



सत्यमेव जयते

AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

**IN THE MATTER OF
DETERMINATION OF FUEL INFRASTRUCTURE FEE FOR
BPCL KIAL FUEL FARM PRIVATE LIMITED (BKFFPL) AT
KANNUR INTERNATIONAL AIRPORT FOR
THE FIRST CONTROL PERIOD
(01.04.2018 - 31.03.2023)**

Date of Issue: 15th, March, 2022

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110003



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List of Abbreviations

AAI	Airport Authority of India
AERA (Authority)	Airports Economic Regulatory Authority of India
ARR	Aggregate Revenue Requirement
ATM	Air Traffic Movement
ATP	Annual Tariff Proposal
ATF	Aviation Turbine Fuel
BPCL	Bharat Petroleum Corporation Limited
BKFFPL	BPCL KIAL Fuel Farm Private 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
CPI	Consumer Price Index
CSR	Corporate Social Responsibility
DIAL	Delhi International Airport Limited
FIC or Infrastructure charge	Fuel Infrastructure Charge
FIF	Fuel Infrastructure Fee
FRoR	Fair Rate of Return
FY	Financial Year
GOI	Government Of India
IND AS	Indian Accounting Standard
INR or Rs.	Indian rupees
IOCL	Indian Oil Corporation Limited
IRR	Internal Rate of Return
ITP	Into Plane Service Provider
JVC	Joint Venture Company
KIAL	Kannur International Airport Limited
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)
RAB	Regulatory Asset Base
Re	Cost of equity
ROU Assets	Right of Use Assets
SLM	Straight Line Method
Sq.m.	Square Meter



CHAPTER 1. INTRODUCTION

1.1 Profile of the Service Provider

- 1.1.1 BPCL KIAL Fuel Farm Private Limited (BKFFPL) was incorporated on 18th May 2015 as a Joint Venture Company of BPCL and KIAL with equity shareholding of 74:26 respectively. The Company was formed to design, develop, construct, manage, maintain, upgrade and operate the Aviation Fuel farm with allied facilities and hydrant system at both domestic and international terminals of Kannur International Airport for the supply of ATF on exclusive basis. Accordingly, BKFFPL has the right to operate the fuel farm at the Kannur International Airport for a period of 30 years, extendable by another 30 years on mutually agreed terms and conditions.
- 1.1.2 M/s BKFFPL carries out both Fuel Farm Services as well as Into Plane Services as composite Service. The Fuel Infrastructure Fee determined is a common/composite fee for both the services. The Fuel-Farm has been set up to function under "Open Access" model for the usage of all the eligible Oil Marketing Companies. In Phase-I, the Fuel will be supplied into plane with the help of refuellers. Operations and Maintenance (O&M) of the Fuel Farm and Into-plane services are carried out by BPCL on behalf of M/s BKFFPL. Currently, Bharat Petroleum Corporation Limited, Indian Oil Corporation Limited and Shell MRPL are supplying oil to the Fuel Farm. BKFFPL is providing the services of receipt, storage and delivery of ATF to the airlines.
- 1.1.3 BPCL-KIAL Fuel Farm Facility is the sole provider of Fuel Farm and Into Plane Services to meet the ATF demand at Kannur Airport. The Infrastructure of the Fuel Farm Facility is planned to be developed in two phases.

Phase-I

A total of Rs. 16.69 crores had already been incurred in phase-I for creating the following infrastructure relating to the Fuel Farm and allied activities.

- 2 x 45 KL Underground Tank
- 2 x 450 KL Aboveground Tank
- 4 bays Tank Lorry decantation & Refueller Loading (Common) Gantry
- 2 Storey Admin Building
- MCC Room
- Product Pumps

Phase-II

M/s BKFFPL submitted that the Hydrant system was planned for construction and completion by FY 2022-23 in Phase-II. However, due to the reduction in demand for ATF in the background of Covid-19 pandemic and non-commencement of international operations at Kannur Airport, the capital expenditure for phase-II development has been deferred. The development of these works will be taken up at a later stage after the revival of air traffic movements at Kannur Airport.



1.2 Background of the Tariff Determination Exercise

- 1.2.1 As the Kannur Airport was to commence operations from 9th December, 2018 and the Service Provider was required to commence services with approved Tariff; the Authority, therefore, issued an ad hoc Tariff Order No 34/2018-19 dated 04/12/2018 permitting ad hoc FIF charges at Rs.1900 per KL.
- 1.2.2 Based on review of submissions made by BKFFPL, the Authority further issued Order No. 14/2019-20 dated 28.10.2019 approving a charge of Rs.1846 per KL to be collected towards the Fuel Infrastructure Charges and the Into Plane Services collectively called Fuel Infrastructure Fee for the period from 01.11.2019 to 31st March 2021. In the same order, the Authority decided that the Tariff for the period FY 2019-20 to FY 2022-23 will be determined under "Price Cap Approach".
- 1.2.3 Subsequently, the Authority vide Order No. 67/2020-21 dated 25.03.2021 approved extension of Tariff prevailing as on 31.3.2021 (Rs. 1846 per KL) for further period upto September 2021. This was further extended vide Interim Order No. 18/2021-22 dated 15th September 2021 upto 31st March 2022, or, determination of regular Tariff, whichever is earlier.

1.3 Steps involved in Determination of Tariff for BKFFPL.

- 1.3.1 M/S BKFFPL vide letter No. BKFFPL/AERA/2021-22/03 dated 27th September 2021 submitted the MYTP for FY 2021-22 and FY 2022-23 of the First Control Period. BKFFPL requested the Authority to consider the under recovery of previous years (FY 2018-19 to FY 2020-21) and increase FIF charges from Rs.1846/KL to Rs. 4996/KL.
- 1.3.2 M/S BKFFPL submitted the audited financial statements for the years FY 2018-19, FY 2019-20 and FY 2020-21. The Authority has relied upon these documents as submitted by BKFFPL for determination of Tariff for the First Control Period. BKFFPL also submitted Minutes of Meeting of Joint Co-ordination Committee held on 7th September 2021 as per the requirement of AERA's CGF Guidelines.
- 1.3.3 The Authority reviewed the submissions made by BKFFPL for the First Control Period with respect to various building blocks. The Authority's position on various building blocks is based on its regulatory philosophy and guidelines issued from time to time and also on the submission made by BKFFPL.
- 1.3.4 After detailed review and analysis of various regulatory building blocks as part of Tariff determination process, the Authority issued its Consultation Paper No. 23/2021-22 dated 6th December, 2021 inviting suggestions/comments from the stakeholders on the Authority's proposals relating to Tariff Determination for BKFFPL for the First Control Period with the following timelines:
- Date of issue of the Consultation Paper: 06th December, 2021.
 - Date for submission of written comments by Stakeholders: 27th December, 2021.
 - Date for submission of counter comments: 06th January, 2022.

The Consultation Paper issued by the Authority on 06.12.2021 was published on the AERA's



website. The following Stakeholders submitted their written comments within the stipulated timeline:

List of Stakeholders who have submitted their comments on the Consultation Paper No. 23/2021-22:

Sl. No.	Stakeholders
1.	M/s Air India Limited.
2.	M/s Bharat Petroleum Corporation Limited. (BPCL)
3.	M/s BPCL KIAL Fuel Farm Private Limited. (BKFFPL)
4.	Federation of Indian Airlines. (FIA)

All the written comments submitted by the Stakeholders are also available on AERA website.

1.3.5 BKFFPL submitted its counter comments on Stakeholder's views on 06.01.2022. Thus, the consultation process culminated on 06.01.2022.

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

1.3.7 The Tariff Order is structured in a manner wherein under each regulatory building block, the submission made by BKFFPL in the MYTP is listed out, followed by the Authority's examination and proposals for the First Control Period in the Consultation Paper. The same is followed by the comments by the various stakeholders and counter comments by BKFFPL followed by the Authority's examination and final decision on the subject matter.



CHAPTER 2. TARIFF SETTING PRINCIPLES

2.1 Background

2.1.1 According to Section 2 (a) of AERA Act, 2008 "Aeronautical Service" means any service provided-

- (i) for navigation, surveillance and supportive communication thereto for air traffic management;
- (ii) for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
- (iii) for ground safety services at an airport;
- (iv) for ground handling services relating to aircraft, passengers and cargo at an airport;
- (v) for the cargo facility at an airport;
- (vi) for supplying fuel to the aircraft at an airport; and
- (vii) for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority.

2.2 Tariff Setting Principles

2.2.1 The Authority vide its Order No. 12/2010-11 dated 10th January, 2011 and Direction No. 4/2010-11 dated 28th February, 2011 ("CGF Guidelines"), had issued Guidelines under Section 15 of the AERA Act, 2008 and the amendments issued from time to time, to determine Tariffs for ISP's providing aeronautical services at 'major airports' based on set procedures for determination of Aggregate Revenue Requirement (ARR) for regulated service(s) deemed 'Materiality Assessment', 'Competition Assessment' and 'User agreement(s) between the Service Provider(s) and User(s) of the Regulated Service(s)'. As stipulated in Clause 3 of the guidelines, the Authority shall follow a three stage process for determining its approach for the regulation of regulated service.

Stage-I: Materiality Assessment:

The Materiality Index (MI_F) of Fuel Throughput at Kannur airport is as under:

$$= \frac{\text{Fuel Throughput in Kilolitres at Kannur Airport}}{\text{Total Fuel Throughput in Kilolitres at all Major Airports}} \times 100$$

$$\text{Fuel Throughput at Kannur Airport} = \frac{44882}{8697575} \times 100 = 0.52\%$$

2.2.2 Based on BKFFPL submission, Materiality Index (based on the fuel throughput at Kannur International Airport, in comparison to fuel throughput at other major airports) is 0.52% in FY 2019-20 which is less than 5% Materiality Index fixed for assessing the materiality of the subject regulated service as per clause 4(2)(ii) of "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". Hence the regulated service is deemed as 'Not Material' for the First Control Period.



Stage-II: Competition Assessment:

- 2.2.3 The AERA's CGF Guidelines provides that where a Regulatory 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.
- 2.2.4 At present, the fuel farm services at Kannur Airport are being provided solely by BKFFPL. Hence, the service is deemed as "Non Competitive".

Stage-III: Reasonableness of User Agreement:

- 2.2.5 The Authority noted that BKFFPL is the sole provider of Fuel Farm and Into Plane services at Kannur Airport. Therefore there is no competition and service provide by BKFFPL is monopolistic in nature. The Authority in the Order No. 14/2019-20 dated 28th October 2019 noted that M/s BKFFPL is the only firm operating the Fuel Farm at Kannur International Airport, there is no competition, therefore, the Authority decides to adopt "Price Cap Approach" for determination of Tariff for the period FY 2019-20 to FY 2022-23 of First Control Period.
- 2.2.6 BKFFPL has not submitted copy of the User Agreement with any of the Stakeholders/Users. They had submitted the copy of Minutes of Meeting held on 07.09.2021 on Tariff proposals. The representative from IOCL, BPCL, and Shell MRPL attended the meeting. No representative of any airline participated in the meeting. As per the Minutes of Meeting, Only BPCL agreed for revision of Fuel Infrastructure Fee and the representatives of IOCL and Shell MRPL had indicated that they require more time to finalize their stand. The Authority further notes that M/s BKFFPL has no other business except Fuel Farm and Into Plane Services at Kannur Airport.

Therefore, the Authority has decided to determine the Tariff for the balance period of the First Control Period i.e. FY 2021-22 and FY 2022-23 under "Price Cap Approach" on Single Till Basis.

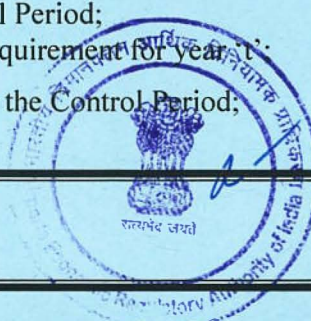
2.3 Methodology for determining Aggregate Revenue Requirement (ARR)

- 2.3.1 The Aggregate Revenue Requirement (ARR) under the regulatory framework of the Authority is calculated as under:

$$ARR = \sum_{t=1}^5 ARR_t$$
$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - NAR_t$$

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'

- 2.3.2 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, the Regulatory entity 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 Regulatory entity will have to reduce its proposed Tariff.

2.4 Authority's Decision regarding Tariff Setting Principles for the First Control Period

Based on the material before it and its analysis, the Authority has decided:

- 2.4.1 To adopt "Price Cap Approach" on 'Single Till' basis for Tariff determination for BKFFPL, Kannur for FY 2019-20 to FY 2022-23 of the First Control Period.



CHAPTER 3. TRUE-UP FOR FY 2019-20 AND FY 2020-21 OF THE FIRST CONTROL PERIOD.

3.1 BKFFPL's submission in MYTP for True-up.

- 3.1.1 M/s BKFFPL submitted that due to Covid-19 pandemic, the volume handled reduced by 19% during the year FY 2019-20 and by 72% during the year FY 2020-21 as compared to the projections made in the MYTP for these years.
- 3.1.2 M/s BKFFPL submitted the MYTP to the Authority after considering the true-up for FY 2018-19 to FY 2020-21. The Authority in line with the earlier decision vide Order No. 14/2019-20 dated 28th October, 2019, decides to consider true-up for the years FY 2019-20 and FY 2020-21.
- 3.1.3 The analysis and consideration of the Authority for True-up for FY 2019-20 and FY 2020-21 of the First Control Period on each of the building blocks are as under:

3.2 True-up of Capital Expenditure

- 3.2.1 BKFFPL had submitted capital expenditure for FY 2019-20 & FY 2020-21 of the First Control Period as follows.

Table 1: Capital Expenditure as submitted by BKFFPL for True-up for FY 2019-20 and FY 2020-21 of the First Control Period.

