availed, and loan repaid during the year.

(c) In view of above, DAFFPL proposes to calculate the cost of debt based on actual interest paid and closing debt of each tariff year and request Authority to re-calculate the FRoR of true up (second control) period based on the abovementioned actual cost of debt and in future the same principle to be applied for third control period.

(d) DAFFPL would like to mention here that it has already incurred actual interest cost during the second control period and same is on (he higher by Rs.504 lacs as compared to cost of debt rate computed by the authority. Cost of Debt calculated by DAFFPL & the Authority are as tabulated below:

Computation of Cost of Debt for Second Control Period					
Particulars (Rs. In lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
Outstanding loan at year end - (A)	9170	7385	5600	6034	6923
Weighted average Cost of Debt (as proposed by Authority) - (B)	8.60%	8.35%	8.60%	8.08%	7.15 %
Interest computed as per cost of Debt allowed by Authority (C =A*B)	789	617	482	488	495
Actual Interest cost on term loan incurred bv DAFFPL - (D)	975	732	725	422	520
Difference Interest not allowed by Authority – (E= D-C)	186	115	243	(65)	25
Actual Cost of Debt as per DAFFPL (D/A)	10.63%	9.91%	12.94%	7.00%	7.51%
Lower /(higher Debt rate considered by Authority	2.03%	1.56%	4.34%	-1.08%	0.36%

(e) In view of above, DAFFPL proposes to calculate the cost of debt based on actual interest paid and closing debt of each tariff year and request Authority to re-calculate the FRoR of true up (second control) period based on the abovementioned actual cost of debt and in future the same principle to be applied for third control period.

3.32 **Authority's Analysis on Stakeholder's comments on Cost of Debt for the Second Control Period**

3.32.1 The Authority notes that Cost of Debt claimed by DAFFPL is 10.83% for FY 2016-17, 9.91% for FY 2017-18, 12.94% for FY 2018-19, 7.00% for FY 2019-20 and 7.51% for 2020-21.

3.32.2 This appears to be incorrect because as per the details submitted, they do not have any loan with a coupon rate of above rates.

3.32.3 The Authority observes during the year the coupon rates of the loan were slightly higher and in the end of the year the rates were as adopted in the consultation paper.

3.32.4 Taking into account during the year fluctuations in the interest rates of Debt, the revised cost of Debt is worked out as given below:

Table No.22 Revised Cost of Debt calculated by the Authority for the Second Control Period

FY 2016-17			FY2017-18			FY 2018-19			FY 2019-20			FY 2020-21		
Coupon Rate	No. of months	Average cost	Coupon Rate	No. of months	Average Cost	Coupon Rate	No. of months	Average cost	Coupon Rate	No. of months	Average Cost	Coupon Rate	No. of months	Average Cost
9.65%	5	4.02%	8.60%	11	7.88%	8.35%	7	4.87%	8.60%	8	5.73%	8.07%	7	4.71%
9.45%	6	4.73%	8.35%	1	0.70%	8.45%	5	3.52%	8.07%	4	2.69%	7.02%	5	2.93%
8.60%	1	0.72%												
Total		9.46%			8.58%			8.39%			8.42%			7.63%

3.33 **Stakeholder's comments on Cost of Equity for the Second Control Period**

3.33.1 **MAFFFL's comments on Cost of Debt for the Second Control Period**

(a) 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%.

(b) 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.

(c) 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.

3.34 **DAFFPL's response to Stakeholder's comments on Cost of Equity for the Second Control Period**

3.34.1 We agree with the views of MAFFFL.

3.34.2 As far as IATA's comment is concerned, DAFFPL is providing service of handling dangerous goods at vulnerable areas. Further, since DAFFPL depends on the airport operator for utilities and other supplementary services, any failure by the Airport Operator in providing the same would directly impact DAFFPL's operations. Due to higher level of operational risk involved in DAFFPL's operations, condition environment, business and DAFFPL request to consider proposed WACC as per its submission.

3.35 **Authority's Analysis on Stakeholder's comments on Cost of Equity for the Second Control Period**

3.35.1 The Authority considers that there should be efficient use of capital with adequate gearing, so that the benefit from lower cost of borrowing will lead to an optimum tariff.

3.35.2 Comparison of mere cost of equity of different entities may not be appropriate since the risk profile of each service is different.

3.35.3 The Hon'ble TDSAT also observed in the judgment dated 27.09.2019 regarding DAFFPL that the return of 14% on equity is reasonable.

3.35.4 Considering the above, the Authority decides to retain the cost of equity at 14%

Table No.23 FRoR proposed for true up of the second control period by the Authority at consultation stage

Particulars (Rs in lakhs)	2016-17	2017-18	2018-19	2019-20	2020-21
Equity	19553.00	20499.00	24606.00	27166.00	24765.00
Debt	9170.35	7384.81	5599.97	6033.65	6923.22
Total	28723.35	27883.81	30205.97	33199.65	31688.22
Equity %	68.07%	73.52%	81.46%	81.83%	78.15%
Debt %	31.93%	26.48%	18.54%	18.17%	21.85%
FRoR					
Equity	9.53%	10.29%	11.40%	11.46%	10.94%
Debt	2.75%	2.21%	1.60%	1.47%	1.56%
Total	**12.28%**	**12.50%**	**13.00%**	**12.93%**	**12.50%**

3.36 After considering the revised cost of Debt as worked out in the Table No 22, the revised FRoR worked out is given below:

Table No 24 Revised FRoR considered by the Authority for true up of Second Control Period

Particulars (Rs. In lakhs)	**FY 16-17**	**FY17-18**	**FY 18-19**	**FY 19-20**	**FY 20-21**
Equity	19553	20499	24606	27166	24765
Debt	9170	7385	5600	6034	6923
Total	28723	27884	30206	33200	31688
Equity %	68.07%	73.52%	81.46%	81.83%	78.15%
Debt %	31.93%	26.48%	18.54%	18.17%	21.85%
FRoR					
Equity portion	9.53%	10.29%	11.40%	11.46%	10.94%
Debt portion	3.02%	2.27%	1.56%	1.53%	1.67%
Total	12.55%	12.56%	12.96%	12.99%	12.61%
Average FRoR	12.73%	12.73%	12.73%	12.73%	12.73%

3.36.1 The average FRoR comes to 12.73% which is being used for working out the discounting factor.

3.37 **Aggregate Revenue Requirement**

3.38 **Stakeholder's comments on Aggregate Revenue Requirement for the Second Control Period**

3.38.1 **GMR's comments on Application of FRoR rate for computing Return on RAB for the Second Control Period**

(a) **Application of FRoR rate for computing Return on RAB** 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.

(b) 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, 10th 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 ta riff guidelines and this will also ensure the consistency across the control period of DAFFPL

3.38.2 **DAFFPL's comments on Application of FRoR rate for computing Return on RAB for the Second Control Period**

(a) **Application of FRoR rate for computing Return on RAB** The Authority has calculated return on RAB using "respective year FRoR rate" and for computation of discounting factor, the Authority has considered "average FRoR rate" in the consultation paper. This has resulted in 2 different approaches for computation of ARR to DAFFPL. DAFFPL would like to submit that as per AERA Guidelines 2011, dated 10th January 2011, calculation of return on RAB is to be considered based on "average FRoR rate".

(b) It may be further noted that the Authority has also considered "average FRoR rate" for calculation of return on RAB in the DAFFPL's second control period order (refer table no. 18 page 32).It may be further noted that the same view was considered by the Authority in its Order No. 57/2020-21 dated 30th December 2020 in respect of DIAL.

(c) **Discounting Factor**. DAFFPL would like to submit that the true-up for the second control period (20162021) should be computed at the end of second control period i.e., 31st March 2021 considering discounting factor 1 for FY2020-21 instead of FY2021-22. DAFFPL proposes to consider the discounting factor as per below mentioned table order (subject to any other changes in the FRoR as proposed by DAFFPL in its response):

Discounting Factor to be considered in respective year										
Financial Year	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Discounting Factor	1.6099	1.4292	1.2688	1.1264	1.0000	0.8888	0,7899	0.7021	0.6240	0.5546

(a) Additionally, DAFFPL hereby submits that the Authority has considered discounting factor of 1 for the last tariff year (i.e., 31st March 2019) for computation of true-up in one of its' earlier Order No. 57/2020-21 dated 30 December 2020 (the DIAL tariff order).

(b) View above, DAFFPL request Authority to consider discounting factor 1 at the end of second control period i.e., for FY 2020-21 and accordingly modify discounting factor of other years for both the control period.

(c) **Additional revenue during 01 April 2016 to 31 December 2017**. In DAFFPL's second control period order, the Authority had mentioned that the change in the fuel infrastructure charges would be applied on a prospective basis only. The excerpt from the aforementioned Order has been given below:

- With regard to the BPCL's and HPCL's comments on fuel Infrastructure charges, DAFFP agrees with their views that the revisions approved are on prospective basis only.

- As per above para of the Order, the revised rate of Rs.609/KL to be applicable on a prospective basis from 1st January 2018. Furthermore, the same has been acknowledged by the Hon'ble TDSAT vide its Order dated 27 September 2019 (AERA Appeal No. 1 of 2018 - M.A. No. 60 of 2019). An excerpt of the relevant clause is as follows:

- The respondent issued the the impugned order on 18.12.2017 and on the basis of price cap approach it has fixed the fuel infrastructure charges for the appellant at the rate of' Rs.609/KL (exclusive of Operator's Fee) for the Second Control Period upto 31.03.2021. "The revised rates 'were to be effective from 01.01.2018.

- Through the abovementioned references, DAFFPL wishes to point to the Authority that the additional revenue received from the earlier rate of Rs.755/KL between 1st April 2016 to 31 December 2017; before the implementation of AERA order; may not be considered in the true-up calculation. View above, DAFFPL hereby requests the Authority to consider above point and incorporate the same in the true-up working.

3.38.3 **FIA's comments on Application of FRoR rate for computing Return on RAB for the Second Control Period**

Over Recovery (Refer 4.23.1 of CP) DAFFPL has made an over recovery of Rs. 14,729.95 Lakhs during the second control. Authority and DAFFPL should undertake appropriate measures to ensure that there are no/minimal cases of over recovery, in future, which will assist in lowering the burden of tariff on airlines/passengers

3.39 **DAFFPL's response to Stakeholder's comments on Application of FRoR rate for computing Return on RAB for the Second Control Period**

3.39.1 We agree with the views of GMR.

3.39.2 As far as FIA's comment is concerned FIA's point has been noted.

3.40 **Authority's Analysis on Stakeholder's comments on Application of FRoR rate for computing Return on RAB for the Second Control Period**

3.40.1 As far as FIAs comment on over recovery is concerned, the Authority notes that excess recovery is being adjusted along with carrying cost in the next control period. Thus, that interest of Stakeholders is taken care of.

3.40.2 As far as DAFFPL's comment on excess recovery, the Authority clarifies that prospective implementation of tariff rate does not mean that excess during the control period before the implementation of the order will go without any adjustment. In the interest of Stakeholders and fairness the excess or deficit should be adjusted in the truing up. Therefore it is decided that the entire excess recovery made in the Second Control Period will be adjusted in the third control period.

3.40.3 As far as DAFFPL's comment regarding discounting factor is concerned, the Authority notes that implementation of tariff order is being done in FY 2021-22. Therefore, it is logical the discounting factor of 1 should be considered for FY 2021-22. This is being consistently followed in case of other service providers also.

3.40.4 As far as GMR's comment on adoption of "respective year FRoR rate" is concerned the Authority observes that the adoption of "respective year FRoR rate" will give more accurate calculation of NPV by capturing the time value of money. Therefore, this cannot be said to be against the AERA guidelines. However, to maintain consistency the Authority has consider the average FRoR in the place of respective year FRoR rate.

