



Airports Economic Regulatory Authority of India

**In the matter of Determination of Fuel Infrastructure Charges in respect of Indian Oil
Skytanking Limited at KIA airport, Bengaluru
(01.04.2016 – 31.03.2021)**

18th December, 2017

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1. LIST OF ABBREVIATIONS

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|-------------------------------------|---|----------------------|--|
| AERA or the Authority | Airport Economic Regulatory Authority of India | KIA | Kempegowda International Airport, Bengaluru |
| Aero | Aeronautical | IATA | International Air Transport Association |
| ARR | Aggregate Revenue Requirement | IND AS | Indian Accounting Standard 5% per annum for 5 years from 01.04.2017 as per RBI's Survey of Professional Forecasters on Macroeconomic Indicators – Results of the 45th Round dated 6th April 2017 |
| ATA | Air Travellers Association | Inflation CPI | |
| ATF | Aviation Fuel | INR or ₹ | Indian rupees |
| ATM | Air traffic movement | IOCL | Indian Oil Corporation Limited |
| ATP | Annual Tariff Proposal | IOSL | Indian Oil SkyTanking Limited |
| BPCL | Bharat Petroleum Corporation Limited | IRR | Internal Rate of Return |
| CA | Concession & Operating Agreement between IOSL and BIAL | ITP | Into Plane Service Provider |
| CAGR | Compounded Annual Growth Rate | JVC | Joint Venture Company |
| CAPEX | Capital Expenditure | Ke | Cost of equity |
| CGF | Cargo Facility, Ground Handling and Fuel Supply services | KL | Kilo litre |
| 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 | MAT | Minimum Alternate Tax |
| Concession period | Concession term is for 20 years from date of commencement of operations i.e. 24.05.2008 | MYTO | Multi Year Tariff Order |
| CSR | Corporate Social Responsibility | MYTP | Multi Year Tariff Proposal |
| DIAL | Delhi International Airport Limited | NAR | Non-aeronautical revenues |
| IOSL/ Fuel Farm Operator | Indian Oil Skytanking Private Limited | O&M | Operating and Maintenance |
| BIAL/ Airport Operator | Bangalore International Airport Limited | OPEX | Operating Expenditure |
| FIC or Infrastructure charge | Fuel Infrastructure Charge | P&L | Profit and Loss |
| FRoR | Fair Rate of Return | p.a. | Per annum |
| FY | Financial Year | PAX | Passenger(s) |
| GOI | Government Of India | PV | Present value |
| HPCL | Hindustan Petroleum Corporation Limited | RAB | Regulatory Asset Base |
| | | SLM | Straight Line Method |
| | | SPRH | Service Provider Right Holder |
| | | Sq.m. | Square Metre |
| | | YPP | Yield per passenger |