Particulars (Rs. in lakhs)	FY 2019-20	FY 2020-21	Total
Buildings	8.61	7.16	15.77
Culverts & Drain	0.40		0.40
Electrical Equipment's	0.86	0.16	1.02
Furniture & Fixtures	3.59	0.32	3.91
Roads	0.70		0.70
Plant & Machinery	0.33	0.16	0.49
Deadstock	0.67		0.67
Land Improvement	0.83		0.83
Total	15.99	7.80	23.79

3.3 Authority's Examination regarding True-up of Capital Expenditure for the FY 2019-20 and FY 2020-21 of the First Control Period at Consultation stage:

- 3.3.1 The Authority examined the submission of BKFFPL relating to CAPEX and noted that M/s BKFFPL had not incurred any major capital expenditure during the year FY 2019-20 and FY 2020-21 and only Rs.15.99 lakhs in FY 2019-20 and Rs.7.80 lakhs during the year 2020-21 were spent on Capital Works.
- 3.3.2 The Authority further noted that the capital expenditure incurred by BKFFPL are small in value and necessitated on operational grounds. Therefore, the Authority proposed capital expenditure for True-up of FY 2019-20 and FY 2020-21 as shown in Table 1.

3.4 Stakeholders' comments on True-up of Capital Expenditure for FY 2019-20 and FY 2020-21 of the First Control Period.

3.4.1 No comments were received from Stakeholders on True-up of Capital Expenditure for the FY 2019-20 and FY 2020-21 of the First Control Period.

3.5 Authority's analysis on True-up of Capital Expenditure for FY 2019-20 and FY 2020-21 of the First Control.

3.5.1 It is noted that no comments were received from the Stakeholders regarding True-up of Capital Expenditure. In this regard, the Authority has decided to consider the Capital Expenditure based on actuals for True-up of FY 2019-20 and FY 2020-21 of the First Control Period, consistent with the proposal made in this regard in the Consultation Paper No. 23/2021-22.

3.6 True-up of Depreciation

3.6.1 BKFFPL had submitted depreciation rate and useful life of assets for FY 2019-20 & FY 2020-21 of the First Control Period as follows.

Table 2: Depreciation rate and useful life of assets as submitted by M/S BKFFPL for FY 2019-20 and FY 2020-21.

Asset Details	Useful life yrs	Depreciation %
Buildings	30/60	3.33%/1.67%
Computers	3	33.33%
Culverts & Drain	30	3.3%
Electrical Equipment's	10	10%
Furniture & Fixtures	10	10%
Lab Equipment's	10	10%
Office Equipment's	5	20%
Plant & Machinery	25	4%
Roads	10	10%
Tanks	25	4%
Deadstock	-	0%
Land Improvement	60	1.67%

3.6.2 Further, BKFFPL had submitted asset wise depreciation for FY 2019-20 & FY 2020-21 of the First Control Period as follows.

Table 3: Assets wise Depreciation as submitted by BKFFPL for True-up for FY 2019-20 and FY 2020-21 of the First Control Period.

Particulars (Rs.in lakhs)	FY 2019-20	FY 2020-21	Total
Buildings	14.76	15.58	30.34
Computers	0.20	0.08	0.28
Culverts & Drain	3.38	3.38	6.76
Electrical Equipments	7.87	7.92	15.79
Furniture & Fixtures	2.43	2.63	5.06
Lab Equipments	0.51	0.51	1.02
Office Equipments	2.29	2.41	4.70
Plant & Machinery	6.96	6.98	13.94

Roads	24.69	24.74	49.43
Tanks	7.09	7.08	14.17
Deadstock	0	0	0
Land Improvement	3.17	3.18	6.35
Total	73.35	74.49	147.84

3.7 Authority's Examination regarding True-up of Depreciation for the FY 2019-20 and FY 2020-21 of the First Control Period at Consultation stage:

- 3.7.1 The Authority noted that the useful life of assets adopted by M/s BKFFPL is mostly in line with the rates laid down in Authority's Order No. 35/2017-18 dated 9th April 2018.
- 3.7.2 The Authority further noted that in line with the AERA's approach on treating the Deadstock as a non-depreciable asset, M/s BKFFPL also considered the Deadstock as a non depreciable asset.
- 3.7.3 The Authority noted that M/s BKFFPL capitalized the cost of improvement in land for constructing the building under land improvement, in line with the approach of the Authority for treating the land lease rent as operating expenses. BKFFPL considered the depreciation after exclusion of Right of Use Assets created in the books under Ind AS 116.
- 3.7.4 In view of the above, the Authority proposed to consider depreciation for True-up of FY 2019-20 and FY 2020-21 as shown in Table 3.

3.8 Stakeholders' comments on True-up of Depreciation for FY 2019-20 and FY 2020-21 of the First Control Period.

- 3.8.1 No comments were received from Stakeholders on True-up of depreciation for the FY 2019-20 and FY 2020-21 of the First Control Period.

3.9 Authority's analysis on True-up of Depreciation for FY 2019-20 and FY 2020-21 of the First Control.

- 3.9.1 It is noted that no comments were received from the Stakeholders regarding True-up of depreciation. In this regard the Authority has decided to consider the depreciation based on actuals for True-up of FY 2019-20 and FY 2020-21 of the First Control Period, consistent with the proposal made in this regard in the Consultation Paper No. 23/2021-22.

3.10 True-up of Regulatory Asset Base (RAB)

- 3.10.1 BKFFPL had submitted Regulatory Asset Base (RAB), after truing up of Capital Expenditure and Depreciation for FY 2019-20 & FY 2020-21 of the First Control Period as follows.

Table 4: Regulatory Asset Base (RAB) as submitted by BKFFPL for True-up for FY 2019-20 and FY 2020-21 of the First Control Period.

Particulars (Rs. in lakhs)	FY 2019-20	FY 2020-21	Total
Opening RAB (A)	1647.00	1589.64	-----
Additions (B)	15.99	7.80	23.79
Depreciation (C)	73.35	74.49	147.84

Closing RAB D=(A+B-C)	1589.64	1522.95	-----
Average RAB E = (A+D)/2	1618.32	1556.30	-----

3.11 Authority's Examination regarding True-up of Regulatory Asset Base (RAB) for the FY 2019-20 and FY 2020-21 of the First Control Period at Consultation stage:

- 3.11.1 The Authority noted that the Capital Expenditure incurred by the M/s BKFFPL for the years FY 2019-20 and FY 2020-21 are minor in nature and required because of site conditions.
- 3.11.2 The Authority further noted that the depreciation rates adopted by M/s BKFFPL are in line with the Order No. 35/2017-18 dated 9th April 2018.
- 3.11.3 In line with the approach of the Authority in treating the land lease rent as operating expenses, M/s BKFFPL excluded the Right of Use Assets from the Regulatory Asset Base.
- 3.11.4 In view of the above, the Authority proposed to consider RAB for True-up of FY 2019-20 and FY 2020-21 as shown in Table 4.

3.12 Stakeholders' comments on True-up of Regulatory Asset Base (RAB) for FY 2019-20 and FY 2020-21 of the First Control Period.

- 3.12.1 No comments were received from Stakeholders on True-up of RAB for the FY 2019-20 and FY 2020-21 of the First Control Period.

3.13 Authority's analysis on True-up of Regulatory Asset Base (RAB) for FY 2019-20 and FY 2020-21 of the First Control.

- 3.13.1 It is noted that no comments were received from the Stakeholders regarding True-up of RAB. In this regard the Authority has decided to consider the RAB based on actuals for True-up of FY 2019-20 and FY 2020-21 of the First Control Period, consistent with the proposal made in this regard in the Consultation Paper No. 23/2021-22.

3.14 True-up of Fair Rate Of Return (FRoR)

- 3.14.1 M/s BKFFPL submitted the calculation of FRoR based on the loan repayment structure and the cost of equity and debt as per details given below:

Table 5: FRoR as submitted by BKFFPL for FY 2019-20 and FY 2020-21 of the First Control Period.

Particulars (Rs. in lakhs)	FY 2019-20	FY 2020-21
Opening Equity	900.00	900.00
Closing Equity	900.00	900.00
Average Equity	900.00	900.00
Opening Debt	899.37	899.43
Closing Debt	899.43	1075.00
Average Debt	899.43	987.00
Gearing	49.98%	52.30%

Cost of Debt	8.96%	8.29%
Cost of Equity	16%	16%
FRoR	12.48%	11.97%

3.15 Authority's Examination regarding True-up of Fair Rate of Return (FRoR) for the FY 2019-20 and FY 2020-21 of the First Control Period at Consultation stage:

3.15.1 The Authority noted that M/s BKFFPL claimed a return on equity of 16% as against the Cost of Equity considered by the Authority in similar cases which is 14%.

3.15.2 The Authority further noted that the closing balance of debt was not adopted correctly by M/s BKFFPL. It was observed that the cost of Debt as per audited accounts, year wise is as given below:

Table 6: Revised cost of Debts considered by the Authority for FY 2019-20 and FY 2020-21

Year	Cost of Debt	Average Rate
FY 2018-19	8.50%	8.52%
FY 2019-20	8.55%	
FY 2020-21	7.65% (HDFC) 8.25% (GECL) 7.74% (Average)	8.15%

3.15.3 The Authority reworked the FRoR considering the cost of equity at 14% and cost of debt at 8.52% for the year FY 2019-20 and at 8.15% for the year FY 2020-21 and also correcting the closing balance of debt as per the Audited Accounts. The Authority proposed FRoR for the True-up of FY2019-20 and FY 2020-21 as given below:

Table 7: FRoR proposed by the Authority for True-up for FY 2019-20 and FY 2020-21 of the First Control Period.

Particulars (Rs. in lakhs)	FY 2019-20	FY 2020-21
Opening Equity	900.00	900.00
Closing Equity	900.00	900.00
Average Equity	900.00	900.00
Opening Debt	899.37	809.43
Closing Debt	809.43	1052.20
Average Debt	854.40	930.82
Gearing	48.70%	50.84%
Cost of Debt	8.52%	8.15%
Cost of Equity	14%	14%
FRoR		
Equity Portion	7.18%	6.88%



Debt Portion	4.15%	4.14%
Total	11.33%	11.02%
Average FRoR	11.18%	

3.16 BKFFPL comments on True-up of Fair Rate of Return (FRoR) for FY 2019-20 and FY 2020-21 of the First Control Period.

3.16.1 BKFFPL requests the Authority to consider cost of debt and gearing as per their MYTP submission. BKFFPL submitted that the Authority has considered cost of equity as 14%. At the time of implementing the project, BKFFPL had factored an effective Debt & Equity structure and taken loans for half of the project value to optimize the financing of the Project. Based on this fact and the consideration of the risks involved in the Fuel Farm Operations, especially at Kannur Airport, the Authority had determined the Cost of Equity to be 16% and determined the FRoR considering the actual Gearing of Debt and Equity in Order No. 14/2019-20. The riskiness of the project got further accentuated by the global Covid-19 pandemic. BKFFPL requests to consider 16% as cost of equity for the Control Period including the true-up period and determine FRoR accordingly.

3.17 Authority's analysis on True-up of Fair Rate Of Return (FRoR) for FY 2019-20 and FY 2020-21 of the First Control Period.

3.17.1 The Authority noted the comments of BKFFPL on FRoR and observes that the closing balance of debt for FY 2019-20 taken by BKFFPL is not matching with the Audited accounts. Hence, the Authority considered the closing balance as per Audited accounts and adopted the average debt for computation of FRoR.

3.17.2 The Authority noted the comments of BKFFPL on cost of equity and following the consistent approach as regard to Cost of Equity, decides to adopt Cost of Equity @ 14.00%, as considered by the Authority for other Independent Service Providers. Comparison of mere cost of equities of different entities may not be appropriate since the risk profile, market share, business model of each entity is different. Further, it is noted that operations of BKFFPL is monopolistic in nature and there doesn't seem to be any major risk to the business.

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

3.17.4 In view of the above, the Authority has decided to consider the Fair Rate of Return (FRoR) as proposed at Consultation Stage as given in Table 7.

3.18 True-up of Income Tax

3.18.1 The Authority noted that since M/s BKFFPL made losses during FY 2019-20 and FY 2020-21, there is no element of Income Tax to be considered for the True-up for FY 2019-20 and FY 2020-21. The Authority has decided to consider income tax as proposed at Consultation Stage.



3.19 True-up of Operating Expenses

3.19.1 BKFFPL had submitted operating expenses for FY 2019-20 & FY 2020-21 of the First Control Period as follows.

Table 8: Operating Expenses as submitted by BKFFPL for True-up for FY 2019-20 and FY 2020-21 of the First Control Period.

Particulars (Rs. in lakhs)	FY 2019-20	FY 2020-21	Total
Salaries	16.66	15.54	32.20
Land lease Rent	137.06	125.00	262.06
Insurance	0.81	2.76	3.57
Power charges	9.99	8.27	18.26
Operator charges to BPCL	398.53	335.19	733.72
Repair & Maintenance	1.84	1.10	2.94
Other Expenses	52.01	13.43	65.44
Total	616.90	501.29	1118.19

3.20 Authority's Examination regarding True-up of Operating Expenses for the FY 2019-20 and FY 2020-21 of the First Control Period at Consultation stage:

3.20.1 The Authority noted that the lease rent payable to the Airport Operator had been treated by M/s BKFFPL as Right of Use Assets in the books of accounts in line with Ind As 116. However, in line with the approach of the Authority for treating the lease rental as part of operating expenses, BKFFPL included the lease rent in the operating expenses. The rate of lease rent applicable for the first year is Rs.475.24/sq.m for an area of 28000 sq.m and thereafter an escalation of 9% YoY in the month of December is also applicable as per the relevant agreement.

3.20.2 The Operating Expenses submitted by the BKFFPL were crossed check from the Annual reports. The Authority proposed to consider the Operation and Maintenance expenses for True-up of FY2019-20 and FY 2020-21 as shown in Table 8.

3.21 Stakeholders' comments on True-up of Operating Expenses for FY 2019-20 and FY 2020-21 of the First Control Period.

3.21.1 No comments were received from Stakeholders on True-up of Operating Expenses for the FY 2019-20 and FY 2020-21 of the First Control Period.