3.40.5 Based on the philosophy of AERA on various building blocks of tariff determination, the true up calculation for the second control period is given below:

Table no.25 ARR considered by the Authority for true up of the Second Control Period

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Average RAB (*Ref Table No 12)*	18759.00	17120.00	15751.50	14525.00	13688.42	
FRoR (*Ref Table No 24)*	12.73%	12.73%	12.73%	12.73%	12.73%	
Return on RAB	2388.02	2179.38	2005.17	1849.03	1742.54	
Return on SD (*Ref Table No 14)*	846.46	846.46	1046.24	1046.24	812.29	4597.69
Depreciation (*Ref Table No 10)*	1771.00	1723.00	1737.00	1773.00	1831.00	8835.00
O&M including CSR (*Ref Table No 16)*	4077.29	4215.38	4371.58	4758.42	4625.05	22047.72
Income Tax (*Ref Table No 18)*	2448.93	3325.29	3333.98	1112.76	407.71	10628.67
Gross ARR	11531.70	12289.51	12493.97	10539.45	9418.59	56273.21
Less Other Income (*Ref Table No 20)*	96.31	63.05	191.20	207.00	91.57	649.13
Net ARR	11435.39	12226.46	12302.77	10332.45	9327.02	55624.08
Discount Factor	1.8205	1.6149	1.4326	1.2708	1.1273	
NPV of ARR	20818.46	19745.07	17624.68	13130.54	10514.34	81833.09
FIC Revenue	13476.93	14948.63	14510.95	14423.54	7534.59	64894.64
NPV of Actual Revenue	24535.14	24141.23	20788.08	18329.51	8493.74	96287.70
Over/(Under) recovery	14454.62					

**The FIC revenue has been re-calculated by adding the Fuel farm operating expenses to the revenue reported in the Annual reports since, this has been netted out by DAFFPL.*

3.40.6 The excess recovery at consultation stage was Rs. 14729.95 lakhs, this has come down to Rs. 14454.62 lakhs because of the following reasons:

- Inclusion of additional depreciation due to considering the life of buildings as 30 years instead 60 years.

- Providing 50% depreciation in the year of capitalization of assets during the Second Control Period. (Total additional depreciation Rs. 155 lakhs).
- Recalculation of cost of debt considering the fluctuations in the interest rate during the year.

3.40.7 The excess recovery (claw back) amounting to Rs. 14482.88 lakhs will be adjusted out of third control period. The total ARR recoverable for the second control period is more or less on the lines of ARR determined during the tariff determination for the second control period. The reasons for the excess recovery are:

(a) Increase in the fuel throughput handled during second control period to 98.59 lakhs kl from the projected volume of 91.00 lakhs kl.

(b) The tariff order for the second control period determining the tariff of Rs.609/kl was issued on 18th December 2017 which was effective from 1st January 2018. From the beginning of Second Control Period i.e. from 1st April 2016 to 31st December 2017, DAFFPL charged Rs.755/kl, which was the rate approved for the first control period. The excess collection (Rs.755 – Rs. 609) made during this period has also been considered in the true up for the second control period.

3.41 Authority's Decision regarding True up for the second control period

Based on the material before it and based on its analysis, the Authority decides the following regarding true up for the second control period:

3.41.1 The Authority decides to consider depreciation for the second control period as per Table no. 10

3.41.2 The Authority decides to true up the Regulatory Asset Base as per Table no.12

3.41.3 The Authority decides to consider Security Deposit as per Table no.14 and also proposes to consider a nominal return of 5% on the same for the true up of second control period.

3.41.4 The Authority decides to consider Operational expenses including CSR for true up of second control period as per Table no.16

3.41.5 The Authority decides to consider the lease payments during the entire second control period as operating expenses.

3.41.6 The Authority decides to consider Income Tax for the second control period as per Table no.18

3.41.7 The Authority decides to consider the Other Income for true up of second control period as per Table no.20

3.41.8 The Authority decides to true up FRoR for the second control period as per Table no.24

3.41.9 The Authority decides to true up the Aggregate Revenue Requirement of DAFFPL for the second control period as per Table no.25 and also decides to consider the claw back of Rs. 14454.62 Lakhs for adjustment in the third control period.

CHAPTER 4. PROJECTED VOLUMES FOR THE THIRD CONTROL PERIOD

4.1 Following are the projected fuel off take volumes for the 3rd control period by DAFFPL:

Table no.26 Fuel volume projected by DAFFPL for the Third control Period

In (KL)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Yearly Volume	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970	11,740,370

4.2 As per DAFFPL, the above projections were made based on the recovery expectations given by 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 DAFFPL had 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.

4.3 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 of online meeting platforms there is a significant risk of reduction in business meetings & travels. This is going to impact the ATF fuel consumption pattern.

4.4 Volumes pertaining to operations from T1 were already shifted to T2 hence it was added to DAFFPL business since 2017-18. Therefore DAFFPL expects 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 as given by DAFFPL is given below for reference:

Table no.27 Historical volumes handled during Second Control Period as submitted by DAFFPL

Particular (KL)	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Due to shift from T1	0	40,000	205,000	225,000	250,000	720,000
DAFFPL Volume at T1	0	0	0	0	0	0
Other Volume	1,806,135	2,061,535	2,177,854	2,143,398	950,000	9,138,922
Total Volume	1,806,135	2,101,535	2,382,854	2,368,398	1,200,000	9,858,922

Table no.28 Throughput volumes projected for the Third control Period by DAFFPL at consultation stage

Particular (KL)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Due to shift from T1	300,000	360,000	378,000	396,900	416,745	1,851,645
DAFFPL Volume at T1	-	-	200,000	210,000	220,500	630,500
Other Volume	1,500,000	1,800,000	1,890,000	1,984,500	2,083,725	9,258,225
Total Volume	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970	11,740,370

4.5 **Authority's examination of the Projected Volumes for the Third Control Period at consultation stage:-**

4.5.1 The volumes projected by DAFFPL in percentage terms compared to the volumes handled during 2019-20 are given below:

Table no.29 Growth Rate adopted during the Third Control Period regarding Throughput volume

Particular (KL)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Due to shift from T1	300,000	360,000	378,000	396,900	416,745	1,851,645
DAFFPL Volume at T1	0	0	200,000	210,000	220,500	630,500
Other Volume	1,500,000	1,800,000	1,890,000	1,984,500	2,083,725	9,258,225
Total Volume	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970	11,740,370
As a % of 2019-20 as per DAFFPL	**76%**	**91%**	**104%**	**109%**	**115%**	
Growth rate adopted in DIAL TCP order	62%	100%	104%			
Growth rate proposed by the Authority as a % of 2019-20	50%	70%	104%	109%	115%	

4.5.2 Though the volumes are more or less with the growth rate adopted in respect of DIAL in the order for the third control period, the increase due to commissioning of T-I project does not appear to be significant.

4.5.3 DAFFPL has also taken in to account the probable reduction in business due to the upcoming Noida greenfield International Airport.

4.5.4 Considering the uncertainty prevailing at the moment due to Covid-19 and also the volumes will be subject to truing up in the next control period, it is proposed to moderate the volumes projected by DAFFPL for the third control period as given below.

4.5.5 Yearly volumes proposed to be adopted by the Authority for the Third Control Period are given below:

Table no.30 Throughput volume proposed to be adopted by the Authority for the Third Control Period at consultation stage

In (TKL)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Yearly volume	1184	1658	2468	2591	2721	10622
% of 2019-20	50%	70%	104%	109%	115%	

4.6 Stakeholder's comments on Projected Volume for the Third Control Period

4.6.1 BPCL's comments on Projected Volume for the Third Control Period

(a) We have already witnessed the devastating impact of the second wave of Covid-19 and further waves are feared due to the newer and more deadly variants of coronavirus emerging, hence both Domestic and International traffic is not likely to reach Pre-Covid numbers . Further since majority of ATF volumes at IGI Airport, New Delhi come from International traffic and the International Traffic particularly is likely to continue to be hit even more harder as such waves come at different times at different countries and flight restrictions are imposed even if one among a pair of countries is affected the overall ATF volumes will continue to be much lower than projected in the 3rd Control Period.

(b) Further as a New Airport is expected to come up at Jewar during the 3rd control period which is likely to substantially take up business from IGI Airport, New Delhi the ATF volume handled is expected to be much lower than projected,

(c) AERA has however on the other hand proposed to reduce the FIC by 18%, 32%, 35%, 38% & 42% for FY 21-22, 22-23, 23-24, 24-25 & 25-26 respectively.

(d) Thus in view of expected lower volumes both due to Covid 19 impact and upcoming New Airport at Jewar, it is requested that the revenues for DAFFPL are reconsidered keeping the low Traffic and low ATF volumes expected during the 3rd Control Period so as to ensure smooth & efficient operations atall times .

(e) AERA has proposed 'Price Cap Approach' for determination of Fuel Infrastructure Charges to DAFFPL, however the FIC charges proposed are much less than the calculations submitted by DAFFPL and also much lower than the FIC charges already approved in 2nd control period.

(f) It is thus requested that the FIC workings are reconsidered so that DAFFPL is able to provide satisfactory level of service and follow the required parameters of Safety and Quality.

4.7 DAFFPL's response to Stakeholder's comments Projected Volume for the Third Control Period

4.7.1 We agree with the views of BPCL.

4.8 Authority's Analysis on Stakeholder's comments on Projected Volume for the Third Control Period

4.8.1 The Authority noted the comments received from BPCL on the revision of the Fuel throughput forecast for the 3rd Control Period.

4.8.2 The Authority further noted that due to adverse impact of the second wave of the COVID-19 on aviation sector, and, also based on the views of industry bodies/agencies such as IATA, ACI etc., there will be substantial delay in recovery of the aviation sector to pre COVID-19 level (i.e. equal to traffic level of FY 2019-20).

4.8.3 In the Authority's opinion, the impact of COVID-19 pandemic on the global aviation market is still prevalent and is expected to continue till the end of FY 21-22. However, with the gradual revival of the economy, increase in the uptake of the vaccines, measures taken by the GoI to make the air travel safe along with easing of air travel by various countries, the aviation industry is expected to recover at a better pace in the next few years.

4.8.4 Considering the positive outlook of the GDP growth predicted by the GoI and relatively better revival of the domestic aviation market, the Authority is of the view that domestic traffic will revert to pre-Covid levels (i.e. FY 2019-20) by FY 2022-23.

4.8.5 The Authority also realized that the international traffic demand has remained subdued due to travel restrictions imposed by other countries on Indian travelers. Therefore, the Authority is of the view that international traffic will likely revert to pre COVID-19 levels (i.e. FY 2019-20) by FY 2023-24.

4.8.6 The Authority notes that the volume considered by the Authority for FY 2021-22 is 50% of volumes handled in the FY 2019-20, whereas DAFFPL had projected 62% of FY 2019-20. Similarly for the year FY 2022-23 DAFFPL had projected 91% of FY 2019-20, whereas the Authority had adopted 70% of FY 2019-20 levels. Hence, the Authority has considered even lesser volume than the projections submitted by DAFFPL for the first two years of the third control period.

4.8.7 The Authority notes that the probable impact of upcoming Jewar Airport has already been factored in by DAFFPL. Therefore, the Authority decides not to change the fuel throughput projections for the 3rd control period as made in the Consultation Paper.

4.9 Authority's decisions regarding Fuel Throughput (Volumes) for the Third Control Period

Based on the material before it and based on its analysis, the Authority proposes the following regarding Fuel Throughput (Volumes) for the Third Control Period.

4.9.1 The Authority decides consider the projected Fuel Throughput (Volume) for determination of tariff for the third control period as per Table no.30

4.9.2 The Authority also decides to true up the Fuel Throughput (Volume) during the tariff determination for the next control period.

CHAPTER 5 RAB AND DEPRECIATION FOR THIRD CONTROL PERIOD:

DAFFPL, Delhi has submitted the following regarding the Capital Expenditure for the Third Control Period:

5.1 Regulatory Asset Base:-

5.1.1 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.

5.1.2 The capital expenditure for the 3rd control period that DAFFPL is expected to be incurred is provided below:

Table no.31 Capital Expenditure to be incurred during the Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Buildings	500	-	-	300	-	800
Plant and Equipment	775	400	550	-	200	1925
Computer and Data Processing Unit	5	5	5	-	-	15
Furniture and Fixtures	5	100	5	-	-	110
Dead stock	-	2,500	-	-	-	2500
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**

5.1.3 DAFFPL gave the rationale for the capex as under:

5.1.3.1. **Setting Up of Aviation Fuel Hydrant System at Terminal 1 of IGI Airport:** Airport Operator has planned for revamping of complete Terminal 1 as per their master plan ,and, the capacity of T1 will be increased from 20 million to 40 million, the 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 ATF Hydrant System at T1 from the 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. User Consultation meeting for the said project has been held by DAFFPL with the stakeholders on 3rd March 2021.

During the user consultation meeting IATA commented about the T1 project and the revision of the rates. The concerns of IATA as recorded in the minutes of the meeting are given below:

"IATA inquired about the percentage of increase in tariff requested for. Further considering the financial stringency in the aviation industry globally, IATA requested to explore possibility of deferment of augmentation of the capacity. They further inquired about the additional storage capacity building, stock coverage, what kind of measures have been taken by the company to minimise operational expenditure or capex. They further requested that any consideration for tariff hike to be deferred by 01 Year".