2. BACKGROUND

- 2.1 Indian Oil Skytanking Private Limited (IOSL) is a JVC between IOCL (50%) and Skytanking Holdings GmbH, Germany (50%). Pursuant to Concession & Operating Agreement between IOSL and BIAL for 20 years from 24.05.2008, IOSL handles the fuel farm facility and ITP services at Kempegowda International Airport, Bangalore. IOSL has submitted that the fuel farm facility is based on open access model wherein airlines may source their own fuel from any oil company and use the fuel farm's storage facilities at agreed price levels.
- 2.2 The Authority had considered the MYTP (for the first Control Period from 01.04.2011 to 31.03.2016) submitted by IOSL for providing fuel farm services at KIA Airport and issued Order No. 05/2013-14 dated 04.04.2013 which, inter alia, provided the following:
- 2.2.1 The infrastructure charge in respect of the fuel farm services provided by IOSL at KIA Airport for the first control period from 01.04.2011 to 31.03.2016 would be determined under 'Light Touch Approach'.
- 2.2.2 The Authority noted that the tariff item, i.e., "Fuel Throughput Fee" has two components: "Airport Operator Fee" and "Operating Cost & Reserve Fund." The Authority decided to determine the "Airport Operator Fee" component of the tariff items, "Fuel Throughput Fee" as part of the exercise of determination of tariffs for aeronautical services provided by BIAL at KIA, Bengaluru.
- 2.2.3 The Authority decided that for the time being, the "Airport Operator Fee" component of "Fuel Throughput Fee" would be determined at ₹1067/KL, till its appropriate final determination as part of aeronautical tariffs in respect of Bangalore International Airport - based on the tariffs proposal submitted by BIAL. "Airport Operator Fee" is charged by BIAL towards the aeronautical service of supply of fuel provided by it.
- 2.2.4 The Authority determined the "Operating Cost and Reserve Fund" component of the "Fuel Throughput Fee" tariff item as ₹433/KL for Fuel Farm Services provided by IOSL at KIA, Bengaluru for the first control period (i.e., from 1.4.2011 to 31.3.2016).
- 2.3 Subsequently IOSL has approached the Authority with its MYTP seeking approval on increase in tariff for "Operating Cost and Reserve Fund" component of the "Fuel Throughput Fee" (referred to as FIC in this consultation paper) by ₹200/ KL (revised fee would be Rs.633/KL), "Airport Operator Fee" component of FIC shall continue to be charged at ₹1067/ KL. Accordingly, the revised FIC proposed by IOSL is ₹1700/ KL for the second control period from 01.04.2016 to 31.03.2021.
- 2.4 IOSL has filed its MYTP submissions vide their letter dated 8th March 2016 before the Authority. IOSL filed auxiliary submissions dated 22.02.2017, 03.03.2017, 19.04.2017, 02.05.2017 and 10.07.2017.
- 2.5 Further, vide Order No. 19/ 2016-17 dated 20th March, 2017 issued by the Authority, IOSL may be allowed to continue levy of the tariffs existing as on 31.03.2016 till determination of tariffs for the second control period.



3. METHODOLOGY FOR TARIFF CALCULATION

3.1 As stipulated in the CGF Guidelines, the Authority shall follow a three stage process for determining its approach to the regulation of a regulated service -

3.1.1 Materiality Assessment;

3.1.2 Competition Assessment;

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

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

3.2.1 'not material', the Authority shall determine Tariff(s) for Service Provider(s) based on a light touch approach for the duration of the Control Period

3.2.2 'material but competitive', the Authority shall determine Tariff(s) for Service Provider(s) based on a light touch approach for the duration of the Control Period

3.2.3 'material and not competitive' but where the Authority is assured of the reasonableness of the existing User Agreement(s), the Authority shall determine Tariff(s) for Service Provider(s) based on a light touch approach for the duration of the Control Period

3.2.4 'material and not competitive' and where the Authority is not assured of the reasonableness of the existing User Agreement(s), the Authority shall determine Tariff(s) based on price cap approach for the duration of the Control Period.

3.3 Based on IOSL's submission, the materiality index with respect to services provided for supply of fuel to aircraft at KIA, is more than 5% materiality index fixed for assessing the materiality of the subject regulated service. Hence the service is deemed to be "material".

3.4 The CGF Guidelines provide that where a Regulated Service is being provided at a major airport by two or more Service Provider(s), it shall be deemed "competitive" at that airport and if such service is provided by less than two Service Provider(s), it shall be deemed "not competitive". The Guidelines also provide that the Authority may in its discretion consider such other additional evidence regarding reasonableness of competition, as it may deem fit and the determination of number of Service Provider(s) at a major airport shall include the Airport Operator, if the Airport Operator is also providing Regulated Service(s) at that major airport.

3.5 In the instant case, the Fuel Farm services at KIA is being provided by solely by IOSL. Hence, the service is deemed to be "not competitive".