3.22 Authority's analysis on True-up of Operating Expenses for FY 2019-20 and FY 2020-21 of the First Control.

3.22.1 It is noted that no comments were received from the Stakeholders regarding True-up of Operating Expenses. In this regard the Authority has decided to consider Operating Expenses, based on actuals for True-up of FY 2019-20 and FY 2020-21 of the First Control Period, consistent with the proposal made in this regard in the Consultation Paper No. 23/2021-22.



3.23 True-up of Other Income:

3.23.1 BKFFPL had submitted Other Income for FY 2019-20 & FY 2020-21 of the First Control Period as follows:

Table 9: Other Income submitted by BKFFPL for True-up for FY 2019-20 and FY 2020-21 of the First Control Period.

Particulars (Rs.in lakhs)	FY 2019-20	FY 2020-21	Total
Interest Income	13.34	16.01	29.35
Sale of Scrap		0.07	0.07
Total	13.34	16.08	29.42

3.24 Authority's Examination regarding True-up of Other Income for the FY 2019-20 and FY 2020-21 of the First Control Period at Consultation stage:

3.24.1 The Authority noted that the other income was not separately shown in the ARR calculations by M/S BKFFPL. As the tariff determination is done on "Single Till basis", such income is considered for cross subsidizing Fuel Infrastructure Fee and is reduced from the ARR recoverable. The Authority proposed to consider Other Income for True-up of FY2019-20 and FY 2020-21 as shown in Table 9.

3.25 Stakeholders' comments on True-up of Other Income for FY 2019-20 and FY 2020-21 of the First Control Period.

3.25.1 No comments were received from Stakeholders on True-up of Other Income for the FY 2019-20 and FY 2020-21 of the First Control Period.

3.26 Authority's analysis on True-up of Other Income for FY 2019-20 and FY 2020-21 of the First Control.

3.26.1 It is noted that no comments were received from the Stakeholders regarding True-up of Other Income. In this regard the Authority has decided to consider Other Income, based on actuals for True-up of FY 2019-20 and FY 2020-21 of the First Control Period, consistent with the proposal made in this regard in the Consultation Paper No. 23/2021-22.

3.27 True-up of Aggregate Revenue Requirement (ARR)

3.27.1 M/s BKFFPL submitted ARR statement covering the entire Control Period including FY 2018-19. BKFFPL had not worked out the under recovery for the FY 2019-20 and FY 2020-21 separately.

3.27.2 As submitted by BKFFPL, True-up for First Control Period (FY 2018-19 to FY 2022-23) has been calculated as the difference between:

- Permissible fuel revenue calculation based on actual/projected fuel off take and financials; and
- Actual/Projected fuel revenue received by BKFFPL for the First Control Period.



3.27.3 BKFFPL submitted the following ARR for the entire First Control Period (FY 2018-19 to FY 2022-23):

Table 10: Aggregate Revenue Requirement (ARR) as submitted by M/s BKFFPL for the First Control Period.

Particulars (Rs in Crores)	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total
Average Regulatory Asset Base	8.24	16.19	15.57	14.86	14.11	
FRoR	12.70%	12.48%	11.97%	11.61%	11.61%	
Return on RAB	1.05	2.02	1.86	1.73	1.64	8.30
Depreciation	0.22	0.73	0.75	0.75	0.75	3.20
Operating Expenses	1.70	6.16	5.03	5.73	6.08	24.70
Taxation	0.00	0.00	0.00	0.00	0.00	0.00
Total Aggregate Revenue Requirement	2.96	8.91	7.64	8.21	8.47	36.19
Revenues collected – Actuals	1.27	8.54	3.26	1.84	0.00	14.91
Estimated Kiloliters (From Oct 21-March 23)				13262	33662	46924
Revenue per KL estimated				4996	4996	9992
Revenue projections				6.63	16.82	23.45
Total Revenue	1.27	8.54	3.26	8.47	16.82	38.36
Discount Rate	1.00	0.89	0.79	0.71	0.64	
Discounted ARR	2.96	7.92	6.07	5.84	5.40	28.19
Discounted revenue	1.27	7.59	2.59	6.03	10.72	28.19

3.28 Authority's Examination regarding True-up for FY 2019-20 & FY 2020-21 of the First Control Period at Consultation Stage:

- 3.28.1 The Authority noted that the under recovery for the FY 2019-20 and FY 2020-21 had not been worked out separately by M/s BKFFPL.
- 3.28.2 The Authority noted that due to reduction in ATF demand because of Covid-19 pandemic, M/s BKFFPL had made losses during the year FY 2019-20 and FY 2020-21.
- 3.28.3 The Authority noted that the International Operations have not commenced at Kannur International Airport till date.
- 3.28.4 The Authority worked out the Aggregate Revenue Requirement (ARR) as well as actual Revenue realized for the years of FY 2019-20 and FY 2020-21 of the First Control Period and the amount of excess/under recovery for True-up as given below:

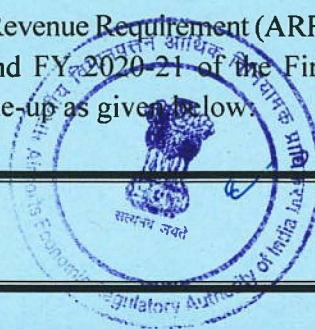


Table 11: ARR considered by the Authority for True-up for FY 2019-20 and FY 2020-21 of the First Control Period at Consultation stage.

Particulars (Rs. in lakhs)	Reference	FY 2019-20	FY2020-21	Total
Average RAB (refer Table No. 5)	A	1618.32	1556.3	
FRoR (refer Table No. 8)	B	11.18%	11.18%	
Return on RAB	C=A*B	180.93	173.99	354.92
Depreciation (refer Table No. 4)	D	73.35	74.49	147.84
OPEX (refer Table No. 9)	E	616.90	501.29	1118.19
Income Tax (refer para 3.6)	F	0	0	0.00
Gross ARR	G=C+D+E+F	871.18	749.77	1620.95
Less Other Income (refer Table No. 9)	H	13.34	16.08	29.42
Net ARR Recoverable	I=G-H	857.84	733.69	1591.53
Discount Factor	J	1.2361	1.1118	
NPV of ARR	K=I*J	1060.37	815.72	1876.09
FIF Revenue	L	840.93	309.69	1150.62
NPV of FIF Revenue	M=J*L	1039.47	344.31	1383.79
Under Recovery	N=K-M			492.31

3.28.5 The Authority worked out under recovery of Rs 492.31 lakhs. Following factors are the determinants for the level of under recovery:

- Decrease in the Fuel Throughput handled during FY 2019-20 & FY 2020-21 for the First Control Period to 0.62 lakhs KL from the projected volume of 1.15 lakhs KL.
- Considered average FRoR 11.18% against 12.48% and 11.97% for FY 2019-20 & FY 2020-21 respectively, proposed by the BKFFPL.

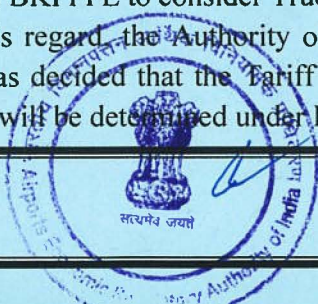
3.29 Stakeholders' Comments on True-up for the years FY 2019-20 and FY 2020-21 of the First Control Period:

BKFFPL's comments on True-up for the years FY 2019-20 and FY 2020-21 of the First Control Period.

3.29.1 BKFFPL has submitted that the Authority vide Order No. 14/2019-20 dated 28.10.2019 considered the True-up for the entire Control Period (i.e. from the commencement of operations till March 2023) and accordingly determined the Tariff. BKFFPL further submitted that in a regulated entity, the manner of recovery of shortfall is only through the rate determination by the Authority and accordingly, the evaluation has to consider the entire period of analysis, which was done by the Authority in its earlier Order No. 14/2019-20. Therefore, BKFFPL request the Authority to consider FY 2018-19 for True-up along with True-up of FY 2019-20 to FY 2020-21, as was considered in the past.

3.30 Authority's Analysis regarding True-up for the years FY 2019-20 and FY 2020-21.

3.30.1 The Authority notes the comments of BKFFPL to consider True-up of FY 2018-19 along with FY 2019-20 & FY 2020-21. In this regard, the Authority observed that as per Order No. 14/2019-20 dated 28.10.2019, it was decided that the Tariff for the period FY 2019-20 to 2022-23 of the First Control Period will be determined under Price Cap Approach.



3.30.2 In the same order it was mentioned that the O&M cost estimate proposed by BKFFPL seems to be on higher side and it was felt that actual O&M cost could be ascertained only after one or two years of operations. Accordingly, it was decided in the aforesaid order that O&M costs will be trued-up at the time of tariff determination for the 4th and 5th tariff years of the First Control Period.

3.30.3 As the Tariff determination for the FY 2019-20 to FY 2022-23 of the First Control Period for BKFFPL, Kannur was done on "Price Cap Approach", therefore, the Authority has decided to consider True-up from 01.04.2019 to 31.03.2021 in respect of First Control Period.

3.31 Authority's Decision regarding True-up for FY 2019-20 and FY 2020-21 of the First Control Period:

Based on the material before it and based on its analysis, the Authority decides the following in respect of First Control Period:

3.31.1 To True-up the depreciation for FY 2019-20 and FY 2020-21 as per Table 3.

3.31.2 To True-up the Regulatory Asset Base for FY 2019-20 and FY 2020-21 as per Table 4.

3.31.3 To True-up the Operational & Maintenance expenses for FY 2019-20 and FY 2020-21 as per Table 8.

3.31.4 To consider 'Nil' Income Tax for FY 2019-20 and FY 2020-21.

3.31.5 To True-up the FRoR for FY 2019-20 and FY 2020-21 as per Table 7.

3.31.6 To True-up ARR as per Table 11 and to consider the under recovery of Rs. 492.31 lakhs in tariff determination for the balance period of First Control Period i.e. FY 2021-22 and FY 2022-23.



CHAPTER 4. FUEL THROUGHPUT FORECAST

4.1 BKFFPL's submission on Fuel Throughput Forecast for the First Control Period as part of MYTP.

4.1.1 The projected Fuel Throughput (Volume) as per the MYTP of BKFFPL for the FY 2021-22 and FY 2022-23 is given below:

Table 12: Projection of fuel throughput as per BKFFPL for the FY 2021-22 and FY 2022-23.

Financial Year	Estimated KL	As a % of 2019-20
2021-22	23254	52%
2022-23	33662	75%

4.1.2 M/s BKFFPL submitted that quarterly ATF sales for the period April 2021 to June 2021 were 4306 KL as against the sale in the previous quarter i.e. January 2021 to March 2021 of 7344 KL. This was 41% less than the previous quarter. As per M/s BKFFPL, the sales during the subsequent months were around 1554 KL per month. Considering all these factor the projections made by M/s BKFFPL for the year FY 2021-22 and FY 2022-23 is given in Table above.

4.2 Authority's Examination regarding Fuel Throughput Forecast for the First Control Period at Consultation stage:

4.2.1 The Authority noted that M/s BKFFPL projected volumes for the FY 2020-21 as 52% of volume handled during FY 2019-20. As per Traffic News published by AAI, Kannur International Airport handled 2367 aircraft movements for the period April 2021 to August 2021 as against only 875 movements during April 2020 to August 2020. Considering the same proportion for the rest of the years, the total aircraft movements for the entire year FY 2021-22 comes to 5681 movements which is 58% of the traffic handled during FY 2019-20. On the basis of the aircraft movements and considering the improvement expected in Air Traffic in the coming months, it was proposed to adopt Fuel Throughput volumes for FY 2021-22 at 60% of the volumes handled during FY 2019-20.

4.2.2 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, fast vaccination against Covid-19, other measures taken to make the air travel safe, along with easing of air travel restrictions by GoI, the Aviation industry is expected to recover at a better pace in the next few years.

4.2.3 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.

4.2.4 The Authority noted that there is no International Movements at Kannur International Airport.

4.2.5 The Authority, using the above data proposed the following projection of fuel throughput



volumes for the Fuel Farm services of BKFFPL for the First Control Period as given in the Table below:

Table 13: Fuel Throughput (Volume) Proposed by the Authority for BKFFPL for First Control Period at Consultation Stage.

Financial Year	Estimated KL	As a % of 2019-20
2021-22	26929	60%
2022-23	44882	100%

4.3 Stakeholders' Comments regarding Fuel Throughput Forecast for the First Control Period:

BPCL's comments on Fuel Throughput Forecast for the First Control Period:

- 4.3.1 BPCL has submitted that they already witnessed the devastating impact of the second wave of Covid-19 and further wave is feared due to the newer variants of coronavirus emerging, hence the traffic is not likely to reach 100% of Pre-Covid numbers during FY 2022-23 as considered by AERA. BKFFPL's estimate of 75% of Pre-Covid volumes for FY 2022-23 thus looks to be reasonable, as this is also in line with existing volume of 2800 kl per month at the Airport.