The reply of DAFFPL as recorded in the minutes is reproduced below :

"IATA's concerns were duly noted. DAFFPL apprised that there is a hike of 30% in the tariff rate. Further updated that they have already deferred storage construction and new Admin Building by one year considering the loss of revenue during COVID 19.

DAFFPL further apprised on the endeavor to minimise operational cost and avoid unnecessary capex but without compromising quality. DAFFPL has also presented the details of deferment of major capex plans in its presentation. Further DAFFPL also informed that to minimize costs it has been decided and agreed to feed the Terminal 1 also from the existing fuel farm instead of having a new fuel farm. Further representative of IATA was apprised that storage is basically required for two purposes.

a. Future requirement as per volume growth projection.

b. T1 hydrant process testing and commissioning.

DAFFPL is expecting to have the capacity of 5 to 6 days storage as per Concession and Operating Agreement. With regards to deferment of tariff hike, DAFFPL informed that the tariff would be determined by AERA based on its regulatory framework. AERA regulatory model takes into consideration all the building blocks. Any deferment would have impact on the pricing of subsequent periods".

5.1.3.2. **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 against the existing level of 275 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.

5.1.3.3. **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 existing four storage tanks two additional storage tanks are proposed during third control period. 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.

5.1.3.4. **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. The expenditure incurred during the second control period under Buildings consists of, construction of the following:

(a) Transformer room

(b) Firewater Pump house

(c) Store room

(d) Driver rest room

(e) Control room

(f) Sewage and Electrical works

DAFFPL has not yet decided on the disposal/ alternate use of the existing administrative building after the capitalization of new building proposed in the Third Control Period.

5.1.3.5. **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.

5.1.3.6. **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

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

Table no.32 CWIP during the Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Opening CWIP	12,102	18,492	27,376	0	0	57,970
Capex during the period	7,275	9,789	3,725	300	200	21,289
Commissioned assets	(885)	(905)	(31,100)	(300)	(200)	(33,390)
Closing CWIP	**18,492**	**27,376**				

Table no.33 RAB during the Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Opening RAB	14,643	14,686	15,159	41,958	37,754	124,200
Financing allowances	1,231	1,846	184	0	0	3,261
Commissioned Assets	885	905	31,100	300	200	33,390
Depreciation	(2,073)	(2,278)	(4,485)	(4,505)	(4,516)	(17,857)
Disposals						
Closing RAB	**14,686**	**15,159**	**41,958**	**37,754**	**33,438**	**142,995**

5.2.1 According to DAFFPL, they have 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.

5.2.2 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.

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

5.2.4 Operational hurdles and security constrain of an operating airport.

5.3 Authority's examination of the Capital Expenditure for the Third Control Period at consultation stage:-

5.3.1 The capital expenses projected for the third control period broadly consists of

(i) Construction of new administrative building

(ii) Terminal I related project which will increase their area of operations

(iii) Safety related works like revamping the existing Fire control system, Smoke detection and sprinkler system, upgraded CCTV system gas flooding system in control room etc.

5.3.2 The detailed work-wise information regarding the capital works proposed to be taken up in the third control period are given in Table 25 below. Since all these works are relating to the operation of fuel farm facility. It is proposed to be considered for the tariff determination. The total capital outlay proposed comes to Rs. 21,289 lakhs which includes interest during the construction period amounting to Rs.1639 lakhs.

Table no.34 Details of Capital Expenditure proposed to be considered by the Authority for the third control period at consultation stage:

Capital Expenditure for 3rd Control Period							
		Amount in Lakhs					
S. No	Description	2021-22	2022-23	2023-24	2024-25	2025-26	Total
1	New Administrative Building	500					500
2	Furniture & Fixture	5	100	5			110
3	Computer & Data processing unit	5	5	5			15
4	New Receipt Header	400	100				500
5	Gas Flooding System in New Control Room	30					30
6	New ATF Transfer Pumpsets	65					65
7	Civil Foundation for New Pumpsets	20					20
8	Under Ground Tanks ATF Transfer Pumpsets	30					30
9	New CCTV System	75					75
10	Tank Trucks Weighment Bridge	25					25
11	Augmentation of T2 Valve Chambers			400			400
12	Augmentation of Motor Operated		100	40			140

	Valves Actuators						
13	Variable Frequency Drives for Pumpsets	30					30
14	Sampling Vehicles Refurbishment (02 Nos)		50				50
15	Sampling Vehicle Procurement		50	50			100
16	Health Assessment of T2 Pipeline		100				100
17	Tank Trucks Gantry Unloading Arms			50			50
18	Sprinkler System in Tank Truck Gantry	20					20
19	Sprinkler System in Filter Area	20					20
20	Remote Operated Water cum Foam Monitor	30					30
21	Demarcation of License and De-License Area	30					30
22	T-1 Project	5,400	5,900	3,000			14300
23	Dead Stock		2,500				2500
24	Boundary Wall	-	-	-	300	-	300
25	New Receipt Header	-	-	-	-	200	200
26	Other Miscellaneous project	-	-	10	-	-	10
27	**Interest during construction(IDC)**	590	884	165			1639
Total		**7275**	**9789**	**3725**	**300**	**200**	**21289**

5.3.3 The Authority proposed at consultation stage that in the event of any delay or significant reduction in the execution of capital expenditure as planned for the third control period, it will consider reduction of RAB by 1% of the cost of the delayed part of work, in the true up during tariff determination for the next control period.

5.4 Stakeholder's comments on Capital Expenditure for Third Control Period

5.4.1 IOCL's comments on Capital Expenditure for the Third Control Period

Though the fuel farm owner/operator arc expected to complete the project on time, however due to expected challenges in execution of projects in an operating airport, the provision of penalty clause may be reconsidered.

5.4.2 FIA's comments on Capital Expenditure for the Third Control Period

(a) **Penalty Clause.** While the airline industry has been cutting down the capital expenditure to mere bones in the face of current extraordinary situations, we suggest that that the Authority may consider more stringent penalties in excess of 1% in the event of any delay or significant reduction in the execution of capital expenditure as finally approved for the third control period such that efficiencies in the system are encouraged and inefficiencies discarded.

(b) **Construction of New Administrative Building.** In order to support the airlines to continue and sustain its operations, all non-essential capital expenditure (For e.g., New Administrative Building) proposed by DAFFPL, should be put on hold/ deferred, unless deemed critical from a safety compliance perspective. Further, in case DAFFPL wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines. Construction of the New Administrative Building may be kept on hold until a decision on disposal/ alternate use of the existing administrative building has been made

5.4.3 **MAFFFL's comments on Capital Expenditure for the Third Control Period**

(a) The Authority has proposed to rework the RAB of DAFFP.L 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.

(b) 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.

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

5.4.4 **DAFFPL's comments on Capital Expenditure for the Third Control Period**

(a) The Authority has proposed to rework the RAB of the Operator for the third Control Period, by reducing the RAB by 1% of the cost of the delayed part of work in case of consultation paper issued for DAFFPL.

(b) DAFFPL would like to convey that completing the proposed capital expenditure within the committed time schedule is in its self-interest as there will be a loss of return as well as depreciation in case of delayed completion and capitalization. DAFFPL is confident of commissioning and capitalizing the projects within the proposed timelines. However, there could be delays due to reasons beyond DAFFPL' 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 is therefore a very harsh step. We request the Authority to remove any such penalty proposal especially during such unforeseen turbulent and pandemic affected times.

5.5 DAFFPL's response to Stakeholder's comments on Capital Expenditure for the Third Control Period

5.5.1 We agree with the views of IOCL and MAFFFL.

5.5.2 As far as the FIA's comment is concerned, DAFFPL would like to submit that the current facility of administrative building measuring 13,500 Sq Ft is quite old and is structurally weakened. Based on the analysis of external consultant, the beams and columns of the building are found to be deficient, considering this there is a requirement of construction of new administrative building.

5.5.3 It is in the DAFFPL'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 DAFFPL'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 additional 1% penalty by reducing the RAB of the delayed cost of the project s therefore is harsh especially during the current pandemic affected times.

5.6 Authority's Analysis on Stakeholder's comments on on Capital Expenditure for the Third Control Period

5.6.1 The Authority noted the comments of the Stakeholders on the proposed 1% re-adjustment in case of delay in implementing the proposed CAPEX schedule. The stakeholders have cited the impact of the COVID-19 pandemic and the related uncertainties which may affect completion of the CAPEX schedules. In this regard, the Authority is of the view that the situation is likely to improve in view of the various measures implemented by the government including the availability of vaccine. The re-adjustment in the ARR/Target Revenue is to protect the interest of the stakeholders who are paying for services provided by DAFFPL, and, is also an encouragement for DAFFPL to commission/capitalize the proposed assets as per the approved CAPEX schedule.

5.6.2 Further, in case there is a delay in commissioning/capitalizing of the assets proposed for the 3rd Control Period due to any reason beyond the control of DAFFPL, and, is properly justified, same would be considered by the Authority while truing up the actual cost at the time of Tariff determination exercise for the next control period. It is also stated that AERA expects that capitalization plan given by the service provider is adhered to, and, expects them to deliver the capitalization as per the plan.

5.6.3 The Authority also noted that the Hon'ble TDSAT Judgement dated 16.12.2020 of "Bangalore International Airport Ltd. (BIAL) Vs. Airports Economic Regulatory Authority of India" with regard to the Authority's decision to impose 1% penalty (re-adjustment) by way of reduction of the value of the Terminal II building from ARR.

5.6.4 The Authority, in order to ensure that DAFFPL adheres to the Capital Expenditure plan, proposes to reduce 1% of the non-capitalized CAPEX from ARR / Target Revenue, as re-adjustment, in case any particular CAPEX is not completed as per the Capitalization schedule, in the True-up exercise for the 3rd Control Period during determination of tariff for the Next Control Period.

5.6.5 As far as the comments of FIA regarding the administrative building is concerned, the Authority notes that the new administrative building was considered at the consultation stage since the existing building is not structurally sound as submitted by DAFFPL.

5.7 Depreciation:

DAFFPL has submitted the following details regarding Depreciation for the Third Control Period:

5.7.1 Following are the depreciation rates assumed for the Third Control Period (in%)

Table no. 35 Depreciation rates adopted by DAFFPL during Third Control Period

Particulars	**Useful life (# years)**	**Rate**	**Useful life (# years)**	**Rate**
	Existing assets		Additional assets	
Building	21	4.70%	13	7.69%
Plant and Equipment	15	6.67%	13	7.69%
Computer 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%
Dead stock	-	-	-	-

5.7.2 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.

5.7.3 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.

5.7.4 Following is the summary of net-block during the Third Control Period.

Table no.36 Net Block during Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	**FY21-22**	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**	**Total**
Gross asset	32,526	33,431	64,531	64810	64,067	259,365
Accumulated depreciation	(21,944)	(24,149)	(28,741)	(33,332)	(36,881)	(145,047)
Net Block	**10,582**	**9,281**	**35,790**	**31,478**	**27,185**	**114,316**

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

Table no.37 RAB for the Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	**FY 21-22**	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**	**Total**
Opening RAB	14,643	14,686	15,159	41,958	37,754	
Add: Financing allowance	1,231	1,846	184	0	0	3,261
Add: Asset Capitalization	885	905	31,100	300	200	33,390
Less: Depreciation	2,073	2,278	4,485	4,505	4,516	17,857
Closing RAB	**14,686**	**15,159**	**41,958**	**37,754**	**33,438**	

5.8 Authority's examination of the Depreciation for the Third Control Period consultation stage:-

5.8.1 The Authority observes that DAFFPL has charged depreciation rate considering the balance period of concession as the life of the asset. The depreciation rates are different from the rates specified in the order no.35/2017-18. During the tariff determination for the second control period order no.32/2017-18 dated 18th December 2017, the Authority considered the depreciation recalculated based on the rates prescribed in its order no.35/2017-18. This was objected by DAFFPL and in the reply to the comments on user consultation, the Authority observed that "the Agreement can be extended and hence have a life more than the period of agreement. If the agreement ends in the last control period, and is not getting extended by the Airport Operator, then the Authority would take in to account the write off for such assets during that control period." This stand was also upheld by the Hon'ble TDSAT in their judgment dated 27th September 2019.

5.8.2 The Authority proposes to recalculate the depreciation as per details given below. Even though DAFFPL treats the Dead stock as a depreciable asset in their books, the MYTP has been submitted without considering the depreciation on dead stock which is in line with the stand of the Authority to treat it as a non depreciable asset.