3.6 The Authority has noted that as per the CGF Guidelines, based on the assessment of materiality and competition, when such regulated service is deemed "material and not competitive", the Authority shall then assess the reasonableness of existing User



Agreement(s) and where the Authority is assured of the reasonableness of the existing User Agreement(s), the Authority shall determine Tariff(s) for the service providers based on a light touch approach.

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

3.7.1 "(i) The service provider submits existing User Agreement(s) between the Service Provider and all the User(s) of the Regulated Service(s), clearly indicating the tariff(s) that are agreed to between the Service Provider and the User(s) of the Regulated Service(s), and

(ii) The User(s) of the Regulated Service(s) have not raised any reasonable objections or concerns in regard to the existing User Agreement(s), which have not been appropriately addressed.

Provided that the Authority may in its discretion consider such other additional evidence regarding reasonableness of User Agreement(s), as it may deem fit."

- 3.8 The Authority noted that IOSL was set up essentially to provide common access to all suppliers of fuel and remains a monopoly provider of infrastructure of fuel supply. Hence, the Authority has decided to determine tariff for fuel supply service provided by IOSL at KIA, Bengaluru under price cap regulation for the second control period.

- 3.9 For Regulated Service(s) deemed 'material and not competitive' and where the Authority is not assured of the reasonableness of the existing User Agreement(s), the Authority shall calculate the Aggregate Revenue Requirement (ARR) for the second control period on the basis of the following Regulatory Building Blocks:

- 3.9.1 Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB)

Plus

- 3.9.2 Operation and Maintenance Expenditure (O)

Plus

- 3.9.3 Depreciation (D)

Plus

- 3.9.4 Taxation (T)

Minus

- 3.9.5 Revenue from services other than aeronautical services (NAR).

- 3.10 Based on the building blocks provided above, the formula for determining ARR under Hybrid Till is as follows:

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



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

Where

't' is the Tariff Year in the Control Period;

ARR_t is the Aggregate Revenue Requirement for year 't';

FRoR is the Fair Rate of Return for the control period;

RAB_t is the Regulatory Asset Base for the year 't';

D_t is the Depreciation corresponding to the RAB for the year 't';

O_t is the Operation and Maintenance Expenditure for the year 't', which includes all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandate operating costs;

T_t is the corporate tax for the year 't' paid by the airport operator on the aeronautical profits; and

NAR_t is the revenue from services other than aeronautical services for the year 't'

- 3.11 The present value of total aeronautical revenue that is estimated to be realized each year during the control period at proposed tariff levels is compared with the present value of the ARR during the control period. In case the present value of estimated aeronautical revenue during the control period is lower than the present value of ARR during the control period, the airport operator may opt to increase the proposed tariff. In case the present value of estimated aeronautical revenue is higher than the present value of the ARR then the airport operator will have to reduce its proposed tariff.
- 3.12 The detailed submissions provided by IOSL in respect of the Regulatory Building Blocks have been discussed in the subsequent sections.

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4. REGULATORY ASSET BASE (RAB) AND DEPRECIATION

- 4.1 As per clause 9.2 of the CGF guidelines, 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.
- 4.2 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.

IOSL's submission – RAB and Depreciation

- 4.3 IOSL's submissions w.r.t components of project costs are given below:

Table 1: Capital Expenditure during the control period (in ₹ lakhs)

| Particulars | Added upto 31.03.16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|---|------------------------|--------------|--------------|------------|---------------|----------|
| Land & Building | 649 | 325 | - | - | - | - |
| Plant & machinery (including deadstock) | 8,229 | 2,947 | 2,022 | 200 | 10,000 | - |
| Computer & IT assets (including software) | 19 | 320 | - | - | - | - |
| Office equipment | 10 | 25 | - | - | - | - |
| Vehicles | 13 | 45 | - | - | - | - |
| Furniture & fittings | 11 | - | - | - | - | - |
| Total | 8,931 | 3,662 | 2,022 | 200 | 10,000 | - |