BKFFPL's comments on Fuel Throughput Forecast for the First Control Period:

- 4.3.2 BKFFPL has submitted that, due to the continuing pandemic situation in the country and reduction in both domestic and international flight operations, the ATF volume has come down by around 60% at Kannur airport. This low ATF volume trend is expected to continue for another 2-3 years. Recovery of ATMs at Kannur International Airport till October 2021 in FY 2020-21 was dismal being only 35% of FY 2019-20. In view of the surge due to COVID-19 pandemic with new variants affecting population across the globe extent of effectiveness of vaccines still under study and considering that a third wave is likely to hit, which may be worse than the first and second one, any optimistic view of volumes returning to 2019-20 levels in FY 2022-23 may be misplaced. Moreover, it cannot be ignored that travel and movement restriction did provide impetus to new age communication technology which will considerably reduce business travel in the post Covid scenario.
- 4.3.3 As per BKFFPL submission they have re-evaluated the estimated volume offtake. The average KL is around 2800 KL/month in October 2021 and November 2021. Considering the same being maintained in the next few months, BKFFPL agrees with Authority's proposal of considering 26929 KL as the estimate for FY 2021-22. Considering a 5% to 10% growth in the Fuel offtake per month from the current average (of 2800 KL per month), BKFFPL estimate the Fuel offtake for 2022-23 to be around 35500 to 37000 KL. BKFFPL requests the Authority to consider Fuel offtake of around 36000 KL for FY 2022-23 and re-determine the Tariff accordingly.
- 4.3.4 BKFFPL further submitted that in view of the cash flow constraints that are existing in the company currently, non-achievement of fuel offtake from the estimated levels would only



jeopardize the operations and even the existence of the company. Hence, a realistic estimate of the achievable volumes is necessary to ensure the viability of operations at the Fuel Farm such that the BKFFPL is able to meet and fulfil its obligations towards banks in terms of Interest and Principal repayments, payments to creditors, statutory authorities etc.

4.4 BKFFPL's response to BPCL comments regarding Fuel Throughput Forecast for FY 2021-22 and FY 2022-23 of the First Control Period:

- 4.4.1 BKFFPL agrees with the views expressed by BPCL. BKFFPL states that as part of response to Consultation Paper, they have submitted detailed response on traffic and volumes.

4.5 Authority's Analysis regarding Fuel Throughput Forecast for FY 2021-22 and FY 2022-23 of the First Control Period:

- 4.5.1 The Authority notes from the comments of BKFFPL & BPCL on Fuel Throughput volume for FY 2021-22 and FY 2022-23 of the First Control Period and it is clarified that the traffic estimates considered by the Authority are based on a balanced approach and were arrived at after thorough analysis of all the available information at its disposal and substantial deliberations.
- 4.5.2 The Authority has also taken into consideration the outlook of various industry bodies and aviation expert agencies regarding the traffic level to be achieved during the Control Period. At present, the traffic situation is very dynamic. There is no scientific model available for traffic projections to cater to such pandemic situations. Therefore, with the gradual revival of the economy, increase in the uptake of the vaccines, measures taken by the Govt. of India (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. It is also noted that the latest wave due to omicron is subsiding and Traffic is likely to go up.
- 4.5.3 In view of the above, the Authority has decided to consider the fuel throughput projections as proposed at Consultation Stage.

4.6 Authority's Decisions regarding Fuel Throughput Forecast for FY 2021-22 and FY 2022-23 of the First Control Period.

Based on the material before it and its analysis, the Authority has decided:

- 4.6.1 To consider Fuel Throughput Forecast for FY 2021-22 and FY 2022-23 of the First Control Period for BKFFPL, Kannur as per Table 13.
- 4.6.2 To True-up the Fuel Throughput (volume) on the basis of actual off take for FY 2021-22 & FY 2022-23 of the First Control Period while determining Tariff for the Second Control Period.



CHAPTER 5. REGULATORY ASSET BASE AND DEPRECIATION.

5.1 BKFFPL's submission on Regulatory Asset Base and Depreciation for the FY 2021-22 and FY 2022-23 as part of MYTP.

A. Regulatory Asset Base (RAB)

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 assets that substantially provide services not related to or not normally provided as part of Regulated Service (s) may be excluded from the scope of RAB by the Authority, in its discretion.

5.1.3 M/s BKFFPL submitted the Regulatory Asset Base (RAB) considering the Nil Capital Expenditure and Depreciation as per Table 14 & Table 15 respectively for FY 2021-22 and FY 2022-23 as per details given below:

Table 14: Regulatory Asset Base (RAB) submitted by M/s BKFFPL for the years FY 2021-22 and FY 2022-23.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Opening RAB (A)	1522.95	1448.46	
Additions (B)	0	0	0
Depreciation (C)	74.49	74.49	148.98
Closing RAB D=A+B-C	1448.46	1373.97	
Average RAB E=(A+D)/2	1485.70	1411.22	

5.2 Authority's Examination and analysis regarding Regulatory Asset Base (RAB) for the FY 2021-22 and FY 2022-23 at Consultation Stage:

5.2.1 The Authority noted that BKFFPL has not proposed any Capital Expenditure for the years FY 2021-22 and FY 2022-23. However, if necessitated due to site and safety requirements, some capital spending may be undertaken by M/s BKFFPL.

5.2.2 The Authority noted that the depreciation rates adopted by M/s BKFFPL are in line with the Order No. 35/2017-18 dated 9th April 2018.

5.2.3 In line with the approach of the Authority treating the land lease rent as operating expenses, M/s BKFFPL excluded the Right of Use Assets from the Regulatory Asset Base. In view of the above, the Authority proposed to consider the Regulatory Asset Base (RAB) for the FY 2021-22 and FY 2022-23 as per Table 14 above.

B. Depreciation:

5.2.4 The depreciation amount projected by M/s BKFFPL for the years FY 2021-22 and FY 2022-23 is given below:



Table 15: Depreciation (Asset-wise) as projected by BKFFPL and considered by the Authority at Consultation Stage for FY 2021-22 and FY 2022-23.

Particulars (Rs.in lakhs)	FY 2021-22	FY 2022-23	Total
Buildings	15.58	15.58	31.16
Computers	0.08	0.08	0.16
Culverts & Drain	3.38	3.38	6.76
Electrical Equipments	7.92	7.92	15.84
Furniture & Fixtures	2.63	2.63	5.26
Lab Equipments	0.51	0.51	1.02
Office Equipments	2.41	2.41	4.82
Plant & Machinery	6.98	6.98	13.96
Roads	24.74	24.74	49.48
Tanks	7.08	7.08	14.16
Deadstock	0	0	0
Land Improvement	3.18	3.18	6.36
Total	74.49	74.49	148.98

5.3 Authority's Examination regarding Depreciation for the FY 2021-22 and FY 2022-23 at Consultation Stage:

- 5.3.1 The Authority noted that the useful life of assets adopted by M/s BKFFPL is in line with the rates laid down in Authority's Order No. 35/2017-18 dated 9th April 2018.
- 5.3.2 In line with the approach of the Authority treating the Deadstock as a non depreciable asset, M/s BKFFPL also treated the Deadstock as a non depreciable asset.
- 5.3.3 In line with the approach of the Authority in treating the land lease rent as operating expenses, M/s BKFFPL submitted the depreciation by excluding the Right of Use Assets created in the books under Ind AS 116.
- 5.3.4 The Authority noted that M/s BKFFPL capitalized the cost of developing the land for constructing buildings, under the headland improvement.
- 5.3.5 In view of the above, the Authority proposed to consider the Depreciation for the FY 2021-22 and FY 2022-23 as per Table 15 above.

5.4 Stakeholders' Comments regarding Regulatory Asset Base (RAB) & Depreciation for the FY 2021-22 and FY 2022-23:

- 5.4.1 No comments were received from Stakeholders on Regulatory Asset Base (RAB) & Depreciation for the FY 2021-22 and FY 2022-23 of the First Control Period.

5.5 Authority's analysis on Regulatory Asset Base (RAB) & Depreciation for the FY 2021-22 and FY 2022-23 of the First Control



5.5.1 It is noted that no comments were received from the Stakeholders regarding Regulatory Asset Base (RAB) & Depreciation for the FY 2021-22 and FY 2022-23. Therefore, the Authority has decided to consider the Regulatory Asset Base (RAB) & Depreciation as proposed at Consultation Stage.

5.6 Authority's Decisions regarding Regulatory Asset Base (RAB) & Depreciation for FY 2021-22 and FY 2022-23 of the First Control Period.

Based on the material before it and its analysis, the Authority has decided:

5.6.1 To consider Regulatory Asset Base (RAB) for the FY 2021-22 and 2022-23 as per Table 14.

5.6.2 To consider Depreciation for the FY 2021-22 and 2022-23 as per Table 15.

5.6.3 To True-up the Regulatory Asset Base (RAB) & Depreciation based on actuals at the time of Tariff determination for second Control Period.



CHAPTER 6. FAIR RATE OF RETURN (FRoR)

6.1 BKFFPL submission on Fair Rate of Return (FRoR) for the FY 2021-22 and FY 2022-23 as part of MYTP.

6.1.1 BKFFPL projected Fair Rate of Return (FRoR) as 11.61% in MYTP for the FY 2021-22 and FY 2022-23. As per the MYTP submission made by BKFFPL the cost of equity, cost of debt and FRoR is given below:

Table 16: FRoR projected by BKFFPL for FY 2021-22 and FY 2022-23.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23
Opening Equity	900.00	900.00
Closing Equity	900.00	900.00
Average Equity	900.00	900.00
Opening Debt	1075.00	1052.00
Closing Debt	1052.00	995.00
Average Debt	1063.00	1024.00
Gearing	54.16%	53.21%
Cost of Debt	7.90%	7.71%
Cost of Equity	16%	16%
FRoR	11.61%	11.61%

6.2 Authority's Examination regarding Fair Rate of Return (FRoR) for FY 2021-22 and FY 2022-23 at Consultation Stage:

6.2.1 The Authority noted that M/s BKFFPL projected a return on equity of 16% as against the Cost of Equity considered by the Authority in similar cases, 14%.

6.2.2 After considering the Opening balance for FY 2021-22 as per the audited accounts and after considering the cost of equity at 14%, the revised FRoR proposed for FY 2021-22 and FY 2022-23 is given below:

Table 17: FRoR proposed by the Authority for BKFFPL for FY 2021-22 and FY 2022-23 at Consultation Stage.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23
Opening Equity	900.00	900.00
Closing Equity	900.00	900.00
Average Equity	900.00	900.00
Opening Debt	1052.00	1029.00
Closing Debt	1029.00	972.00
Average Debt	1040.50	1000.50
Gearing	53.62%	52.64%
Cost of Debt	7.90%	7.71%
Cost of Equity	14%	14%
FRoR		
Equity Portion	6.49%	6.63%
Debt Portion	4.24%	4.06%
Total	10.73%	10.69%
Average FRoR	10.71%	



6.3 Stakeholders' Comments regarding FRoR for FY 2021-22 and FY 2022-23 of the First Control Period:

FIA's Comments on Fair Rate of Return:

- 6.3.1 FIA has submitted that presently, the Authority provides a Fair Rate of Return (FRoR) to BKFFPL towards their investment. While such fixed/ assured return favours the service provider, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher Tariffs. However, due to such fixed/assured returns, service providers like BKFFPL have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. In the present scenario any assured return on investment to any services providers like BKFFPL, in excess of three (3) % (including those on past orders), i.e. being at par with bank fixed deposits, will be onerous for the airlines.
- 6.3.2 FIA has further submitted that in case the Authority is unable to accept FIA's recommendation mentioned above, the Authority is requested to conduct an independent study for determination of FRoR to be provided in favor of BKFFPL. Such independent study can be exercised by the Authority in terms of powers conferred under the Airports Economic Regulatory Authority of India Act, 2008, as amended, and in line with studies being conducted by Authority in case of certain major airport operators.

BKFFPL's Comments on Fair Rate of Return:

- 6.3.3 BKFFPL has submitted that the Authority considered 14% as cost of equity. At the time of implementing the project, BKFFPL had factored an effective Debt & Equity structure and taken loans for half of the project value to optimize the financing of the Project. Based on this fact and the consideration of the risks involved in the Fuel Farm Operations, especially at Kannur Airport, the Authority had determined the Cost of Equity to be 16% and determined the FRoR considering the actual Gearing of Debt and Equity in Order No. 14/2019-20. The riskiness of the project got further accentuated by the global Covid-19 pandemic. In case of BKFFPL, the traffic envisaged from International Operators did not happen due to the airport not being permitted to be a port of call.
- 6.3.4 BKFFPL has further submitted that in the recent Tariff Orders issued by the Authority, the cost of equity has been determined at a higher rate between 15% to 15.5% for the other Airports. With Operations at Kannur airport being more riskier than the other Airports, the Cost of Equity of 16% is well justified, which the Authority had rightly considered in its Order No.14/ 2019-20. Hence, BKFFPL requests the Authority to consider cost of equity as 16% which was adopted for the same Control Period earlier by the Authority, also in light of no positive changes having influenced any need for reduction in the Cost of Equity.

6.4 BKFFPL's response to FIA comments regarding FRoR for FY 2021-22 and FY 2022-23 of the First Control Period:

- 6.4.1 In response to FIA comments, BKFFPL has submitted that it would be difficult to attract any future investment in the form of Debt or Equity if the FRoR is capped at 3%. Risk free returns



available in the market at government bonds is close to 6-7% and considering the airport sector is the most sensitive sector, and majorly impacted sector as its revenue is directly affected due to change in any stimulus impacting the economy.

- 6.4.2 BKFFPL has further submitted its detailed responses on the Cost of Equity as part of its response to Consultation Paper. Accordingly, BKFFPL requests the Authority to consider the cost of equity at 16% as per the MYTP submission made by it.

6.5 Authority's Analysis regarding Fair Rate of Return (FRoR):

- 6.5.1 The Authority notes from the FIA's comments on Fair Rate of Return (FRoR) and observes that M/s BKFFPL has met the CAPEX requirement with a mix of debt & equity for the First Control Period.

- 6.5.2 The Authority further notes the comment of FIA regarding fixed/assured return and is of view that the investment made by any Service Provider on Capital Assets, particularly for Aeronautical Assets, has a long gestation period and on such long term investments the Service Provider needs a stable Return on Equity. Therefore, the Authority feels that it is not practically feasible to cap the FRoR @ 3%, particularly when the Service Provider utilizes a combination of Debt and Equity to Finance CAPEX for purchase/replacement of Capital Assets. The Authority also noted FIA's comment to conduct an independent study for determination of FRoR for BKFFPL. In this regard, the Authority believes that in future, the independent study may be undertaken wherever it is deemed necessary.