Table no.38 Useful life and Depreciation rates proposed to be considered by the Authority during for the third control period at consultation stage

Particulars	Useful life of Assets (years) as per Order No. 35/2017-18	Depreciation rate as per Order No. 35/2017-18
Building	60	1.67%
Roads	5	20%
Plant & Machinery	15	6.67%
Furniture	10	10%
Vehicles	8	12.50%
Office Equipment	5	20%
Computers	3	33.33%
Electrical Installations	10	10%

5.8.3 The depreciation recalculated by applying the above rates which is proposed to be considered by Authority for the third control period is given below:

Table no. 39 Depreciation amount proposed to be considered by the Authority for the third control period at consultation stage

Particulars (Rs. In lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
As submitted by DAFFPL	2073.00	2278.00	4485.00	4505.00	4516.00	17857.00
Revised Depreciation as per Authority	1822.00	1887.00	3795.14	3796.85	3806.13	15107.12

5.8.4 The Authority also proposed to true up the depreciation considered based on actuals at the time of tariff determination for the next control period, subject to the same corresponding to the efficient capex considered by the Authority for the third control period.

5.9. **Stakeholder's comments on Depreciation for Third Control Period**

5.9.1 **DAFFPL's comments on Depreciation for the Third Control Period**

(a) **Useful life of Assets in line with the concession period**. DAFFPL wish to submit that at the end of the concession period it has to transfer all assets at NIL cost to Airport operator. Accordingly, the useful life of any assets of DAFFPL would be maximum up to the end of concession period which is ending on 30th June 2035.

- As per the 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". The same has also been recommended by Authority in their order no 35/2017-18, where para 3.1 and 3.2 clearly state that "for the purpose of identifying the balance useful life, balance period remaining 01l/ of the initial lease period plus the first extension at the option of/he operator should be considered. If the period of useful life of assets is considered differently, the Airport operator shall provide reasons / justification and basis for the period considered in determining the useful life of the assets for the purpose of tariff determination which shall be examined and considered by the authority".

- Based on literal interpretation of the above order, it is clearly stated that the higher useful life would be considered only "if the option to extend the lease period is at the option of the operator". However, as per the Concessionaire Agreement with the Airport operator DAFFPL doesn't have such option available with it. Therefore, we request Authority to consider useful life of assets as per the life given in the companies' act, 2013 or till the end of concessionaire agreement whichever is earlier. This will also save reconciliation issues regarding depreciation as per the Authority and DAFFPL books and rationalised impact of depreciation which would become substantially more in the last control period (i.e., FY2031-2036) and simultaneously impact FIC charges of the last control period. If the Authority proposed useful life to be considered than it would have more burden on the consumers of the last control period. Just to have a better perspective, it may be seen that the likely depreciation charges during the last control period (2031-35) shall be as given below:

Depreciation (in lacs)	2031-32	2032-33	2033-34	2034-35	2035-36	Total
As per DAFFPL books	2,878	2,868	2,868	2,681	2,545	**13,841**
As per AERA order	2,286	2,276	2,275	2,275	10,562	**19,673**

- The above table compares: (i) depreciation charges are as per DAFFPL (till the end of concession period); and (ii) depreciation charges are as per Authority. There would be additional impact of Rs.5,832/- lacs on the consumers in the last control period in form of additional FIC charges.

- In view of above, DAFFPL request the Authority to consider useful life of the Assets to the extent of concession period and allow depreciation charges as per DAFFPL MYTP submission, as this would ensure the impact of depreciation on tariffs more uniformly.

(b) **Useful life of Building**. As per the Second Control Period Order, the Authority has considered the useful life of buildings as 30 years (ref table no.7 & 8 on page no 14 & 15 of the 2nd control period order). However, while calculating depreciation for true-up of second control period and FIC charges for the Third Control Period, the Authority has proposed to charge depreciation considering useful life of building as 60 years. The Authority may note that the Authority's internal Order No. 35/2017-18, dated 09 April 2018 states that the useful life of building may be 30/60 years as evaluated by the Airport Operator. Additionally, In DAFFPL's case the fuel farm facility is operational in 3 shifts 24x7. In view of round the clock and multi shift operations, the Authority is requested to re-consider the useful life of buildings as 30 years, which is also in line with the useful life mentioned in the Companies Act, 2013.

5.9.2 **GMR's comments on Depreciation for the Third Control Period**

(a) 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.

(b) 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 dated. 9th April'2018 has categorically captured the balance useful life of the asset in case of restrictive lease period:

(c) 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.

(d) 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.

(e) 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.

5.9.3 **IOCL's comments on Depreciation for the Third Control Period**

As the concession period of DAFFPL is left to 13 years only & DAFFPL is expected to transfer its facility once concession period is over, hence for the purpose of calculation of depreciation, the useful life may be considered only up-to the validity of concession period.

5.9.4 **MAFFFL's comments on Depreciation for the Third Control Period**

(a) 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.

(b) 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.

5.9.5 **IATA's comments on Depreciation for the Third Control Period**

IATA fully supports the adoption of useful life and depreciation rates for various assets owned by DAFFPL in line with the Authority's order No. 35/2017-18.

5.10. **DAFFPL's response to Stakeholder's comments on Depreciation for the Third Control Period**

5.10.1 We agree with the views of GMR, IOCL and MAFFFL.

5.10.2 As far as the IATA's comment is concerned, As provided by the other stake holders and as per Authority's order No. 35/2017-18 at clause 3.2 of the amendment no.1. the balance useful life of the assets have been categorically captured in case of restrictive lease periods. DAFFPL has also considered depreciation considering useful life of assets till the end of concession period in its MYTP submission.

5.11. Authority's Analysis on Stakeholder's comments on Depreciation for the Third Control Period

5.11.1 **Useful life of Assets in line with the concession period** The Authority noted the comments of stakeholders. The Authority had taken a stand that the balance of Depreciation remaining unabsorbed will be considered in the last control period. This stand was also upheld by the Hon'ble TDSAT in their judgment dated 27.09.2019 in respect of Second Control Period of DAFFPL and observed that Considering practical possibilities of extension because there is no bar, we find no error in the view taken by the Authority to grant depreciation in line with the provisions of Companies Act while keeping option of writing off such assets during the relevant period in case the agreement is not extended by DIAL. Therefore no change is considered in the life of assets.

5.11.2 **Useful life of Building** the Authority notes that in the Second Control Period Order (Order No 32/2017-18 dt 18.12.2017) the rate of depreciation was considered as 3.33% and the life of buildings as 30 years. However in the CP it was proposed that the life of building would be considered as 60 years in line with the CP issued in respect of MAFFFL.

5.11.3 As per order No 35/2017-18 dt 12.01.2018, the life of the building would be considered as 30 years or 60 years as evaluated by the airport operator.

5.11.4 Since DAFFPL has requested to .consider the life of buildings as 30 years because of 24 x 7 multi shift operations, it is decided to consider the same.

5.11.5 Considering the life of buildings as30 years the depreciation re-worked for the third control period is given below:

Table no. 40 Revised Depreciation considered by the Authority for Third Control Period

Particulars (Rs. In lakhs)	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Depreciation at CP stage	1822.00	1887.00	3795.14	3796.85	3806.13	15107.12
Addl Depreciation	29.00	29.00	29.00	34.00	34.00	155.00
Total	**1851.00**	**1916.00**	**3824.14**	**3830.85**	**3840.13**	**15262.12**

5.12. Financing Allowances

Authority's Analysis of Financing Allowances at consultation stage.

5.12.1 The Authority noted that DAFFPL had 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.

5.13. Stakeholder's comments on Financing Allowance for Third Control Period

5.13.1 GMR's comments on Financing Allowance for the Third Control Period

(a) 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.

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

(c) 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....

(d) 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.

5.13.2 **BPCL's comments on Financing Allowance for the Third Control Period**

(a) DAFFPL is required to invest a huge Capital in the 3rd control period as the Open Access Fuel Farm facility is required to be extended to Terminal I of the IGI Airport, New Delhi.

(b) AERA vide point No. 5.5.5 has not considered financing allowance on the Equity portion of the fund to be invested and considered IDC only on the debt portion. Financing allowance on the Equity portion of the fund to be invested by DAFFPL may also be considered for FIC calculations.

5.13.3 **MAFFFL's comments on Financing Allowance for the Third Control Period**

(a) 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. 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 is no return on equity for the period the expenditure is incurred on the capital asset and the asset is capitalized.

(b) In view of the above, DAFFPL has claimed Financing Allowance equal to FRoR on equity portion of capital employed for this period, therefore, we feel Authority should reconsider this proposal.

5.13.4 **DAFFPL's comments on Financing Allowance for the Third Control Period**

(a) DAFFPL has undertaken project for building Fuel Hydrant System at terminal-I which will take few years for commissioning / ready to use. Till such time DAFFPL funds will be blocked in CWIP and would not be eligible for return. DAFFPL will start getting return on this asset only when assets is completed and becomes part of RAB (regulatory assets base).

(b) Based on the financing arrangement, the project is financed thru 70% debt and 30% Internal funds (equity) . Although Authority has allowed cost of debt as part of CWIP but has not considered financing allowance on the equity portion of 30% blocked for project construction period.

(c) Additionally, DAFFPL would like to state that as per AERA Guidelines dated 10 January 2011 CWIP assets are assets that have not been commissioned during a tariff year or control period. Further as per Guidelines, CWIP assets shall be accounted for as:

- Capital Expenditure (Capex); and
- Financing Allowance

(d) Since DAFFPL has planned to contribute 30% of cost of project from its own fund (equity), DAFFPL should be allowed financing allowance on the equity portion of the fund invested at "cost of equity" or else, at the minimum, DAFFPL should be compensated with the opportunity cost equivalent to cost of debt to arrive at the CWIP of the assets for the respective tariff years in line with the AERA Guidelines.

5.14. **DAFFPL's response to Stakeholder's comments on Financing Allowance for the Third Control Period**

5.14.1 We agree with the views of GMR, BPCL and MAFFFL

5.15. **Authority's Analysis on Stakeholder's comments on Financing Allowance for the Third Control Period**

5.15.1 The Authority notes that the equity investment for the new project is largely through internal accruals instead of direct equity infusion by its Shareholders. Thus the Authority is of the view that the locked up equity in CWIP cannot be given the assured return of cost of debt.

5.15.2 The Authority is of the view that the Independent Service Provider would also have to bear some risk. The Authority also have disallowed financing allowance uniformly in respect of Airports who are already developed and mature thereby having less risk. In this background, the Authority decided not to allow Financing Allowance for the third control period.

5.16. **Regulatory Asset Base (RAB):**

Table no. 41 CWIP re-calculated by the Authority for the third control period at consultation stage.

Particulars (in Rs. Lakhs)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Opening CWIP	11,294	17,684	26,568	0	0	
Capex during the period	7,275	9,789	3,725	300	200	21,289
Commissioned assets	(885)	(905)	(30,293)	(300)	(200)	(32,583)
Closing CWIP	**17,684**	**26,568**				

5.16.1 The revised RAB after considering the depreciation recalculated in Table no.31 the revised RAB worked out is given below:

Table no. 42 Regulated Asset Base proposed to be considered for third control period by the Authority at consultation stage

Particulars (in Rs. Lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Opening RAB	13501.84	12,584.84	11,582.84	38,080.70	34,583.85	
Add: Asset Capitalization	885.00	905.00	30,293.00	300.00	200.00	32,583.00
Less: Depreciation	1,822.00	1,887.00	3,795.14	3,796.85	3,806.13	15,107.12
Closing RAB	**12,584.84**	**11,582.84**	**38,080.70**	**34,583.85**	**30,977.72**	
Average RAB	**13,043.34**	**12,083.84**	**24,831.77**	**36,332.275**	**32,780.785**	

5.16.2 Considering the revised depreciation calculated at Table No 39 the Regulatory Asset Base considered for the third control period by the Authority is given below :

Table no. 43 Revised RAB considered by the Authority for Third Control Period

Particulars (Rs. In lakhs)	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Opening RAB	13352.84	12386.84	11375.84	37844.70	34313.85	
Add : Asset capitalisation	885.00	905.00	30293.00	300.00	200.00	32583.00
Less : Depreciation	1851.00	1916.00	3824.14	3830.85	3840.13	15262.12
Closing RAB	12386.84	11375.84	37844.70	34313.85	30673.72	
Average RAB	12869.84	11881.34	24610.27	36079.28	32493.79	

5.17. **Right of Use Assets**

5.17.1 For the years 2016-17, 2017-18 and 2018-19 DAFFPL had treated the land lease payments to the Airport Operator as a part of Operating Expenses. From the year 2019-20 onwards this has been shown as Right of Use Assets (Lease Assets) and included in the RAB. Accordingly depreciations is also claimed on the same. DAFFPL has disclosed the same in their Annual Report (2019-20) as given below:

"The Company's lease asset classes primarily consist of leases for land. The Company, at the inception of contract, assesses whether the contract is a lease or not lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a time in exchange for a consideration. This policy has been applied to contracts existing and entered on or after April 1 , 2019 based on applicability of IndAS 116-Leases.