- 6.5.3 The Authority noted the comments of BKFFPL on cost of equity and following the consistent approach as regard to Cost of Equity, decides to adopt Cost of Equity @ 14.00%, as considered by the Authority for other Independent Service Providers. Comparison of mere cost of equities of different entities may not be appropriate since the risk profile, market share, business model of each entity is different. Further, it is noted that operations of BKFFPL is monopolistic in nature and there doesn't seem to be any major risk to the business.

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

- 6.5.5 In view of the above, the Authority decides to consider the Fair Rate of Return (FRoR) as proposed at Consultation Stage as given in Table 17 above.

6.6 Authority's Decisions regarding Fair Rate of Return (FRoR) for FY 2021-22 and FY 2022-23 of the First Control Period.

Based on the material before it and its analysis, the Authority has decided:

- 6.6.1 To maintain the cost of equity at 14% for the First Control Period.
- 6.6.2 To adopt the FRoR as calculated in Table 17 for the First Control Period (FY 2021-22 and 2022-23).
- 6.6.3 To True-up FRoR during the Tariff determination for the Second Control Period.



CHAPTER 7. OTHER INCOME

7.1 BKFFPL submission on Other Income for FY 2021-22 and FY 2022-23 of the First Control Period as part of MYTP.

7.1.1 M/s BKFFPL had not projected any Other Income for FY 2021-22 and FY 2022-23 of the First Control Period.

7.2 Authority's Examination regarding Other Income for FY 2021-22 and FY 2022-23 of the First Control Period at Consultation Stage.

The Authority observed that other income consists mainly of interest income and income from sale of scrap. The interest income is dependent on availability of surplus funds from Aeronautical Operations and income from sale of scrap is also non recurring and uncertain income, arising occasionally from Aeronautical Operations. Thus, the Authority, for Revenue Projection of FY 2021-22 & FY 2022-23 had proposed to consider Other Income as "NIL" and to true up the "Other Income" based on actual during the next control period.

7.2.1 M/s BKFFPL also made losses in the previous two years, it will be difficult to estimate the likely interest income. Therefore, the Authority proposed not to consider "Other Income" for the years FY 2021-22 and 2022-23.

7.3 Stakeholders' Comments regarding Other Income for FY 2021-22 and FY 2022-23 of the First Control Period:

7.3.1 During the stakeholder consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 13/2020-21 with respect to Other Income for FY 2021-22 and FY 2022-23 of the First Control Period.

7.4 Authority's Decisions regarding Other Income for FY 2021-22 and FY 2022-23 of the First Control Period.

Based on the material before it and its analysis, the Authority has decided:

7.4.1 To consider Nil Other Income for FY 2021-22 and FY 2022-23 of the First Control Period.

7.4.2 To true up "Other Income" during the Tariff determination for the Second Control Period.



CHAPTER 8. OPERATION AND MAINTENANCE EXPENDITURE

8.1 BKFFPL's submission on Operation and Maintenance Expenditure for the balance period of the First Control Period (FY 2021-22 and FY 2022-23) as part of MYTP.

8.1.1 As provided in Clause 9.4 of the CGF Guidelines mentioned in Direction No. 04/2010-11 dated 10th January 2011, 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.

8.1.2 Operation and Maintenance (O&M) expenditure submitted by BKFFPL is segregated into the following categories:

- a) Salaries
- b) Land lease Rent
- c) Insurance
- d) Power charges
- e) Operator charges to BPCL
- f) Repair & Maintenance
- g) Other Expenses

8.1.3 In order to reduce the expenditure M/s BKFFPL submitted that the following austerity measures were taken to optimize and reduce costs:

- a) M/s BKFFPL requested to M/s BPCL to reduce the staff from 4 to 3 for FY 2020-21 onwards.
- b) M/s BKFFPL got the budgeted Costs for FY 2021-22 reduced from Rs.410 lakhs to Rs.350 lakhs.
- c) M/s BKFFPL communicated to the Operators of Fuel Farm (ie BPCL) to take prior approval of CEO, BKFFPL for expenses amounting to more than Rs. 20,000 to control costs.

8.1.4 Based on the above, BKFFPL projected Operation and Maintenance Expenditure for the year FY 2021-22 and FY 2022-23 as given below:

Table 18: Operating Expenses as submitted by M/s BKFFPL for the years FY 2021-22 and FY 2022-23

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Salaries	17.00	18.00	35.00
Land lease Rent	137.06	149.40	286.46
Insurance	1.00	1.00	2.00
Power charges	10.00	11.00	21.00
Operator charges to BPCL	350.00	367.49	717.49
Repair & Maintenance	2.00	2.00	4.00
Other Expenses	54.24	56.95	111.20
Total	571.30	605.84	1,177.15

8.2 Authority's Examination regarding Operation and Maintenance (O&M) Expenditure for FY 2021-22 and FY 2022-23 of the First Control Period at Consultation Stage:

- 8.2.1 The Authority had noted that for the year FY 2021-22, the salary cost of M/s BKFFPL's own staff has been projected to increase by 9.4% over the staff cost of FY 2020-21. The increase for FY 2022-23 had been projected at 5% over FY 2021-22 levels. The Authority proposed to consider a 5% growth rate for FY 2021-22 over the FY 2020-21 levels in line with the growth rate projected by M/s BKFFPL for FY 2022-23.
- 8.2.2 The Authority noted that the land lease rent payable to the Airport Operator has been treated as Right of Use Assets in the books of accounts in line with Ind AS 116. However, in line with the approach of the Authority treating the same as part of operating expenses, land lease rentals have been included in the operating expenses by BKFFPL. The lease rent in the first year is applicable to the tune of Rs.475.24/sq. for an area of 28000 sq.m and thereafter an escalation of 9% YoY in the month of December is also applicable as per the relevant agreement. The land rent is the second major element in the operating cost constituting 24% of the total costs.
- 8.2.3 M/s BPCL carries out the Operation and Maintenance of Fuel Farm and Into Plane facilities on behalf of M/s BKFFPL. The refuellers for Into Plane services are also deployed by BPCL and the costs are recovered from M/s BKFFPL. The Operator charges payable to M/S BPCL is the major component of O&M expenditure of M/s BKFFPL i.e. 61% of the total cost. The Authority feels that efforts should be made to reduce the costs so that the Fuel Farm can be operated economically with reasonable Tariff. For an in-depth examination of Operator Charges paid to BPCL, the Authority sought additional details relating to the Operator Charges. The details submitted by M/s BKFFPL are given below:

Table 19: Details of Operator Expenses for FY 2021-22 and FY 2022-23 as submitted by M/s BKFFPL.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Employee Cost	85.59	89.87	175.46
Personnel cost - Third Party	95.58	100.36	195.94
Repairs & Maintenance	37.72	39.61	77.33
Refueller - Depreciation - Bowesers etc.	28.93	30.38	59.31
Safety/ Security Expenses	18.51	19.44	37.95
Power & Fuel	18.67	19.60	38.27
Rates & Taxes	4.49	4.71	9.20
Travelling and conveyance	1.88	1.97	3.85
Legal/ Professional fee	2.13	2.24	4.37
Other Expenditure	1.60	1.68	3.28
Communication/ Postal Expenses	0.96	1.01	1.97
Stores & Spares	5.04	5.29	10.33
Printing	0.62	0.65	1.27
Grand Total	301.72	316.81	618.53
Overheads recovery and Margin @ 16%	48.28	50.69	98.96
Total Operator Charges	350.00	367.49	717.49



- 8.2.4 The Authority had noted that the employee for BPCL staff projected for FY 2021-22 as a part of operator expenses is more than FY 2020-21 levels in respect of station Manager is 35%, Assistant Manager is 169% and Executive level is 10%. In order to standardize the growth rate at various levels, the Authority proposed to consider a 5% growth rate for FY 2021-22 over the FY 2020-21 levels. Similarly, for FY 2022-23 a growth of 5% proposed to be consider as projected by M/s BKFFPL.
- 8.2.5 The Authority also noted that the cost of outsourced employees included in the operator expenses for FY 2021-22 is more than the FY 2020-21 levels by 12%. In line with the proposal regarding staff cost of M/s BKFFPL and M/s BPCL, the Authority proposed to consider a 5% growth rate for FY 2021-22 over FY 2020-21 levels. Similarly, for FY 2022-23 a growth rate of 5% is proposed to be considered as projected by M/s BKFFPL.
- 8.2.6 The Authority observed that the expenditure on Power and Fuel projected for FY 2021-22 is 104% more than the FY 2020-21 levels and 28% of FY 2019-20 levels. It was proposed to limit the Power and Fuel expenses at Rs.15.35 lakhs for FY 2021-22 which is more than the FY 2019-20 levels by 5%. For the year FY 2022-23, a further increase of 5% was also proposed as projected by M/s BKFFPL as part of MYTP submission.
- 8.2.7 Similarly, the Authority had noted that the expenditure on Stores and Spares projected for FY 2021-22 is more than 12 times of FY 2020-21 levels and 106% of FY 2019-20 levels. Therefore, it was proposed to limit the Stores and Spares expenditure at Rs.2.60 lakhs for FY 2021-22 which is more than the FY 2019-20 levels by 5%. For the year FY 2022-23, a further increase of 5% was proposed as projected by M/s BKFFPL.
- 8.2.8 Accordingly, the Authority proposed to revise the Operator Expenses for FY 2021-22 and FY 2022-23 as per details given below:

Table 20: Operator Expenses proposed to be adopted by the Authority for FY 2021-22 and FY 2022-23 at Consultation Stage.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Employee Cost	58.50	61.43	119.93
Personnel cost - Third Party	89.71	94.20	183.91
Repairs & Maintenance	37.72	39.61	77.33
Refueller - Depreciation - Bowesers etc.	28.93	30.38	59.31
Safety/ Security Expenses	18.51	19.44	37.95
Power & Fuel	15.35	16.12	31.47
Rates & Taxes	4.49	4.71	9.20
Travelling and conveyance	1.88	1.97	3.85
Legal/ Professional fee	2.13	2.24	4.37
Other Expenditure	1.60	1.68	3.28
Communication/ Postal Expenses	0.96	1.01	1.97
Stores & Spares	2.57	2.70	5.27
Printing	0.62	0.65	1.27
Grand Total	262.97	276.12	539.09
Overheads recovery and Margin @ 16%	42.08	44.18	86.25
Total Operator Charges	305.05	320.30	625.34

8.2.9 The Authority also noted that Other Expenses projected for FY 2021-22 is more than 3 times of FY 2020-21 levels. For an in-depth examination of the expenditure, details of Other Expenses were obtained from M/s BKFFPL. The details as submitted by M/s BKFFPL are given below:

Table 21: Details of Other Expenses for FY 2021-22 and FY 2022-23 as submitted by M/s BKFFPL.

Particulars (Rs. in lakhs)	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	Total (FY 2021-22 & FY 2022-23)
Audit Fee	0.75	1.14	2.58	2.71	5.29
Accommodation Expenses	1.61	0.07	3.22	3.38	6.60
Annual Maint. Charges	0.13	0.00	0.76	0.80	1.56
Business Relation Expenses	0.28	0.20	2.00	2.10	4.10
Building Maint. Exp			2.00	2.10	4.10
Daily Allowance	1.19	0.15	2.53	2.66	5.19
Device Charges	0.27	1.60	1.60	1.68	3.28
Food Expenses	0.48	0.18	1.20	1.26	2.46
Facilitation Expense			0.50	0.53	1.03
Gardening			4.00	4.20	8.20
Licence Fee	0.83	0.52	0.85	0.89	1.74
Meeting Expense			0.75	0.79	1.54
Office Expenses	0.93	0.60	1.50	1.58	3.08
Other Misc items	5.28	0.77	0.94	0.99	1.93
Professional & Consultancy	7.18	4.06	8.00	8.40	16.40
Postage & Courier	0.13		0.22	0.23	0.45
Printing & Stationery	0.22	0.13	1.00	1.05	2.05
Rates & Taxes	24.65	0.93	4.97	5.22	10.19
Stamping Charges	0.20		0.15	0.16	0.31
Salary reimbursement		1.35	1.35	1.42	2.77
Training Expenses			1.00	1.05	2.05
Travelling Expenses	6.37	0.52	10.23	10.74	20.97
Telephone Charges			0.25	0.26	0.51
Water Charges	1.51	1.21	2.64	2.77	5.41
Total Other Expenses	52.01	13.43	54.24	56.95	111.19

8.2.10 The Authority had noted that the projections made by M/s BKFFPL for Audit Fee, Accommodation Expenses, Business Relation Expenses, Daily allowance, Food Expenses and Travelling Expenses was disproportionately high compared to the FY 2019-20 levels which was a pre Covid year. Expenses towards Building maintenance and Gardening are new expenses which were not there during the previous years i.e. FY 2019-20 and FY 2020-21. The Authority feels that M/s BKFFPL shall require to adopt cost control measures on such expenses to maintained efficiency in its operations. Therefore, the Audit Fee kept for FY 2021-22 at Rs.1.20 lakhs which was 5% over FY 2020-21 levels.

8.2.11 Further, the expenses such as accommodation expenses, Business Relation, Daily Allowance, Food Expenses, Office Expenses and Travelling Expenses considered at 5% more than the FY

2019-20 levels. The projections for Building Maintenance and Gardening kept at 50% of the projections made by M/s BKFFPL. The projections for FY 2022-23 maintained at 5% over the FY 2021-22 levels as projected by M/s BKFFPL. The revised Other Expenses proposed by the Authority for FY 2021-22 and FY 2022-23 are given below:

Table 22: Other Expenses proposed by the Authority for FY 2021-22 and FY 2022-23 at Consultation Stage.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Audit Fee	1.20	1.26	2.46
Accommodation Expenses	1.69	1.78	3.47
Annual Maintenance charges	0.76	0.80	1.56
Business Relation expenses	0.29	0.31	0.60
Building maintenance expenses	1.00	1.05	2.05
Daily Allowance	1.25	1.31	2.56
Device charges	1.60	1.68	3.28
Food Expenses	0.50	0.53	1.03
Facilitation expense	0.50	0.53	1.03
Gardening and greenery development	2.00	2.10	4.10
License Fee	0.85	0.89	1.74
Meeting expense	0.75	0.79	1.54
Office Expenses	0.98	1.03	2.00
Other Misc items	0.94	0.99	1.93
Professional & Consultancy Charges	8.00	8.40	16.40
Postage and Courier Charges	0.22	0.23	0.45
Printing and Stationery	1.00	1.05	2.05
Rates & Taxes	4.97	5.22	10.19
Stamping charges	0.15	0.16	0.31
Salary reimbursement	1.35	1.42	2.77
Training Expense	1.00	1.05	2.05
Travelling Expenses	6.69	7.02	13.71
Telephone Charges	0.25	0.26	0.51
Water Charges	2.64	2.77	5.41
Other Expenses as per Financial Statement	40.58	42.61	83.19

8.2.12 Considering the above examination by the Authority, Operating and Maintenance Expenditure proposed by the Authority for FY 2021-22 and FY 2022-23 are given below:

Table 23: Operating and Maintenance Expenses proposed by the Authority for FY 2021-22 and FY 2022-23 at Consultation Stage.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Salaries	16.32	17.14	33.46
Land lease Rent	137.06	149.40	286.46
Insurance	1.00	1.00	2.00
Power Charges	10.00	11.00	21.00
Operator Charges to BPCL	305.05	320.30	625.34
Repair & Maintenance	2.00	2.00	4.00
Other Expenses	40.58	42.61	83.19
Total	512.01	543.44	1055.45



8.3 Stakeholders' Comments regarding Operating and Maintenance Expenditure for FY 2021-22 and FY 2022-23 of the First Control Period:

FIA's Comments on Operating and Maintenance Expenditure for FY 2021-22 and FY 2022-23 of the First Control Period:

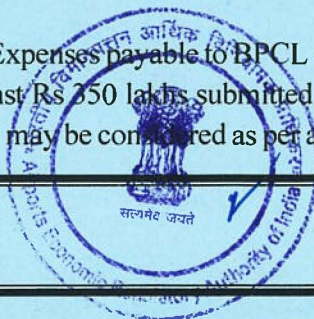
- 8.3.1 FIA has submitted that whether BKFFPL has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by BKFFPL impacts the airlines, as such cost is passed through or borne by the airlines. The Authority may like to advise BKFFPL to review its spending on operational expenditure and re-negotiate all the operational expenditure costs in a significant manner.
- 8.3.2 FIA has further submitted that the Operational & Maintenance expenditure CAGR proposed by BKFFPL is 5% and land/lease rental at the rate of 9% which appears to be on the higher side/levels. FIA appreciate that AERA in para 7.4.4 of C.P. noted *"The Authority feels that efforts should be made to reduce the costs so that the Fuel Farm can be operated economically with reasonable Tariff"*. However, FIA request AERA to not consider any escalations, as such escalation will lead to higher Tariffs creating an in the process of financial recovery of airlines.
- 8.3.3 FIA has also submitted that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs on the other hand BKFFPL seems to have paid/will pay incremental salaries which may not appear prudent considering the significant losses incurred by the aviation sector. It appears that BKFFPL wants to recover its full employee cost from the airlines, which are facing significant challenges to meet its operating expenses. There should not be any increase in manpower till the existing manpower is effectively utilized as it will take another two (2)- three (3) years to recover. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced. BKFFPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions for the next Control Period.

FIA's Comment on Abolishment of Royalty Charges for FY 2021-22 and FY 2022-23 of the First Control Period:

- 8.3.4 FIA has submitted that royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. FIA urges Authority to abolish such royalty which may be included in any of the cost items.

BPCL's comments on Operating and Maintenance Expenditure for FY 2021-22 and FY 2022-23 of the First Control Period.

- 8.3.5 BPCL has submitted that the Operator Expenses payable to BPCL as operator, by BKFFPL have been considered Rs. 303 lakhs as against Rs 350 lakhs submitted by BKFFPL. Since these are actual expenses it is requested that these may be considered as per actuals and 5% escalation over



Rs 350 lakhs may be taken for FY 2022-23.

BKFFPL's comments on Operating and Maintenance Expenditure for for FY 2021-22 and FY 2022-23 of the First Control Period.

- 8.3.6 BKFFPL has submitted that the actual employee cost for BPCL the FY 2020-21 was Rs.87.26 lakhs. This is evidenced by the Operator cost included as part of the financial statement and the break-up submitted to the Authority as part of the response. However, the Authority has considered a reduced employee cost at Rs.58.5 lakhs for computation for the FY 2021-22.
- 8.3.7 BKFFPL has further submitted that the actual average employee cost for BPCL staff for the period April 2021 to October 2021 comes to Rs. 6.55 lakhs per month. Copies of 2 months cost break-up on a sample basis is enclosed along with the invoice received from BPCL. Considering the cost of Rs. 6.5 lakhs per annum for 12 months and approximate additional cost of Rs. 6.5 lakhs that will be billed in January by BPCL towards annual leave and retiral provisions, which is charged in January every year (as noted from the previous years' data), the estimate works out to approx. Rs. 85 lakhs, which is the basis for the budgetary estimate submitted by BKFFPL as part of its MYTP submission. Hence if we consider Rs.58.50 lakhs for the FY 2021-22 it will be understatement of employee cost which make it difficult for sustaining the operations. Therefore, BKFFPL requests the Authority to consider Employee cost at Rs.85.59 lakhs for FY 2021-22 as submitted and Rs. 89.87 lakhs for FY 2022-23.
- 8.3.8 BKFFPL has also submitted that the actual average cost of Third Party salary cost of BPCL incurred by BKFFPL for the period April 2021 to September 2021 is Rs. 7.5 lakhs per month and additional cost for leave and retrial benefits would be debited in January. Hence, BKFFPL requests the Authority to consider Third Party Employee Cost of Rs. 95.58 lakhs for 2021-22 and Rs. 100.36 lakhs for FY 2022-23.
- 8.3.9 BKFFPL has submitted that the Authority proposed Stores & Spares cost from Rs.5.04 lakhs to Rs.2.57 lakhs for the FY 2021-22. BKFFPL projected the Rs.5.04 lakhs for the FY 2021-22 as given below:

Particulars	Qty	Rate	Amount (Rs. in lakhs)
Hoses-Refuelling	2	65000	1.30
Aquadis Capsule	100	600	0.60
Filter for ATF Supply	126	2000	2.52
Sample Containers	5	500	0.02
Battery	5	12000	0.60
TOTAL			5.04

BKFFPL further submits that Operator required replacement of hoses and other items within specified period. Since FY 2020-21 was pandemic year operators were not able to purchase new items and used the items in the store. Hence, there is a requirement to purchase new hoses and filters for uses. Operators have already given purchase order for purchasing new filter for Rs.3.97

lakhs in addition to the already existing consumables. Hence BKFFPL requests to the Authority to allow Rs. 5.04 lakhs for FY 2021-22 and Rs. 5.29 lakhs for FY 2022-23 as submitted in the MYTP submissions.

8.3.10 BKFFPL has also submitted that Power & Fuel costs estimates were based on detailed projections and increased use due to increase in volume offtake during 2021-22 as compared to FY 2020-21. BKFFPL requests the Authority to consider the cost estimates, which are made based on detailed estimation process, after necessary diligence and review of costs needed to manage operations efficiently, at the same time, optimizing and minimizing costs that are needed for the operations, as per the explanations given above. BKFFPL further requests that the costs are Trued up based on actuals at the time of subsequent Tariff determination.

8.4 BKFFPL's response to FIA & BPCL comments regarding Operating Expenses for FY 2021-22 and FY 2022-23 of the First Control Period:

8.4.1 BKFFPL has not submitted any response on the FIA's comments regarding Royalty Fee. As far as the FIA's comments on Operating Expenditure is concerned, BKFFPL has submitted that wherever possible, BKFFPL has undertaken cost cutting measures including renegotiations of all the cost items without compromising the quality of service and safety of operations. BKFFPL endeavour to minimize employee expense/Operator Expenses. 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.

8.4.2 BKFFPL re-affirms that the costs incurred are optimal and that costs are carefully reviewed at each stage of operation. Minimum level of members is required to support the Fuel Farm operations, which has been ensured by BKFFPL. The facility at Kannur faces lower volume demands, which has been worsened by the ongoing COVID-19 pandemic conditions.

8.4.3 As far as the BPCL comments on Operating Expenditure is concerned, BKFFPL has submitted that they have already submitted detailed response on the Operator expenses including details of the actual costs incurred and requested to the Authority to consider the same in determination of Tariff and issuance of the order.

8.5 Authority's Analysis regarding Operation and Maintenance (O&M) Expenditure & Royalty charges for FY 2021-22 and FY 2022-23 of the First Control Period:

8.5.1 In response to FIA's comments on the Royalty Charges, the Authority observes that no royalty fees in any form is being paid by BKFFPL Fuel Farm to the Airport Operator at Kannur Airport.

8.5.2 As far as the BKFFPL comments on Operation and Maintenance (O&M) Expenditure is concerned, the Authority is of the view that due to COVID -19 pandemic, the increase in the payroll costs should be lower than what is generally considered during normal years. The Authority notes that BKFFPL proposed higher increase in payroll cost in respect of certain category of employees at the level of Station Manager, Assistant Manager and Executive for FY

2021-22.

- 8.5.3 The Authority notes that BKFFPL proposed one Assistant Manager in place of existing two Assistant Managers for the remaining period of First Control Period. Considering the 5% YoY increase, the Authority has recalculated the employee cost payable to BPCL which comes to Rs. 69.54 lakhs and Rs. 73.02 lakhs for FY 2021-22 and FY 2022-23. Accordingly, the revised Operator Expenses are as per Table below:

Table 24: Operator Expenses considered by the Authority for FY 2021-22 and FY 2022-23.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Employee Cost	69.54	73.02	142.56
Personnel cost - Third Party	89.71	94.20	183.91
Repairs & Maintenance	37.72	39.61	77.33
Refueller - Depreciation - Bowesers etc.	28.93	30.38	59.31
Safety/ Security Expenses	18.51	19.44	37.95
Power & Fuel	15.35	16.12	31.47
Rates & Taxes	4.49	4.71	9.20
Travelling and conveyance	1.88	1.97	3.85
Legal/ Professional fee	2.13	2.24	4.37
Other Expenditure	1.60	1.68	3.28
Communication/ Postal Expenses	0.96	1.01	1.97
Stores & Spares	2.57	2.70	5.27
Printing	0.62	0.65	1.27
Grand Total	274.01	287.71	561.72
Overheads recovery and Margin @ 16%	42.08	44.18	86.25
Total Operator Charges	317.85	333.75	651.60

- 8.5.4 The Authority in its earlier Order No. 14/2019-20 had also mentioned that the Operating Cost of BKFFPL seems to be on higher side. The Authority feels that BKFFPL has not done much effort to reduce their O&M cost. Therefore, the Authority is of the view that BKFFPL should adopt cost control measures to rationalize Operating Expenses so as to improve efficiency in its overhead costs. Hence, the Authority proposes to moderate YoY increase of 5% in the Third Party salary cost of BPCL for the remaining period of First Control Period.
- 8.5.5 The Authority notes that the proposed Stores & Spares expenses of BKFFPL is disproportionate to proposed Fuel Throughput Volume. The expenditure on Stores & Spares proposed for FY 2021-22 is more than 12 times of FY 2020-21 level and 106% of FY 2019-20 level. The Authority is of the view that BKFFPL, should adopt aggressive cost control measures on such expenses to maintain the efficiency in its operations. Hence, the Authority proposes to consider a moderate YoY increase of 5% in the Stores & Spares expenses for the remaining period of First Control Period.
- 8.5.6 The Authority also notes that the proposed Power & Fuel expenses of the BKFFPL is disproportionately high as compared to proposed Fuel Throughput Volume. The Authority is of the view that BKFFPL, should adopt aggressive cost control measures to improve efficiency in its Operating Cost. Hence, the Authority decides to have a moderate YoY increase of 5% in the Power & Fuel expenditure for the remaining period of First Control Period.

8.5.7 The Authority observes from the BKFFPL projection for FY 2021-22 & FY 2022-23 that some items under Others Expenses are disproportionately high as compared to the FY 2019-20 levels. The Authority feels that M/s BKFFPL should adopt cost control measures to optimize such expenses to maintain efficiency in its Operations. However, the Authority has decided to consider Other Expenses as proposed at Consultation stage.

8.5.8 In view of above, the Authority decides to adopt the revised Operating Expenditure for FY 2021-22 and FY 2022-23 as given in the Table below.

Table 25: Operating and Maintenance Expenses considered by the Authority for FY 2021-22 and FY 2022-23 of the First Control Period.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Salaries	16.32	17.14	33.46
Land lease Rent	137.06	149.40	286.46
Insurance	1.00	1.00	2.00
Power Charges	10.00	11.00	21.00
Operator Charges to BPCL	317.85	333.74	651.60
Repair & Maintenance	2.00	2.00	4.00
Other Expenses	40.58	42.61	83.19
Total	524.81	556.89	1081.70

8.5.9 The Authority also decides to True-up the O&M Expenses, based on actual figures, at the time of Tariff determination for the next Control Period.

8.6 Authority's Decision on Operation and Maintenance Expenditure for FY 2021-22 and FY 2022-23 of the First Control Period.

Based on the material before it and its analysis, the Authority has decided

8.6.1 To consider Operation and Maintenance Expenditure for FY 2021-22 and FY 2022-23 of the First Control Period as shown in the Table 25.

8.6.2 To True-up the Operation and Maintenance Expenditure based on actuals at the time of Tariff determination for the Second Control Period.



CHAPTER 9. TAXATION

9.1 BKFFPL's submission on Taxation for FY 2021-22 and FY 2022-23 of the First Control Period as part of MYTP.

9.1.1 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 Aggregate Revenue Requirement. The Authority shall review forecast for corporate tax calculation with a view to ascertain, inter alia, the appropriateness of the allocation and the calculations thereof.