The Company recognizes a right to use asset and a lease liability at the lease commencement date for lease which is previously classified as operating lease. The right-of-use asset is initially measured at an amount equal to the lease liability. The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. It is re measured when there is a change in in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise purchase, extension or termination option. When the lease liability is re measured in this way, a corresponding adjustment is made in the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero."

5.17.2 The purposes of the Standard are to set out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

5.17.3 It may be noted that the Authority determines the tariff under price cap mechanism whereby the tariff is determined based on the actual cost/expenditure incurred in providing the service and a reasonable return/profit on amount invested in creation of the infrastructure for providing service. DAFFPL has valued and capitalized the cost of leased land base on IndAS accounting guideline. The land value has been depreciated and the depreciation is charged as expenses which may be different from actual lease amount paid to the owner of the land. The Authority calculates the cost on actual cost to be paid to the land owner and not on book entry system under IndAS standard. Accordingly the Authority has considered the lease amount under operating cost and not considered the depreciation on leased land value as done by DAFFPL.

5.18. **Stakeholder's comments on Right of Use Assets for Third Control Period**

5.18.1 **DAFFPL's comments on Right of Use Assets for the Third Control Period**

(a) Since, DAFFPL is required to prepare its Financials in compliance with Ind-AS, and Companies Act, 2013 and as per the Direction 4 and Direction 5 of AERA, MYTP has to be prepared based on Audited Financials of the Company. Therefore, in the MYTP submission, DAFFPL has considered depreciation and Fair Rate of Return (FROR) on the lease asset considering it as a part of Regulatory Asset Base (RAB).

(b) It may also be noted that going forward, Financial Statements would be prepared using the Ind-AS, as applicable and keeping track of balances using IGAAP Financial [erstwhile reporting method] may not be practically possible.

(c) Therefore, we request the Authority to re-consider the approach of considering Financials as per Ind AS 116 for Lease assets.

5.18.2 **IOCL's comments on Right of Use Assets for the Third Control Period**

(a) We understand Ind AS is the new accounting methodology being followed by the companies, hence the same may also be considered for this case also.

(b) The above may be considered in order to maintain positive cash flow to enable them to maintain the high Quality and safety standard as desired by industry.

(c) However, the order may be issued for Fuel Infrastructure Charges on prospective basis only from the first day of subsequent month in which AERA issues the order.

5.18.3 **MAFFFL's comments on Right of Use Assets for the Third Control Period**

(a) 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.

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

5.18.4 **IATA's comments on Right of Use Assets for the Third Control Period**

IATA agrees with AERA that including the lease amount paid to the landowner under operating expense more appropriate treatment than depreciation on the value of the leased land. Therefore, we request the Authority to re- consider the approach of considering Financials as per Ind AS 116 for Lease assets.

5.19. **DAFFPL's response to Stakeholder's comments on Right of Use Assets for the Third Control Period**

5.19.1 We agree with the views of IOCL and MAFFFL.

5.19.2 As far as the IATA's comment is concerned, we would like to submit that treatment of lease rent as per Ind AS will rationalize Fuel infrastructure charges of all the control periods.

5.20. **Authority's Analysis on Stakeholder's comments on Right of Use Assets for the Third Control Period**

5.20.1 The Authority determines tariff under price cap mechanism whereby the tariff is determined based on actual cost / expenditure incurred in providing the service and reasonable returns / profit on amount invested in creation of the infrastructure. DAFFPL has valued and capitalized land rent payable during the concession period based on Ind AS accounting guidelines and the land value has been depreciated and depreciation is charged as expenses which may be different from actual lease amount paid to the owner of the land. The Authority calculates the cost on actual cost paid to the land owner and not on book entry system under Ind AS. Accordingly the Authority has considered the lease amount under Operating Expenses

5.20.2 The Authority notes that pass through of an expenditure cannot be more than the actual cost/ outflow. Since the actual cost is allowed as Opex, there is no loss to the operator

5.21. **Authority's Decision regarding RAB and Depreciation for the Third Control Period**

Based on the material before it and based on its analysis, the Authority proposes the following regarding RAB and Depreciation for the Third Control period:

5.21.1 The Authority decides to consider the revised depreciation for the third control period as per Table no.40.

5.21.2 The Authority decides to consider the Regulated Asset Base of DAFFPL for the third Control period as per Table no.43.

5.21.3 The Authority decides to true up Depreciation, RAB and during the Tariff determination for the fourth control period.

5.21.4 The Authority, in order to ensure that DAFFPL adheres to the Capital Expenditure plan, proposes to reduce 1% of the non-capitalized CAPEX from ARR / Target Revenue, as re-adjustment, in case any particular CAPEX is not completed as per the Capitalization schedule, in the True-up exercise for the 3rd Control Period during determination of tariff for the Next Control Period.

5.21.5 The Authority proposes that the lease payments made to the airport operator will be treated as operating expenses during the third control period.

CHAPTER 6. FAIR RATE OF RETURN FOR THE THIRD CONTROL PERIOD

DAFFPL has submitted the following regarding Fair Rate of Return during the Third Control Period:

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

Table no.44 FRoR adopted by DAFFPL for the Third Control Period

Particulars (in Rs. Lakhs)	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
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)."

The CAPM model states that:

$Re = Rf + \beta(Rm - Rf)$

Where,

Re is the cost of equity;

Rf is the risk-free rate;

β is the market volatility; and

Rm is the market risk

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

Table no.45 Basis for Cost of Equity as submitted by DAFFPL.

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	8.06%	Equity Risk Premium (ERP) was derived as the simple average of

Premium		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

6.4. 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 61perati service provider in India, suitable beta value for DAFFPL's operations cannot be arrived at.

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

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

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

6.5.3 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;

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

6.5.5 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;

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

6.6. Due to the higher levels of risk involved in DAFFPL's operations, business conditions, and environment, DAFFPL proposes 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

6.7. 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

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

Table no.46 DE Ratio during Third Control Period as submitted by DAFFPL

Particulars (in Rs. Lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Debit to equity ratio	0.34	0.37	0.31	0.22	0.14

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

Table no.47 FRoR during the Third Control Period as adopted by DAFFPL

Particulars (in Rs. Lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
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%**

Authority's examination of the Fair Rate of Return for the Third Control Period at consultation stage:-

6.10. **Cost of Equity**

6.10.1 DAFFPL has claimed a return on equity of 18% citing various risk factors as perceived by them. They are:

- Fuel is a dangerous good and storage and handling fuel involves various procedures to be followed.
- The service provided is an essential service in a vulnerable area
- DAFFPL depends on airport operator for utilities and other services. Any failure will affect the services provided by DAFFPL.
- Varying state policies and taxes need to be dealt with
- Execution of integrated fuel farm project requires more precautions and clearances
- The proposed Noida green field international airport will affect the traffic and hence poses more risk.

6.10.2 DAFFPL is the only fuel farm service provider at Delhi Airport. There is no competition within the airport and the contention of DAFFPL about higher market risk is an exaggeration. The Authority considered a return on equity at 14% during the tariff determination for the second control period. This was challenged by DAFFPL at TDSAT. Hon'ble TDSAT upheld the decision of the Authority in its order dated 27th September 2019. Further the same rate is being considered for the fuel farm operators operating at other major airports. Therefore, the Authority proposes to consider the cost of equity at 14% for the third control period.

6.11. **Cost of Debt**

6.11.1 Cost of loan sanctioned by the State Bank of India has been reduced to 7.05% since November 2020. For the third control period DAFFPL has assumed a rate of 8.05% on the assumption that the rate of interest may go up once Covid is over. The process for tariff determination provides for truing up all the building blocks of tariff determination in the subsequent control period. The short or excess recovery is adjusted along with the carrying cost. Therefore the Authority proposes to adopt 7.05% as the cost of debt for the third control period.

6.12. **Fair Rate of Return**

6.12.1 After considering the cost of equity at 14% and cost of borrowing at 7.05% the proposed FroR for the third control period is worked out below:

Table no.48 Revised FroR proposed to be considered by the Authority for the third control period at consultation stage

Particulars (Rs.in lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26
Equity	27505	34054	38156	43251	49080
Debt	9470	12743	11786	9428	7071
Total	36975	46797	49942	52679	56151
Equity %	74.39%	72.77%	76.40%	82.10%	87.41%
Debt %	25.61%	27.23%	23.60%	17.90%	12.59%
FroR					
Equity	10.41%	10.19%	10.70%	11.49%	12.24%
Debt	1.81%	1.92%	1.66%	1.26%	0.89%
Total	**12.22%**	**12.11%**	**12.36%**	**12.75%**	**13.13%**
Average FRoR	**12.51%**	**12.51%**	**12.51%**	**12.51%**	**12.51%**

6.12.2 The Authority proposes to consider the average rate of 12.51% for the third control period for calculating the discounting factor.

6.13. **Stakeholder's comments on FRoR for Third Control Period**

6.13.1 **MAFFFL's comments on FRoR for the Third Control Period**

(a) **Cost of Equity**. 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%.

(b) 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.

(c) In view of the above, we request the Authority to reconsider our proposal and allow cost of equity at least equal to that considered in case of Airport Operator of IGI Airport (i.e., DIAL).

6.13.2 **DAFFPL's comments on FRoR for the Third Control Period**

(a) **Cost of Equity**.

- The Authority has proposed to maintain cost of equity at 14% in case of DAFFPL whereas in case of IGI Airport operator, the Authority has considered cost of equity @15.41% in their tariff order for 3rd control period (order no. 57/2020- 21) based on an independent study by IIM Bangalore. We also observe that in ca se of MIAL, the Authority has considered at cost of equity @15.13%.
- DAFFPL's major investments arc involved in developing Airport related infrastructure, and it has high fixed costs as any airport operator would have. Hence, DAFFPL is also subject to all the risks that an airport operator is subjected to. In addition, DAFFPL is a much smaller company compared to DIAL and MIAL, and also has a single source of revenue (FIC which is totally depending on fuel volumes) unlike airport operators which arc much larger companies with more diversified revenue streams. Moreover, as DAFFPL is dealing with hydrocarbons, which are subjected to tighter regulations by statutory bodies like PESO etc. and carry a higher additional risk associated with handling of hydrocarbons

(b) **Application of FRoR rate for computing Return on RAB**

- The Authority has calculated return on RAB using "respective year FRoR rate" and for computation of discounting factor, the Authority has considered "average FRoR rate" in the consultation paper. This has resulted in 2 different approaches for computation of ARR to DAFFPL. DAFFPL would like to submit that as per AERA Guidelines 2011, dated 10th January 2011 calculation of return on RAB is to be considered based on "average FRoR rate".
- It may be further noted that the Authority has also considered "average FRoR rate" for calculation of return on RAB in the DAFFPL' s second control period order (refer table no.18 page 32).

6.14. **DAFFPL's response to Stakeholder's comments on FRoR for the Third Control Period**

6.14.1 We agree with the views MAFFFL.

6.15. **Authority's Analysis on Stakeholder's comments on FRoR for the Third Control Period**

6.15.1 **Cost of Equity**.

(a) The Authority considers that there should be efficient use of capital with adequate gearing, so that the benefit from lower cost of borrowing will lead to an optimum tariff.

(b) Comparison of mere cost of equity of different entities may not be appropriate since the effective FRoR for DIAL is still below the FRoR considered for DAFFPL.

(c) The Hon'ble TDSAT also observed in the judgment dated 27.09.2019 regarding DAFFPL that the return of 14% on equity is reasonable.

(d) Considering the above, the Authority decides to retain the cost of equity at 14%

6.15.2 **Application of FRoR rate for computing Return on RAB**

The Authority observes that the adoption of "respective year FRoR rate" will give more accurate calculation of NPV by capturing the time value of money. Therefore, this can not be said to be against the AERA guidelines.

6.16. **Security Deposit**

6.16.1 DAFFPL had submitted security deposit to the Airport Operator as a precondition for the award of Building and Operating the Fuel infrastructure facility at Delhi Airport. Since the security deposit is not used in the business of the service provider, the Authority in its order no.32/2017-18 dated 18th December 2017 relating to the second control period decided to allow a return to cover the inflation. This was challenged by DAFFPL in Hon'ble TDSAT. In their judgment dated 27th September 2019 observed that " *While the equity money has to be used necessarily for the operation of the required service or activity, in the present case the security deposit has no such purpose and therefore only on account of an unusual and peculiar arrangement between DIAL and the appellant, it would be unfair to other stakeholders who pay for such aeronautical service relating to fuel farms to compensate the appellant for a deposit which is not related to the operations of fuel farm and cannot be considered as a part of RAB. In such a scenario, the nominal return on account of inflation cannot be held to be arbitrary or inadequate*." Since the decision of the Authority has been upheld and there are no fresh grounds for reconsideration, it is proposed to continue with the nominal rate of return (5%) allowed in the second control period for the true up of the third control period.

6.16.2 DAFFPL in their Annual Report for the year 2019-20 disclosed that "Security Deposit has been valued at fair value at initial recognition and will be measured at amortised cost considering Effective Interest Rate (EIR) method. With respect to the impact of the valuation at the time of initial recognition, the company has treated the same as Prepaid Expenses and has write off the same on straight line basis for remaining period of concession & operating agreement."

6.16.3 Even though DAFFPL had requested a return on the fair value calculated (which is lesser than the actual amount), the amortization of security deposit (as a part of depreciation and amortization) is also being claimed. In order to provide transparency and allow the actual costs to be included in the tariff determination it is proposed to provide the nominal return on the actual amount of deposit outstanding.

6.16.4 The year wise security deposit and return on the same proposed to be considered for the third control period are given below:

Table no.49 Return on SD proposed by DAFFPL for the Third Control Period.

Particulars (Rs. In lakhs)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Security Deposit at Fair value	4650.00	3659.00	2573.00	2818.00	3086.00	**16786**
Amount claimed as return by DAFFPL	741.00	583.00	410.00	449.00	492.00	**2675**
Amortisation of SD	609.00	270.00	270.00	270.00	270.00	**1689**
Total amount	**1350.00**	**853.00**	**680.00**	**719.00**	**762.00**	**4364.00**

Table no.50 Return on SD proposed to be considered for the Third Control Period by the Authority at consultation stage.

Particulars (Rs. In lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Actual SD	16245.74	7500.00	7500.00	7500.00	7500.00	46245.74
Return @ 5% on actual SD	**812.29**	**375.00**	**375.00**	**375.00**	**375.00**	**2312.29**

6.17. Stakeholder's comments on Security Deposit for Third Control Period

6.17.1 GMR's comments on Security Deposit for the Third Control Period

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.

6.17.2 DAFFPL's comments on Security Deposit for the Third Control Period

(a) DAFFPL would like to 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 cash flow significantly

(b) Furthermore, Authority has considered Interest free security deposit received by IGI Airport Operator" from various Airport service provider(s) as notional debt and accordingly debt rate has been allowed. Therefore, DAFFPL request the Authority to allow opportunity cost at least equivalent to debt rate on the security deposit instead of nominal return of 5%.

6.18. DAFFPL's response to Stakeholder's comments on Security Deposit for the Third Control Period

6.18.1 We agree with the views GMR.

6.19. Authority's Analysis on Stakeholder's comments on Security Deposit for the Third Control Period

6.19.1 The Authority notes that the nominal return of 5% on the Security Deposit was allowed in the Second Control Period tariff order. This was upheld by the Honble TDSAT in their Order dt 27.09.2019 relating to SCP of DAFFPL. Honble TDSAT in their order dated 27th September 2019 observed, "..on a deeper analysis it is found that while equity money has to be used necessarily for the operation of the required service or activity, in the present case the security deposit has no such purpose and therefore only on account of an unusual and peculiar arrangement between DIAL and the applicant, it would be unfair to other stakeholders who pay for such Aeronautical Service relating to Fuel Farms to compensate the appellant for a deposit which is not related to the operations of the Fuel Farm and cannot be considered as a part of RAB. In such scenario, the nominal return on account of inflation can not be held to be arbitrary or inadequate."

6.19.2 There is no change in the situation. Therefore the nominal return is considered inadequate

6.20. **Authority's Decisions regarding FRoR for the third control period**:

Based on the material before it and based on its analysis, the Authority decides the following regarding the FRoR for the third control period:

6.20.1 The Authority decides to maintain the cost of equity at 14% for the third control period

6.20.2 The Authority decides to adopt the cost of debt at 7.05% for the third control period

6.20.3 The Authority decides to adopt the revised FRoR as calculated in Table no.48 for the Third control period.

6.20.4 The Authority decides to maintain the return on Security Deposit at 5%

6.20.5 The Authority decides to adopt the security deposit amount as per Table no.50

6.20.6 The Authority also decides to true up FRoR during the tariff determination for the fourth control period.

CHAPTER 7. O&M FOR THE THIRD CONTROL PERIOD

DAFFPL submitted the following details regarding Operating Expenses during the Third Control Period:

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 no.51 Details of Operating Expenses for the Third Control period as submitted by DAFFPL

S No.	Particulars (in Rs. Lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
A	Employee expenses	193	212	233	256	282	1176
B	Operating expenses	2,246	2,461	2,813	3,071	3,353	13,944
C	Other expenses	176	194	253	278	306	1207
F	CSR	60	46	67	126	142	441
G	**Total**	**2,675**	**2,913**	**3,366**	**3,731**	**4,083**	**16,768**

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

Table no.52 Assumption made by DAFFPL in projecting Opex

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.

7.5. 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.

7.6. **Authority's examination of the Operation & Maintenance Expenditure for the Third Control Period at consultation stage:-**

7.6.1 Employee Expenses: DAFFPL has projected a year on year increase of 10%. It has not considered the effect of austerity measures adopted due to Covid. The Authority expects that suitable cost control measures will be taken by DAFFPL in the prevailing situation when the business volumes are not increasing. The Authority proposes an increase of 7.5% year on year in respect of employee expenses for the third control period.

7.6.2 Operating Expenses: The Fuel Farm Operating expenses are reduced from the FIC revenue and only the net revenue is shown in the accounts. Generally this expense should vary in line with the volume handled. However it is found there was no reduction in the year 2021-22 due to the Covid situation and an increase of 25% is considered by DAFFPL over 2020-21. Subsequently 10% is considered in 2022-23 and 14% increase during 2023-24 due to operationalization of T-I project. In the next 2 years 9% increase has been considered.

7.6.3 It is observed that the projection for 2021-22 is on the high side. The Authority proposes that the base year figure for 2021-22 will be projected after increasing 10% over the previous year. Increase during the third control period is proposed at 8% year on year except 2023-24. During 2023-24 an increase of 12% is proposed due to increase in the area of operation.

7.6.4 Other Expenses : DAFFPL has projected an increase of 10% every year except 2023-24. During 2023-24 an increase of 30% is considered to accommodate increased cost of insurance expenses after commissioning T-I works. It is proposed to maintain the year on increase at 10% except 2023-24 during which an increase of 20% is considered.

7.6.5 Lease Expenses : DAFFPL has treated this expenses as right to use assets. As explained above, the Authority proposes to consider the same as operating expenses. In line with the contractual obligations, with a year on year increase of 7.5% is proposed.

7.6.6 CSR Expenses : This will be regulated as per the PBT estimated during the estimate of ARR recoverable during the third control period.

7.7. The revised Operating expenses proposed for the third control period at CP stage are given below:

Table no.53 Operating Expenses including CSR proposed to be considered by the Authority for the Third Control Period at consultation stage

Particulars (Rs. In lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	**Total**
Employee Expenses	193.00	207.48	223.04	239.77	257.75	**1121.04**
Operating Expenses	1978.90	2137.21	2393.68	2585.17	2791.98	**11886.94**
Other Expenses	176.00	193.60	232.32	255.55	281.10	**1138.57**
Interest on working capital loan	56.00	0	0	0	0	**56.00**
CSR	76.43	39.66	19.15	24.90	15.47	**175.61**
Sub Total	**2480.33**	**2577.95**	**2868.19**	**3105.39**	**3346.3**	**14378.16**
Lease Expenses	2461.56	2646.18	2844.65	3057.99	3287.34	**14297.72**
Grand Total	**4941.89**	**5224.13**	**5712.84**	**6163.38**	**6633.64**	**28675.87**

7.8. Stakeholder's comments on Operating Expenses for Third Control Period

7.8.1 FIA's comments on Operating Expenses for the Third Control Period

(a) **Review of Operational Expenditure**

- FIA is unaware as to whether DAFFPL has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by DAFFPL impacts the airlines, as such cost is passed through or borne by the airlines. The Authority may like to advise DAFFPL to re-negotiate all the cost in a significant manner and address any increase in fees sought by DAFFPL.
- In view of the industry reports from IATA and CAPA, which foresee a minimum period of two (2)-three (3) years for air traffic and flight operations to reach Pre COVID-19 levels, we request that the Authority should put on hold any increase in such expenditure. Further, the Authority should instruct DAFFPL to review its spending on these heads and take immediate steps to reduce and control its expenditure, especially when airlines are currently only operating 40 - 50% of overall size. Further, DAFFPL should be directed to pass on such cost benefits to the airlines.

(b) **Employee Expenses**

- While the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, and are not able to pay even to the support staff, on the other hand DAFFPL seems to have paid full salaries to its staff including annual increments which is completely unheard of, in the same aviation sector. It appears that DAFFPL wants to recover its full employee cost from the airlines, which are not even able to pay salaries to their support staff. In our view, DAFFPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years.

(c) **Operating Expenses and other expenses**

- FIA stated that rather than significant reduction in cost items of operating expenses (in para 7.6.2 of the CP), DAFFPL is proposing a 'Year on Year' increase between 9% and 25%, whereas the Authority is considering an increase between 8 to 12% in the name of escalation in a highly uncertain environment where we are just operating at approx. 40-50% of the pre Covid-19 levels. Similarly, in section 7.6.3, other expenses, DAFFPL is proposing a Year-on-Year increase between 10% and 30%, whereas the Authority is also considering an increase between 10 to 20% in the name of escalation.
- It may be noted that rather than escalations, across industries all the costs have been renegotiated downwards substantially. DAFFPL needs to significantly reduce all such costs in a very aggressive manner. DAFFPL may be advised to reduce its cost by at least 35% and no escalation should be permitted.

(d) **Review of Tendering Process**

- Authority should ensure that in the tendering process adopted by DAFFPL, the tenders are awarded to only those parties which provide the competitive costs with best-in-class services. Any attempt to award the contracts on the highest revenue share basis to DAFFPL should be discouraged. It is general perception that DAFFPL has no incentive to reduce their expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

7.8.2 **IATA's comments on Operating Expenses for the Third Control Period**

Notwithstanding TDSAT's decision to include CSR as operating cost, there should be objective criteria formulated to ensure the reasonableness of the amount of CSR expenses. While the Authority has proposed a lower annual increase in employee expense of 7.5% from 2021, there has not been a necessary downward adjustment to the base employee cost to reflect the lower business activity (and hence lower employee number) since 2020 due to the impact of COVID. The same rationalization of the base cost for Employee Benefits should also be undertaken.

7.8.3 **DAFFPL's comments on Operating Expenses for the Third Control Period**

(a) The Authority may note that around 90% of the operating expenses that DAFFPL incurs are fixed in nature and are not directly linked to the volumes. As a result, the operating expenses will not reduce due to the impact of Covid-19/volume. Moreover, DAFFPL would like to bring to the notice of the authority that because of the pandemic, many works and the related costs of FY2020-21 have been deferred to FY202 1-22, thereby increasing the operating expenditure of DAFFPL. Further, being an old fuel farm (constructed somewhere in year 1985), major expenses are incurred on regular maintenance activities to ensure safety of the plant and smooth operations.

(b) For above expenses Authority has ignored DAFFPL projections and considered FY 2020-21 as base year for future year projections. DAFFPL would like to reiterate that FY 2020-21 being an exceptional year due to Covid pandemic, some of the expenditures as mentioned above were deferred to next period or wherever possible reduced to the minimum level. Therefore, DAFPPL would request authority to consider Operating expense cost as per DAFFPL MYTP submission or else at the minimum consider escalation based on FY2019-20 instead of FY 2020-21.

7.9. **DAFFPL's response to Stakeholder's comments on Operating Expenses for the Third Control Period**

7.9.1 As far as the FIA's comment is concerned, DAFFPL would like to submit that wherever possible, DAFFPL has undertaken cost cutting measures including renegotiations of all the cost items without compromising the quality of service and safety of operations..

7.9.2 As far as the IATA's comment is concerned, We would like to submit that CSR expenses is governed in terms of the provision of the Companies Act 2013, and the CSR expenses are based on provision of Companies Act only.

7.9.3 DAFFPL would like to submit its endeavor to minimize employee expense. Wherever possible, the expenses have been reduced in order to cope up with current impact of COVID on the business activity. The minimal % of hike in employee cost is required to retain good and talent resources, which are required in the fuel industry. As the same is categorized as a hazardous industry, due to highly inflammable nature of the product which is handled by these people on daily basis.