9.1.2 M/s BKFFPL submitted that no income tax was due from FY 2018-19 to FY 2020-21 due to losses. The accumulated losses as on 31st March 2021 is Rs.621 lakhs. Due to the uncertainties in the revenue, M/s BKFFPL does not expect to pay any taxes during FY 2021-22 and FY 2022-23. However, M/s BKFFPL has requested Authority to True-up the income tax based on actuals during the Tariff determination for the next Control Period.

9.2 Stakeholders' Comments regarding Provision for Taxation for FY 2021-22 and FY 2022-23 of the First Control Period:

9.2.1 During the stakeholder consultation process, the Authority has received no comments/views from stakeholders in response to the proposals of Authority in the Consultation Paper No. 13/2021-22 with respect to provision for Taxation for FY 2021-22 and FY 2022-23 of the First Control Period.

9.3 Authority's decision regarding Provision for Taxation for FY 2021-22 and FY 2022-23 of the First Control Period:

Based on the material before it and its analysis, the Authority has decided:

9.3.1 To True-up the provision for taxation based on actual tax paid at the time of Tariff determination for Second Control Period.



CHAPTER 10. AGGREGATE REVENUE REQUIREMENT (ARR)

10.1 BKFFPL's submission on Aggregate Revenue Requirement for the First Control Period as part of MYTP.

10.1.1 M/s BKFFPL submitted that Fuel Infrastructure Fee (FIF) is the only source of revenue for Fuel Farm. The current FIF of Rs.1846/KL is not sufficient to cover the costs. The Operating costs of Fuel Farm are fixed in nature and are not volume dependant. As such unless there is adequate volume of sale, the Fuel Farm will not be in a position to recover the costs with the present level of FIF. Therefore an increase in Tariff is inevitable to meet the operating and finance costs.

10.1.2 BKFFPL submitted Aggregate Revenue Requirement (ARR) for the First Control Period. The summary of ARR has been presented in the Table below:

Table 26: BKFFPL's submission of the Aggregate Revenue Requirement (ARR) for the First Control Period.

Particulars (Rs in Crores)	2018-19	2019-20	2020-21	2021-22	2022-23	Total
Average Regulatory Asset Base	8.24	16.19	15.57	14.86	14.11	68.97
FRoR	12.70%	12.48%	11.97%	11.61%	11.61%	
Return on RAB	1.05	2.02	1.86	1.73	1.64	8.30
Depreciation	0.22	0.73	0.75	0.75	0.75	3.20
Operating Expenses	1.70	6.16	5.03	5.73	6.08	24.70
Taxation	0.00	0.00	0.00	0.00	0.00	0.00
Total Aggregate Revenue Requirement	2.96	8.91	7.64	8.21	8.47	36.19
Revenues collected – Actuals	1.27	8.54	3.26	1.84		14.91
Estimated Kilolitres (From Oct 21-March 23)				13262	33662	46924
Revenue per KL estimated				4996	4996	9992
Revenue projections				6.63	6.63	23.45
Total Revenue	1.27	8.54	3.26	8.47	16.82	38.36
Discount Rate	1.00	0.89	0.79	0.71	0.64	
Discounted ARR	2.96	7.92	6.07	5.84	5.40	28.19
Discounted revenue	1.27	7.59	2.59	6.03	10.72	28.19

10.1.3 Considering the above ARR the Tariff has been worked out by M/S BKFFPL at Rs 4996 / KL which results in an increase of 170% on the existing FIF of Rs. 1846/KL. The revised Tariff was proposed to be implemented w.e.f. 1st October 2021.

10.2 Authority's Examination for FY 2021-22 and FY 2022-23 of the First Control Period at Consultation Stage:

10.2.1 The Authority examined the submissions made by BKFFPL regarding ARR and proposed to determine ARR as per its own philosophy and guiding principles based on its analysis of building blocks/ RAB as discussed in the Consultation Paper

10.2.2 The Authority further noted that BKFFPL had not submitted the separate ARR calculation for FY 2021-22 & FY 2022-23 of the First Control Period. M/s BKFFPL is engaged in providing

both Fuel Infrastructure services and Into Plane Services. The Fuel Infrastructure Fee (FIF) proposed was composite fee for both the services.

10.2.3 The observations and proposals of the Authority across the regulatory building blocks impact the computation of ARR. With respect to each element of the regulatory building blocks considered by BKFFPL in computation of ARR in above, the Authority proposed as below:

- To consider the average RAB in accordance with Table 14
- To consider the FRoR in accordance with Table 17
- To consider the O&M expenses as per Table 23
- To consider the Depreciation as per Table 15
- To consider the Nil Tax provision.
- To consider the Fuel throughput Volume in accordance Table 13

10.2.4 After considering the above, the Authority proposed the following ARR at Consultation stage as presented in the Table below:

Table 27: Aggregate Revenue Requirement (ARR) proposed by the Authority for BKFFPL for the FY 2021-22 and FY 2022-23 of the First Control Period at Consultation Stage.

Particulars (Rs. in lakhs)	Reference	2021-22	2022-23	Total
Average RAB (Refer Table No. 14)	A	1485.71	1411.22	
FRoR (Refer Table No. 17)	B	10.71%	10.71%	
Return on RAB	C=A*B	159.10	151.12	310.23
Depreciation (Refer Table No. 15)	D	74.49	74.49	148.98
OPEX (Refer Table No.23)	E	512.01	543.44	1055.45
Income Tax	F	0.00	0.00	0.00
Gross ARR	G=C+D+E+F	745.60	769.06	1514.65
Less Other Revenue	H	0.00	0.00	0.00
Net ARR	I=G-H	745.60	769.06	1514.65
Under Recovery (Refer Table No. 11)	J	492.31		492.31
Total ARR	K=I+J	1237.90	769.06	2006.96
Discount Factor	L	1.0000	0.9033	
NPV of ARR	M=K*L	1237.90	694.67	1932.57
Current FIF Rate	N	1846.00	1846.00	
Fuel Volume (Refer Table No.13) (in lakhs KL)	O	0.27	0.45	
FIF income at current rate	P=N*O	498.42	830.70	1329.12
Revised FIF Rate	Q	1846.00	2577.00	
Revised FIF Income	R=O*Q	498.42	1159.65	1658.07
NPV of Revised FIF Income	S=R*L	498.42	1047.48	1545.90
Shortfall Carried Forward to next Control Period	T=M-S			386.67

10.3 Stakeholders' Comments regarding Aggregate Revenue Requirement for FY 2021-22 and FY 2022-23 of the First Control Period:

FIA's Comments regarding Aggregate Revenue Requirement for FY 2021-22 and FY 2022-23 of the First Control Period:

10.3.1 FIA has submitted that airlines are now paying separately for FIC and ITP which was earlier



part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffer from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % to seventy (70) % on the airlines. FIA would also like to urge the Authority to pass an order stating that FIC and ITP should be directly invoiced by BKFFPL or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses' and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) % to seventy (70) % to Airlines.

BPCL's Comments regarding Aggregate Revenue Requirement for FY 2021-22 and FY 2022-23 of the First Control Period:

- 10.3.2 BPCL has submitted that AERA proposed to carry forward the recovery of Rs 386.67 lakhs ARR of this Control Period to the next Control Period instead of considering it in Tariff calculation for the remaining part of the current Control Period. This will result in continuation of losses for BKFFPL for even the remaining part of the Current Control Period and making the operations unviable due to cash flow issues. Thus, this shortfall may be accounted for in the balance period of the Current Control Period itself instead of carrying it forward to the next Control Period.

BKFFPL's Comments regarding Aggregate Revenue Requirement for FY 2021-22 and FY 2022-23 of the First Control Period:

- 10.3.3 BKFFPL has submitted that the Authority proposed a carry forward of shortfall of Rs. 386.67 lakhs which reducing the rates and put the existence and operation of BKFFPL at risk. BKFFPL currently has the dues payable to BPCL/ KIALand HDFC Bank which have not been remitted on account of non-availability of cash flows. Hence, BKFFPL requests the Authority to re-estimate the ARR based on BKFFPL's submissions on various building blocks in the response document and re-compute the charges and permit BKFFPL to collect the full charges as per entitlement, from current Control Period (January 2022) in order to ensure sustainable and viable operations at the Airport. BKFFPL further requests that all Building blocks as applicable be Trued up at the end of the First Control Period based on actuals

10.4 BKFFPL's response to FIA & BPCL comments regarding Aggregate Revenue Requirement for FY 2021-22 and FY 2022-23 of the First Control Period:

BKFFPL response on FIA comments regarding Aggregate Revenue Requirement

- 10.4.1 In response to the FIA comments on ARR, BKFFPL has submitted that Services provided by BKFFPL are governed by appropriate agreements entered into with the Oil Marketing Companies. Accordingly, BKFFPL raises invoices on the customers to whom the services have been rendered. As the Supplier is the recipient of services at the fuel farm (and not the Airlines, who is the customer of the Supplier), BKFFPL does not invoice directly to Airlines. The above practice is being followed at all the airports. BKFFPL reiterates that the activities carried out with respect to Fuel Farm and Into Plane services and the cost of such operations are optimum and all steps are taken to ensure and maintain efficiency. Tariff is being 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 Fuel Infrastructure Charges.

BKFFPL response on BPCL comments regarding Aggregate Revenue Requirement:

10.4.2 In response to the BPCL comments on ARR, BKFFPL has submitted that they agree with the BPCL comment. Further BKFFPL submits that they have the large amounts of dues payable and outstanding as of date in its Financial Statement. BKFFPL estimates that collections at reduced rates, even with the very high fuel intake forecasted by the Authority would entail continued negative cash flows only, leading to the sustenance of BKFFPL itself in question.

10.5 Authority's Analysis regarding Aggregate Revenue Requirement for FY 2021-22 and FY 2022-23 of the First Control Period:

10.5.1 The Authority notes from FIA comment regarding FIC and ITP invoicing. The Authority noted that M/s BKFFPL confirmed that they have an agreement only with oil companies/importers of fuel. Therefore, the billing is done to the oil companies/importer of fuel.

10.5.2 The Authority notes BPCL & BKFFPL comment regarding carry forward of shortfall of Rs. 386.67 lakhs to the Second Control Period. The Authority notes that the Tariff rate i.e. Rs 2577/KL for FY 2022-23 proposed by the Authority vide CP No 23/2021-22 in respect of BKFFPL for Kannur is 39.59% higher than the existing Tariff rates. However, BKFFPL proposed Rs 4966/KL for FY 2021-22 (From 01.10.2021) & FY 2022-23 which is 170% higher from the existing Tariff. Considering, the present dire situation arisen from the catastrophic impact of Covid-19 pandemic, the Authority is of the view that targeting a full recovery at this time may not be fair to all the stakeholders and may dampen the stakeholders' efforts to revive demand. Therefore, the Authority proposes to carry forward certain portion of ARR to the next Control Period.

10.5.3 Further, the Authority notes that due to the application of "Cost Plus" method, ISP has the provision of the True-up of any shortfalls in revenue recovery for the 4th and 5th Tariff Years (FY 2021-22 and FY 2022-23) of First Control Period during the Tariff determination for the next Control Period.

10.5.4 After considering the changes as discussed in the Operation and Maintenance Expenditure, the revised ARR considered for the FY 2021-22 and FY 2022-23 is given below.

Table 28: Aggregate Revenue Requirement (ARR) considered by the Authority for FY 2021-22 and FY 2022-23 of the First Control Period.

Particulars (Rs. in lakhs)	FY 2021-22	FY 2022-23	Total
Average RAB (Refer Table No. 14)	1485.71	1411.22	
FRoR(Refer Table No. 17)	10.71%	10.71%	
Return on RAB	59.10	151.12	310.23
Depreciation(Refer Table No. 15)	74.49	74.49	148.98
Opex(Refer Table No. 25)	54.81	556.89	1081.70

Income Tax	0.00	0.00	0.00
ARR	758.40	782.50	1540.91
Less Other Income (Refer para. 7.2)	0.00	0.00	0.00
Net ARR	758.40	782.50	1540.91
Under Recovery (Refer Table No. 11)	492.31		492.31
Total ARR	1250.71	782.50	2033.22
Discount Factor	1.0000	0.9033	
NPV of ARR	1250.71	706.81	1957.52
Current FIF Rate	1846.00	1846.00	
Fuel Volume (in lakhs KL) (Refer Table No. 13)	0.27	0.45	
FIF Income at current Rate	498.42	830.70	1329.12
Revised FIF Rate	1846.00	2620.00	
Revised FIF Income	498.42	1179.00	1677.42
NPV of Revised FIF Income	498.42	1064.96	1563.38
Carried Forward shortfall in ARR (NPV) to Next Control Period			394.15

10.5.5 As can be observed from the above, and as per the Authority's decisions on various building blocks, M/s BKFFPL is entitled to recover an ARR of Rs. 1957.52 Lakhs (in NPV terms). The present value of total projected aeronautical revenue based on the Authority's Fuel Infrastructure Fees (FIF) is Rs. 1563.38 Lakhs, thus resulting in a net shortfall (under recovery) of Rs. 394.15 lakhs.

The Authority has decided to carry forward the under recovery of Rs. 394.15 lakhs to the next control period, with a view to not burden the airport users further, who are already suffering with Covid-19 pandemic's impact with excessive tariff at this juncture. However, the Authority has decided to adjust the above under recovery based on the revenue achieved by M/s BKFFPL in line with the actual fuel throughput volume of the 4th and 5th tariff year of First Control Period.

Therefore, to meet the Aggregate Revenue Requirement (ARR), the Authority has decided to increase the tariff rate from Rs. 2577/ KL (at consultation stage) to Rs. 2620/ KL for 5th Tariff Year (FY 2022-23) of the First Control Period.

10.6 Authority's Decisions on Aggregate Revenue Requirement (ARR) for FY 2021-22 and FY 2022-23 of the First Control Period.