7.9.4 As far as the FIA's comment on review of tendering process is concerned, as per the current tendering process of DAF FPL, the tenders are awarded to parties submitting the lowest cost/bid, meeting the eligibility criteria within the defined tender scope of work.

7.10. **Authority's Analysis on Stakeholder's comments on Operating Expenses for the Third Control Period**

7.10.1 The Authority observes that after due examination, only reasonable escalation on costs have been considered.

7.10.2 DAFFPL has also confirmed that 90% of the operating expenses are fixed in nature and not directly linked to volumes. Further, the operating expenses will be trued up during the tariff determination for the next control period.

7.10.3 As far as FIA's comments on Tendering Process is concerned, the Authority notes that DAFFPL is subject to audit by Comptroller and Auditor General of India. Since their processes are vetted by them, there is already a mechanism to ensure only the lowest cost tenders are accepted.

7.10.4 Therefore, the Authority decides not to consider any change in the Operating Expenses from the consultation stage. However, the CSR expenses are based on the profit before tax in the previous three years. Therefore, the CSR expenses have been changed as per the revised profitability based on the changes made in the building blocks of tariff determination.

7.11. Authority's decision regarding Operating Expenses for the Third Control Period

Based on the material before it and based on its analysis, the Authority decides the following regarding O & M expenses for the Third Control Period:

7.11.1 The Authority decides to consider the Operating and Maintenance expenditure as per Table no.53

7.11.2 The Authority also proposes to true up the Operation and Maintenance expenditure during the tariff determination for the fourth control period.

CHAPTER 8. OTHER INCOME FOR THE THIRD CONTROL PERIOD

8.1.DAFFPL had projected the other for the third control period as given below for the Third Control Period

Table no.54 Other Income projected by DAFFPL for the Third Control Period

Particulars (Rs. In lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Other Income	39	42	45	49	52	227

8.2. **Authority's examination on other income at consultation stage**

8.2.1 DAFFPL had projected the income from rent only as other income. However no uniform growth rate has been adopted.

8.2.2 In the previous control period interest income, income from mutual funds and income on disposal of assets were accounted for. However these items depend on the cash flow and profitability.

8.2.3 Other income is also subject to true up in the next control period.

8.2.4 Therefore the Authority proposes to include the other income in the tariff determination for the third control period by increasing it by 7.5% year on year. The year wise details are given below:

Table no.55 Other Income proposed to be adopted for the Third Control Period by the Authority at consultation stage

Particulars (Rs. In lakhs)	2021-22	2022-23	2023-24	2024-25	2025-26	**Total**
Other Income	40.00	43.00	46.23	49.70	53.43	**232.36**

8.3. During the stakeholder consultation process, the Authority has received no comments / views from stakeholders in response to the proposal of Authority in the Consultation No 12/2021-22 dt 27.07.2021.

8.4. **Authority's decision regarding Other Income for the Third Control Period**

Based on the material before it and based on its analysis, the Authority decides the following regarding other income for the third control period.

8.4.1 The Authority proposes to consider other income as per Table no.55 for the third control period.

8.4.2 The Authority also proposes to true up other income on actual basis during the tariff determination for the Fourth control period.

CHAPTER 9. TAXATION FOR THE THIRD CONTROL PERIOD

DAFFPL had submitted the following in respect Income Tax for the Third Control Period

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 no.56 Income Tax as projected by DAFFPL for the Third Control Period

Particulars	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Adjusted Earning before tax	7,154	9,683	8,333	8,758	9,548	43,476
Add: Book Depreciation	2,135	2,205	4,592	4,612	4,493	18,037
Less: IT Depreciation	(1,189)	(1,133)	(3,366))	(5,214)	(4,466)	(12,002)
Taxable Profit/(Loss)	8,102	10,756	9,559	8,156	9,574	46,147
Taxable Income post set off losses	8,102	10,756	9,559	8,156	9,574	46,147
Corporate Tax	**2,039**	**2,707**	**2,406**	**2,053**	**2,410**	**11,615**

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

9.4. During the stakeholder consultation process, the Authority has received no comments / views from stakeholders in response to the proposal of Authority in the Consultation No 12/2021-22 dt 27.07.2021.

9.5. **Authority's examination of the Taxation for the Third Control Period**

9.5.1 After considering the changes as discussed in the previous pages regarding various building blocks of tariff determination, taking in to account the revised FIC charges, the revised tax liability considered for the third control period is given below:

Table no.57 Income Tax Considered by The Authority for the Third Control Period

Particulars (Rs. In Lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Revised Income	7469.07	7776.02	9921.36	8913.04	7971.87	42051.36
Expenditure (Opex)	4865.46	5184.47	5693.69	6138.48	6618.17	28500.27
Profit before Depreciation	2603.61	2591.55	4227.67	2774.56	1353.70	13551.09
Depreciation - IT	1189	1133	3366	5214	4466	15368
PBT	1414.61	1458.55	861.67	-2439.44	-3112.30	-1816.91
Carried forward loss		0		0.00	-2439.44	-2439.44
Profit subject to Tax	1414.61	1458.55	861.67	-2439.44	-5551.74	-4256.35
Income Tax	356.06	367.12	216.88	0.00	0.00	940.06

9.6. Authority's decisions regarding Income Tax for the Third Control Period

Based on the material before it and based on its analysis, the Authority proposes the following regarding Income Tax for the Third Control Period:

9.6.1 The Authority proposes considers Income Tax for determination of tariff for the third Control Period as per Table no. 57;

9.6.2 The Authority also proposes to True up Income Tax during the tariff determination for the Next Control Period.

CHAPTER 10. ARR FOR THE THIRD CONTROL PERIOD

DAFFPL had submitted the following regarding Aggregate Revenue Requirement for the Third Control Period:

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

Table no.58 Calculation of ARR for the Third Control Period as submitted by DAFFPL

Particulars (in INR Lakhs)	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Average RAB	14,664	14,922	28,559	39,856	35,596	133,597
Average lease asset	27,195	25,222	23,249	21,276	19,304	116,246
Average fair value of security deposit	4,650	3,659	2,573	2,818	3,086	16,786
FROR	15.94%	15.94%	15.94%	15.94%	15.94%	
Return on avg. RAB	6,670	6,397	8,256	9,752	8,748	39,823
Add: Security deposit	741	583	410	449	492	2675
Add: Depreciation	4,655	4,520	6,727	6,747	6,758	29,407
Add: Operating expenses	2,675	2,913	3,366	3,732	4,083	16,769
Add: Interest on WC Loan	56	-	-	-	-	56
Add: Taxes	2,039	2,707	2,406	2,053	2,410	11,615
Less: Other income	(39)	(42)	(45)	(49)	(52)	(227)
Add: True-up for next CP	(3,887)	-	-	-	-	(3,887)
ARR	**12,911**	**17,078**	**21,119**	**22,674**	**22,438**	**96,220**
Fuel throughput (KL)	1,800,000	2,160,000	2,468,000	2,591,400	2,720,970	11,740,370
Annual FIC	**804**	**804**	**804**	**804**	**804**	

10.2. Stakeholder's comments on ARR for Third Control Period

10.2.1 HPCL's comments on ARR for the Third Control Period

FIC tariffs are a "Pass Through" in the pricing mechanism for us. Kindly apply the new tariff on prospective basis only.

10.2.2 BPCL's comments on ARR for the Third Control Period

(a) AERA has proposed 'Price Cap Approach' for determination of Fuel Infrastructure Charges to DAFFPL, however the FIC charges proposed are much less than the calculations submitted by DAFFPL and also much lower than the FIC charges already approved in 2nd control period.

(b) It is thus requested that the FIC workings are reconsidered so that DAFFPL is able to provide satisfactory level of service and follow the required parameters of Safety and Quality.

10.2.3 FIA's comments on ARR for the Third Control Period

(a) Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Third, this FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines.

(b) We would also like to urge the Authority to pass an order stating that FIC and ITP should be directly invoiced by the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing business' and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-seven (67) % to Airlines.

(c) We strongly urge the Authority to undertake a thorough investigation retrospectively to determine the actual cost of efficient operations and revenues collected by DAFFPL till date. All excess recoveries to be passed on to the airlines and future tariff to be determined based on actual cost of efficient operations.

10.2.4 DAFFPL's comments on ARR for the Third Control Period

(a) DAFFPL would like to submit that the true-up for the second control period (2016-2021) should be computed at the end of second control period i.e., 31st March 2021 considering discounting factor 1 for FY2020-21 instead of FY2021-22. DAFFPL proposes to consider the discounting factor as per below mentioned table order (subject to any other changes in the FRoR as proposed by DAFFPL in its response):

Discounting Factor to be considered in respective year										
Financial Year	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Discounting Factor	1.6099	1.4292	1.2688	1.1264	1.0000	0.8888	0,7899	0.7021	0.6240	0.5546

10.3. DAFFPL's response to Stakeholder's comments on ARR for the Third Control Period

10.3.1 We agree with the views of HPCL and BPCL.

10.3.2 As far as the FIA's comment is concerned, we would like to submit that as per the applicable tax legislation in India, tax is applicable on the total consideration till the point of sale (here the point of sale by the Suppliers to the Airlines is considered at the wing tip of the aircraft). Further, the product (read ATF) is owned by the oil companies and as per current practice, invoices are governed by the 'supplier agreement'.

10.3.3 As the Supplier is the recipient of services at the fuel farm (and not the Airlines, who is the customer of the Supplier), hence DAFFPL cannot invoice directly to Airlines as per the existing tax legislation(s). The above practice is being followed at all the airports.

10.3.4 Further, we would like to submit that in order to cater FIA proposal, tax legislation changes may be required.

10.3.5 With regards to thorough investigation: we are not sure if FIA is doubting the tariff determined by the Authority. However, DAFFPL would like to submit that the tariff is determined by the Authority based on its regulatory framework. AERA regulatory model takes into consideration all the building blocks and consider efficient cost of operations while determining FIC.

10.4. Authority's Analysis on Stakeholder's comments on ARR for the Third Control Period

10.4.1 As far as FIA's comment that FIC and ITP should be directly invoiced, the Authority notes that FIC and ITP are collected by two separate service providers and are being regulated separately. The Authority has also noted the comments made by DAFFPL in this regards on the issue of invoicing.

10.4.2 As far as DAFFPL's comment on discounting rate is concerned, the Authority notes that the implementation of tariff order is being done in 2021-22. Therefore, it is logical the discounting factor of 1 should be considered for 2021-22.

10.4.3 After considering the changes as discussed in the previous chapters regarding various building blocks of tariff determination, the revised ARR considered for the third control period is given below.

10.4.4 The Authority observes that FIC will have to be decreased from the existing level of Rs.609/kl to Rs.369/kl to meet the ARR requirement. This is mainly due to the excess recovery during the second control period which is adjusted in the third control period.

Table no.59 ARR considered by the Authority for the Third Control Period

Particulars (Rs.in lakhs)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**Total**
Average RAB (*Refer Table no.43)*	12,869.84	11,881.34	24,610.27	36,079.28	32,493.79	
FRoR (*Refer Table no.48*)	12.51%	12.51%	12.51%	12.51%	12.51%	
Return on RAB	1610.02	1486.36	3078.74	4513.52	4064.97	
Return on SD (*Refer Table no.50*)	812.29	375.00	375.00	375.00	375.00	2312.29
Depreciation (*Refer Table no.40*)	1851.00	1916.00	3824.14	3830.85	3840.13	15262.12
O & M (*Refer Table no.53*)	4865.46	5184.47	5693.69	6138.48	6618.17	28500.27
Income Tax (*Refer Table no.57)*	356.06	367.12	216.88	0.00	0.00	940.06
CSR Expenses (*Refer Table no.53)*	76.43	39.66	19.15	24.90	15.47	175.61
Gross Aggregate Revenue Requirement	9571.25	9368.60	13207.61	14882.75	14913.74	61943.95
Less Other Income (*Refer Table no.55)*	40.00	43.00	46.23	49.70	53.43	232.36
Excess Recovery in SCP(*Refer Table no.25)*	14454.62					
Net ARR Recoverable	-4923.37	9325.60	13161.38	14833.05	14860.31	47256.97
Discounting Factor	1.0000	0.8888	0.7900	0.7021	0.6241	
NPV of ARR	-4923.37	8288.69	10397.27	10414.94	9273.92	33451.45
Current FIC Rate	609.00	609.00	609.00	609.00	609.00	
Fuel volume in lakhs KL (*Refer Table no.30*)	11.84	16.58	24.68	25.91	27.21	106.22
FIC Income at current rate	7210.56	10097.22	15030.12	15779.19	16570.89	64687.98
Revised Rate	548.00	469.00	402.00	344.00	292.98	
Revised FIC Income **	7469.07	7776.02	9921.36	8913.04	7971.87	42051.36
NPV of Revised Income	7469.07	6911.40	7837.71	6258.24	4975.03	33451.45

**** With effect from 01.11.2021.***

*****Revenue for FY2021-22 has been computed considering the existing rate from 01.04.2021 to 31.10.2021 and the revised rate for the remaining period.***

10.4.5 The decrease required from the existing level to meet the ARR was 35% at consultation stage. This has increased to 39% because of the following reasons.

- Additional depreciation amounting to Rs.155 lakhs was considered due to treating the life of buildings as 30 years instead of 60 years.
- At consultation stage the FIC rate of Rs. 500 was considered for the year FY 2021-22. Now, the present FIC rate of Rs. 609 has considered up to 31st October, 2021 and FIC rate of Rs. 548 has been considered from 1st November, 2021 to 31st March, 2022.

10.4.6 Based on the detailed analysis and approach on each building block, The Authority noted that the ARR recoverable calculated as above results in a onetime decrease of 39% on the existing tariff. However, in order to reduce the impact of drastic reduction in the tariff, the Authority proposes to stagger the decrease over the entire third control period. The year wise decrease during the third control period are given below:-

Table No. 60 - FIC Rate decided by the Authority for Third Control Period

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revised rate (In INR)	548.00	469.00	402.00	344.00	293.00
Decrease %	10%	14%	14%	14%	15%

10.5. The decrease from FY 2022-23 has increased mainly because the revised FIC of Rs 500/KL was considered for the entire year FY 2021-22 at consultation stage, whereas now the revised FIC is of Rs 500 is considered with effect from 01.11.2021 and the current rate of Rs 609/KL which has already been collected by DAFFPL has been taken into account.

10.6. **Authority's decisions regarding ARR and Tariff for the Third control Period**

Based on the material before it and based on its analysis, the Authority decides the following regarding ARR and tariff for the Third Control Period.

10.6.1 The Authority proposes to consider the Aggregate Revenue Requirement for the Third Control Period as calculated in Table no.59.

10.6.2 The Authority proposes FIC rate for the Third Control Period as per Table no.60.

10.6.3 The Authority also proposes to true up ARR during the tariff determination for the fourth Control period.

CHAPTER 11. ANNUAL TARIFF PROPOSAL

11.1. DAFFPL's Submission on Annual Tariff Proposal for the Third Control Period as part of MYTP:

11.1.1 DAFFPL has submitted Multi Year Tariff Proposal (MYTP) for the third control period (FY 2020-21 to FY2025-26) on 10.02.2021.

11.1.2 Proposed increase by DAFFPL for FIC at IGI Airport, Delhi for the third control period shows an increase of 32% over the existing rate of Rs 609.00, which was approved in the second control period order.

11.1.3 The year wise tariff proposed by DAFFPL for the third control period is given below:

Tariff Year	FIC Rate per KL (In Rs)
FY 2021-22	804
FY 2022-23	804
FY 2023-24	804
FY 2024-25	804
FY 2025-26	804

11.2. **Authority's Examination and Analysis regarding Tariff Proposal for the Third Control Period at Consultation stage**

11.2.1 The authority re-worked the various building blocks of tariff determination during the true up exercise for the second control period and for third control period. Considering the changes proposed under each building block the Authority proposed the following rates of FIC for the third control period.

Tariff Year	FIC Rate per KL (In Rs)
FY 2021-22	500.00
FY 2022-23	415.03
FY 2023-24	394.28
FY 2024-25	374.56
FY 2025-26	355.83

11.3. **Stakeholders Comments on Tariff rate for the third control period**.

11.3.1 HPCL commented that FIC tariffs are a "Pass Through" in the pricing mechanism for us. Kindly apply the new tariff on prospective basis only.

11.3.2 BPCL requested that the FIC workings are reconsidered so that DAFFPL is able to provide satisfactory level of service and follow the required parameters of Safety and Quality

11.4. **DAFFPL's response to Stakeholder's comments on Tariff Rate for the Third Control Period**

We agree with the views of HPCL and BPCL.

11.5. **Authority's Examination and Decisions on Tariff rate for the Third Control Period**.

11.5.1 Regarding HPCL's comment that any increase in tariff should be on prospective basis, the Authority clarifies that the revised tariffs are applicable from the date of issue of Order or from specific date in future.

11.5.2 Regarding BPCL's comment regarding FIC rates, the Authority notes that the revised FIC has been worked out after considering all the changes discussed in the forgoing chapters.

11.5.3 The decrease from FY 2022-23 has increased mainly because the revised FIC of Rs 500/KL was considered for the entire year FY 2021-22 at consultation stage, whereas now the revised FIC is of Rs 500 is considered with effect from 01.11.2021 and the current rate of Rs 609/KL which has already been collected by DAFFPL has been taken into account.

11.5.4 However, the Authority, keeping in view the current economic condition of the aviation sector decided to stagger the decrease in the tariff by 10% w.e.f 01.11.2021 and 14% each year from FY 2022-23 to FY 2024-25 and by 15% for the FY 2025-26 during Third Control Period. The revised tariff rates are given at **Annexure –I.**

11.5.5 The authority determines the maximum tariff rates to be levied. No other charge is to be levied over and above the determined

11.6. **Authority's Decisions on Tariff rate for the third control period**.

Based on the material before it and its analysis, the Authority has decided the following regarding Tariff Rate for DAFFPL for the Third Control Period:

11.6.1 The Authority decides to consider the Tariff Rate for DAFFPL, IGI Airport, Delhi for the Third Control Period (01.11.2021 to 31.03.2026) as per Annexure-I.

CHAPTER 12. SUMMARY OF AUTHORITY's DECISIONS

Chapter & Para No.		Details of Decision	Page No
Chapter No 2	2.18.1	The Authority has decided to adopt price cap methodology under single till for the 3rd Control Period	15
Chapter No 3	3.41.1	The Authority decides to consider depreciation for the second control period as per Table no. 10	38
	3.41.2	The Authority decides to true up the Regulatory Asset Base as per Table no.12	
	3.41.3	The Authority decides to consider Security Deposit as per Table no.14 and also proposes to consider a nominal return of 5% on the same for the true up of second control period	
	3.41.4	The Authority decides to consider Operational expenses including CSR for true up of second control period as per Table no.16	
	3.41.5	The Authority decides to consider the lease payments during the entire second control period as operating expenses.	
	3.41.6	The Authority decides to consider Income Tax for the second control period as per Table no.18	
	3.41.7	The Authority decides to consider the Other Income for true up of second control period as per Table no.20	
	3.41.8	The Authority decides to true up FRoR for the second control period as per Table no.24	
	3.41.9	The Authority decides to true up the Aggregate Revenue Requirement of DAFFPL for the second control period as per Table no.25 and also decides to consider the claw back of Rs. 14454.62 Lakhs for adjustment in the third control period.	
Chapter No 4	4.9.1	The Authority decides consider the projected Fuel Throughput (Volume) for determination of tariff for the third control period as per Table no.30	42
	4.9.2	The Authority also decides to true up the Fuel Throughput (Volume) during the tariff determination for the next control period	
Chapter No 5	5.21.1	The Authority decides to consider the revised depreciation for the third control period as per Table no.40.	
	5.21.2	The Authority decides to consider the Regulated Asset Base of	

Chapter & Para No.		Details of Decision	Page No
		DAFFPL for the Third Control period as per Table no.43.	
	5.21.3	The Authority decides to true up Depreciation, RAB and during the Tariff determination for the fourth control period.	59
	5.21.4	The Authority, in order to ensure that DAFFPL adheres to the Capital Expenditure plan, proposes to reduce 1% of the non-capitalized CAPEX from ARR / Target Revenue, as re-adjustment, in case any particular CAPEX is not completed as per the Capitalization schedule, in the True-up exercise for the 3rd Control Period during determination of tariff for the Next Control Period.	
	5.21.5	The Authority proposes that the lease payments made to the airport operator will be treated as operating expenses during the third control period.	
Chapter No 6	6.20.1	The Authority decides to maintain the cost of equity at 14% for the third control period	67
	6.20.2	The Authority decides to adopt the cost of debt at 7.05% for the third control period	
	6.20.3	The Authority decides to adopt the revised FRoR as calculated in Table no.48 for the Third control period.	
	6.20.4	The Authority decides to maintain the return on Security Deposit at 5%	
	6.20.5	The Authority decides to adopt the security deposit amount as per Table no.50	
	6.20.6	The Authority also decides to true up FRoR during the tariff determination for the fourth control period	
Chapter N0 7	7.11.1	The Authority decides to consider the Operating and Maintenance expenditure as per Table no.53	72
	7.11.2	The Authority also proposes to true up the Operation and Maintenance expenditure during the tariff determination for the fourth control period.	
Chapter No 8	8.4.1	The Authority proposes to consider other income as per Table no.55 for the third control period.	73
	8.4.2	The Authority also proposes to true up other income on actual basis during the tariff determination for the Fourth control period	

Chapter & Para No.		Details of Decision	Page No
Chapter No 9	9.6.1	The Authority proposes considers Income Tax for determination of tariff for the third Control Period as per Table no. 57;	75
	9.6.2	The Authority also proposes to True up Income Tax during the tariff determination for the Next Control Period.	
Chapter No 10	10.6.1	The Authority proposes to consider the Aggregate Revenue Requirement for the Third Control Period as calculated in Table no.59.	79
	10.6.2	The Authority proposes FIC rate for the Third Control Period as per Table no.60.	
	10.6.3	The Authority also proposes to true up ARR during the tariff determination for the fourth Control period	
Chapter No 11	11.6.1	The Authority decides to consider the Tariff Rate for DAFFPL, IGI Airport, Delhi for the third control period (01.11.2021 to 31.03.2026) as per Annexure-I	81

CHAPTER 13. ORDER

Upon careful consideration of the material available on records, the Authority, in exercise of powers conferred by Section 13(1) (a) of the Airport Economic Regulatory Authority of India Act, 2008 hereby orders that:

(i) DAFFPL, is permitted to levy the tariff for fuel infrastructure charges as per **Annexure-I** for the 3rd Control Period (1st November, 2021 to 31st March, 2026).

(ii) The levy of new tariffs shall be effective from 1st November, 2021.

(iii) The tariff rates approved herein are ceiling rates, excluding taxes, if any, and, as applicable.

(iv) The Airport Operator shall ensure compliance of the Order.

By the Order of and in the name of the Authority

(Col. Manu Sooden)
Secretary

Mr. Deepak Aggarwal
Chief Executive Officer,
Delhi Aviation Fuel Facility (P) Limited
Aviation Fuel Station Shahbad Mohamadpur New Delhi-110061

Copy to:

1. **Secretary, Ministry of Civil Aviation**
   Rajiv Gandhi Bhawan,
   Safdarjung Airport,
   New Delhi – 110 003

2. **Chief Executive Officer,**
   IGI, Airport, New Delhi

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India
सत्यमेव जयते

Annexure – I

AERA APPROVED MAXIMUM TARIFF RATE

For Delhi Aviation Fuel Farm Private Limited (DAFFPL) providing Fuel infrastructure services at Indra Gandhi International Airport, Delhi for the third control period (FY 2021-22 to FY 2025-26).

Tariff Year	FIC Rate per KL (In Rs)
Applicable w.e.f. 01.11.2021 to 31.03.2022	548.00
FY 2022-23	469.00
FY 2023-24	402.00
FY 2024-25	344.00
FY 2025-26	293.00

Note : The rates approved herein are ceiling rates, excluding taxes, if any, and, as applicable as per Government Orders issued from time to time.

Details of works not taken up during the 2nd Control Period as submitted by DAFFPL

Capex Item	Capex included in CP-II	Capex Incurred during CP-II	Balance unspent	Status
Scada system and instrumentation	50,500,000	35,684,658	13,838,342	Included in CP-III
Admin Building	60,000,000	-	60,000,000	Included in CP-III
Rising level of underground tank truck pump house	5,000,000		5,000,000	dropped
Fuel hydrant pumpsets	18,000,000	2,337,956	14,212,044	Included in CP-III
Safety considerations				
CCTV system	1,000,000	-	1,000,000	Included in CP-III
Procurement of Dabico Covers for Trenches	18,000,000		18,000,000	Included in CP-III
Terminal 1 ESB System	12,500,000		12,500,000	Included in CP-III
Replacement of Motor Operated Valves of Product Tanks	17,500,000		17,500,000	Included in CP-III
	182,500,000	38,022,614	**142,050,386**	