Based on the material before it and its analysis, the Authority has decided:

- 10.6.1 To consider the ARR for BKFFPL, Kannur for the First Control Period as per Table 28.
- 10.6.2 To True-up the ARR based on actuals of 4th and 5th Tariff Year (FY 2021-22 and FY 2022-23) of First Control Period at the time of Tariff determination for Second Control Period.
- 10.6.3 To carry forward the shortfall of Rs. 394.15 lakhs in ARR (NPV) of the First Control Period to the Second Control Period.



CHAPTER 11. ANNUAL TARIFF PROPOSAL

11.1 BKFFPL submissions on Annual Tariff Proposal for FY 2021-22 and FY 2022-23 of the First Control Period as part of MYTP.

- 11.1.1 M/s BKFFPL submitted Multi Year Tariff Proposal (MYTP) for the Balance period of First Control Period (FY 2021-22 and FY 2022-23) and proposed Rs. 4996/KL as Fuel infrastructure fee for the Balance period of First Control Period (FY 2021-22 and FY 2022-23).
- 11.1.2 The Existing Tariff for BKFFPL as approved by the Authority vide Order No. 18/2021-22 dated 15th September, 2021 is Rs 1846/KL.
- 11.1.3 The increase requested by M/s BKFFPL for FIF at Kannur Airport for Balance period of First Control Period (FY 2021-22 and FY 2022-23) is 170% over the existing rate of Rs.1846/KL. However, M/s BKFFPL has not requested for any increase in the Aircraft Defueling and Refueling Rates.
- 11.1.4 The proposed Fuel Infrastructure Fee by M/s BKFFPL at Kannur International Airport is given below:

Tariff Period (Amount in Rs.)	Fuel Infrastructure Fee (including Aircraft Refueling)	Aircraft Defueling	Refueling of Aircraft with defueled product	
			Within 48 Hours	Beyond 48 Hours
From 01.10.2021 to 31.03.2022	4996 per KL	Rs. 300 per KL	Rs. 350 per KL	Rs. 400 per KL
From 01.04.2022 to 31.03.2023	4996 per KL	Rs. 300 per KL	Rs. 350 per KL	Rs. 400 per KL

11.2 Authority's Examination regarding Tariff proposal for FY 2021-22 and FY 2022-23 of the First Control Period at Consultation Stage:

- 11.2.1 The Authority noted that air traffic demand has been widely impacted due to challenges posed by the Covid-19 pandemic and the resultant slowdown in the economy. Moreover, international aircraft operations have not yet started at Kannur International Airport. The reduced demand for ATF due to these factors have resulted in under recovery during the years FY 2019-20 and FY 2020-21. Further, the Authority noted that the existing volume is not sufficient for complete recovery of ARR during the balance period of First Control Period i.e. FY 2021-22 and FY 2022-23 and this would require a substantial increase in Fuel Infrastructure Fee.
- 11.2.2 The Authority had taken a cognizance of the situation and is of the view that keeping the Tariff at the current level for the entire Control Period and postponing the full recovery of shortfalls to the next Control Period will create substantial recovery burden and lead to steep Tariff increases in the Second Control Period. The Authority, however, is of the view that targeting a full recovery at this time may not be fair to all stakeholders and may dampen the stakeholders' efforts to revive demand. The Authority notes that the Fuel Farm operator has the provision of the True-

up of any shortfalls in revenue recovery in the Second Control Period.

- 11.2.3 Based on the above analysis, the Authority proposed not to increase Fuel Infrastructure Fee in the current financial year 2021-22, and proposed to revise the Fuel Infrastructure Fee from 01st April, 2022.
- 11.2.4 Further, the Authority proposed to carry forward Rs. 386.67 lakhs of the ARR(NPV) of the First Control Period to the Second Control Period in order to reduce the burden on users during the First Control Period on account of lower volume.
- 11.2.5 The Authority, based on the Aggregate Revenue Requirement (ARR) proposed to revise FIF is Rs. 2577/KL as against the existing rate of Rs.1846/KL. No increase proposed in the Aircraft Defueling and Refueling Rates of First Control Period (2021-22 and 2022-23) for Fuel Farm services provided by BKFFPL as per Table below:

Table 29: FIF Proposed by the Authority for BKFFPL for FY 2022-23 at Consultation Stage.

Tariff Period (Amount in Rs.)	Fuel Infrastructure Fee (including Aircraft Refueling)	Aircraft Defueling	Refueling of Aircraft with defueled product	
			Within 06 Hours	Beyond 06 Hours
From 01.04.2022 to 31.03.2023	2577 per KL	Rs. 300 per KL	Rs. 350 per KL	Rs. 400 per KL

11.3 Stakeholders' Comments regarding Annual Tariff Proposal for FY 2021-22 and FY 2022-23 of the First Control Period:

Air India's Comments on Annual Tariff Proposal for FY 2021-22 and FY 2022-23 of the First Control Period:

- 11.3.1 Air India Ltd. has submitted that current charges at BPCL Kannur Fuel Farm Pvt. Ltd. are Rs. 1846/- KL till 31.03.21, which BKFFPL want to be hiked to Rs. 4996/-KL from 01.04.21 to 31.03.23. They are citing to AERA, about Kannur's Fuel Farm losses due to under-recoveries and less passenger inflow due to Covid. However, AERA does not want to pass entire burden of under-recovery on stakeholders therefore, AERA has proposed Tariff rate Rs 2577/KL from FY 2022-23. Air India also submits that any increase of FIF will proportionately increase ATF rates at Kannur and will affect all stakeholders including Air India.

11.4 BKFFPL response on Air India Limited comments regarding Tariff Rate for FY 2021-22 and FY 2022-23 of the First Control Period:

- 11.4.1 In response to the Air India Limited comments on Annual Tariff Proposal, BKFFPL has submitted that the increase proposed by BKFFPL is based on well established framework of Tariff Determination.



11.5 Authority's Analysis on Tariff Rates for FY 2021-22 and FY 2022-23 of the First Control Period.

11.5.1 The Authority notes from the comment of Air India Limited regarding proposed Tariff rates for reducing the burden of higher Tariff on the Users and proposed to carry forward a portion of ARR (NPV) pertaining to First Control Period to the Second Control Period.

Further, the Authority mindful of adverse impact of Covid-19 pandemic on the Economy and Aviation Sector in particular, decides not to increase FIF charges in FY 2021-22 and to implement the revised FIF Charges from 01.04.2022 onwards.

11.5.2 The Authority, after considering the Operating Expenses as detailed in para 8.5.3 of chapter 8 and its consequent effect on ARR, has worked out 41.92% increase in Tariff (FIF Charges) for FY 2022-23 of the First Control Period and no increase proposed in the Aircraft Defueling and Refueling Rates of First Control Period (2021-22 and 2022-23).

11.5.3 The revised Tariff rates as decided by the Authority for FY 2022-23 of the First Control Period is given in Table below.

Table 30: Revised FIF Rate considered by the Authority for BKFFPL for FY 2022-23 of the First Control Period.

Tariff Period (Amount in Rs.)	Fuel Infrastructure Fee (including Aircraft Refueling)	Aircraft Defueling	Refueling of Aircraft with defueled product	
			Within 06 Hours	Beyond 06 Hours
From 01.04.2022 to 31.03.2023	2620 per KL	Rs. 300 per KL	Rs. 350 per KL	Rs. 400 per KL

11.6 Authority's Decision on Tariff Rates for FY 2021-22 and FY 2022-23 of the First Control Period.

Based on the material before it and its analysis, the Authority has decided:

11.6.1 To adopt the Tariff Rates for BKFFPL, Kannur for FY 2022-23 of the First Control Period (Effective from 01.04.2022 to 31.03.2023) as per **Annexure-I**.



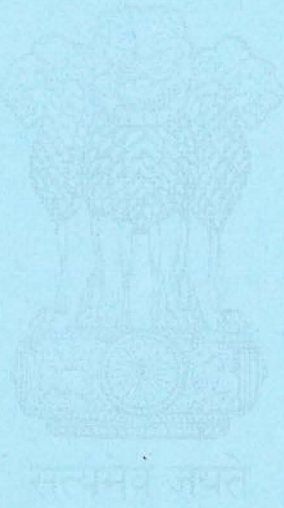
CHAPTER 12. SUMMARY of AUTHORITY'S DECISIONS

The below mentioned provides a summary of the Authority's decisions (given under each chapter) regarding the Tariff determination of BKFFPL, Kannur for the First Control Period (FY 2021-22 to FY 2025-26):

Chapter and Para		Summary Of Authority's Decisions	Page No.
Chapter No 2	2.4.1	To adopt "Price Cap Approach" on 'Single Till' basis for Tariff determination for BKFFPL, Kannur for FY 2019-20 to FY 2022-23 of the First Control Period.	14
Chapter No 3.	3.31.1	To True-up the depreciation for FY 2019-20 and FY 2020-21 as per Table 3.	25
	3.31.2	To True-up the Regulatory Asset Base for FY 2019-20 and FY 2020-21 as per Table 4.	
	3.31.3	To True-up the Operational & Maintenance expenses for FY 2019-20 and FY 2020-21 as per Table 8.	
	3.31.4	To consider 'Nil' Income Tax for FY 2019-20 and FY 2020-21.	
	3.31.5	To True-up the FROr for FY 2019-20 and FY 2020-21 as per Table 7.	
	3.31.6	To True-up ARR as per Table 11 and to consider the under recovery of Rs. 492.31 lakhs in tariff determination for the balance period of First Control Period i.e. FY 2021-22 and FY 2022-23.	
Chapter No 4.	4.6.1	To consider Fuel Throughput Forecast for FY 2021-22 and FY 2022-23 of the First Control Period for BKFFPL, Kannur as per Table 13.	28
	4.6.2	To True-up the Fuel Throughput (volume) on the basis of actual off take for FY 2021-22 & FY 2022-23 of the First Control Period while determining Tariff for the Second Control Period.	
Chapter No 5.	5.6.1	To consider Regulatory Asset Base (RAB) for the FY 2021-22 and 2022-23 as per Table 14.	31
	5.6.2	To consider Depreciation for the FY 2021-22 and 2022-23 as per Table 15.	
	5.6.3	To True-up the Regulatory Asset Base (RAB) & Depreciation based on actuals at the time of Tariff determination for Second Control Period.	
Chapter No 6.	6.6.1	To maintain the cost of equity at 14% for the First Control Period.	34
	6.6.2	To adopt the FROr as calculated in Table 17 for the First Control Period (FY 2021-22 and 2022-23).	
	6.6.3	To True-up FROr during the Tariff determination for the Second Control Period.	
Chapter No 7.	7.4.1	To consider Nil Other Income for FY 2021-22 and FY 2022-23 of the First Control Period.	35
	7.4.2	To true up "Other Income" during the Tariff determination for the Second Control Period.	
Chapter No 8.	8.6.1	To consider Operation and Maintenance Expenditure for FY 2021-22 and FY 2022-23 of the First Control Period as shown in the Table 25.	45
	8.6.2	To True-up the Operation and Maintenance Expenditure based on actuals at the time of Tariff determination for Second Control Period.	
Chapter No 9.	9.3.1	To True-up the provision for taxation based on actual tax paid at the time of Tariff determination for Second Control Period.	46



Chapter No 10.	10.6.1	To consider the ARR for BKFFPL for the First Control Period as per Table 28.	51
	10.6.2	To True-up the ARR based on actuals of 4th and 5th Tariff Year (FY 2021-22 and FY 2022-23) of First Control Period at the time of Tariff determination for Second Control Period.	
	10.6.3	To carry forward the shortfall of Rs. 394.15 lakhs in ARR (NPV) of First Control Period to the Second Control Period.	
Chapter No 11.	11.6.1	To adopt the Tariff Rates for BKFFPL, Kannur for FY 2022-23 of the First Control Period (Effective from 01.04.2022 to 31.03.2023) as per Annexure-I .	54



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 Airports Economic Regulatory Authority of India Act, 2008 hereby orders that:

- (i) BPCL KIAL Fuel Farm Private Limited (BKFFPL), Kannur is allowed to levy the Fuel Infrastructure Fee (FIF) for Fifth Tariff Year (FY 2022-23) of the First Control Period as per **Annexure-I**.
- (ii) The Authority decides that the Tariff Rates indicated in Annexure-I shall be maximum Tariff to be charged. No other charge is to be levied over and above the approved Tariff Rates.
- (iii) The Revised Tariff shall be effective from **1st April, 2022**.
- (iv) The Tariff Rates approved herein are excluding of all applicable taxes.
- (v) The Airport Operator shall ensure compliance of the Order.

By the Order of and in the name of the Authority

(Col. Manu Sooden)
Secretary

To,

M/s BPCL KIAL Fuel Farm Private Limited,
Fuel Farm & Into Plane Facility
Kannur International Airport Limited,
Kannur- 670702.
(Through: Jithendra P.V, CFO)

Copy to:

1. Secretary, Ministry of Civil Aviation
Rajiv Gandhi Bhawan,
Safdarjung Airport,
New Delhi – 110 003.
2. Dr. Venu V IAS,
Managing Director,
Kannur International Airport Limited,
Kannur International Airport P. O.,
Mattannur, Kannur 670708,
Kerala, India



Annexure-I**AERA APPROVED MAXIMUM TARIFF RATE FOR
FUEL INFRASTRUCTURE SERVICE AND INTO PLANE SERVICES**

In respect of BPCL KIAL Fuel Farm Private Limited (BKFFPL) at Kannur International Airport, Kannur for FY 2022-23 of the First Control Period.

Tariff Period (Amount in Rs.)	Fuel Infrastructure Fee (including Aircraft Refueling)	Aircraft Defueling	Refueling of Aircraft with defueled product	
			Within 06 Hours	Beyond 06 Hours
From 01.04.2022 to 31.03.2023	2620 per KL	Rs. 300 per KL	Rs. 350 per KL	Rs. 400 per KL

Note : The Rates approved herein are ceiling rates, excluding of applicable taxes.