- 4.4 An estimated total investment of ₹15,884 lakhs is planned during the second control period for facility augmentation to meet the demand growth rate at Bengaluru airport. Overview of the planned investment in plant and machinery of ₹15,169 lakhs during the second control period is as follows:

Table 2: Details of capital expenditure during the second control period (in ₹ lakhs)

| Year | Capital Projects to be undertaken | Estimated amount (in ₹ lakhs) |
|--------------|------------------------------------|----------------------------------|
| FY16-17 | Various Capital Works | 2,947 |
| FY17-18 | New storage tank-Tank 22, 23. | 2,022 |
| FY18-19 | Valve Chambers covers replacement. | 2,00 |
| FY19-20 | T 2 Phase 1 A. | 10,000 |
| Total | | 15,169 |

- 4.5 Details of estimated expenditure of ₹10,000 lakhs during FY19-20 pertaining to augmentation of facilities at fuel farm to accommodate hydrant expansion at BIAL Apron are given below:



Table 3: Details of capital expenditure during FY19-20 (in ₹ lakhs)

| Sr. No. | Description | Amount (in ₹ lakhs) |
|---------|---|---------------------|
| 1 | Estimated cost for Design Construction and commissioning of above ground ATF storage tank of capacity 3300 KL, 2 nos. | 2,022 |
| 2 | Estimated cost for Design Construction and commissioning of above ground Fire Water storage tank of capacity 1140 KL, 2 nos. | 800 |
| 3 | Estimated cost for Upgradation of SCADA Software and PLC Hardware systems and Associated integration works at Fuel Farm control room. | 700 |
| 4 | Estimated cost for Construction of 10 ft. Boundary wall with barbed wire fence as per PESO Requirement | 250 |
| 5 | Estimated cost for Supply and installation of 2000 KVA stand-by transformer. | 500 |
| 6 | Estimated cost for Replacement of existing Fire Pump with higher capacity; (3 fire pumps and 1 jockey pump). | 65 |
| 7 | Estimated cost for Supply and Installation of Fuel Hydrant pumps (2 Nos). | 70 |
| 8 | Estimated cost for Supply and Installation of VFD and Associated Switch gear for Hydrant Pumps (2 Nos). | 100 |
| 9 | Estimated cost for Design and installation of firefighting facility at Tank Truck parking terminal. | 30 |
| 10 | Estimated cost for Renovation of Control Room to accommodate PLC cabinets. | 35 |
| 11 | Estimated cost for Expansion of Substation Building to accommodate additional switch gear, electric panels and cabling works. | 250 |
| 12 | Estimated cost for Supply and installation of additional MLDBs for substation. | 25 |
| 13 | Estimated cost for Construction of a maintenance workshop at Fuel Farm. | 32 |
| 14 | Estimated cost for Painting of four above ground ATF storage tanks. | 40 |
| 15 | Estimated cost for West Apron Expansion Phase 3 (9 Stands) | 1,111 |
| 16 | Estimated cost for Terminal T2 Phase 1a (19 stands) | 3,618 |
| | Sub - total | 9,648 |
| | GST @ 18% | 1,737 |
| | Grand total | 11,385 |

- 4.6 As per IOSL, value of minimum level of fuel or deadstock ('Deadstock') stored in fuel storage tanks to be capitalized during the second control period shall be ₹440 lakhs. Deadstock has been considered as a part of plant & machinery and is being depreciated at the rate of depreciation of plant & machinery during the control period.
- 4.7 The straight line method of depreciation has been adopted. The useful life of assets are based on the guidelines provided in Schedule II of the Companies Act, 2013.



4.8 IOSL in its submission has depreciated various assets as follows:

Table 4: Depreciation on assets during the second control period (in ₹ lakhs)

| Particulars | Upto 31.03.16 | FY 16- 17 | FY 17- 18 | FY 18- 19 | FY 19- 20 | FY 20- 21 |
|---|------------------|--------------|--------------|--------------|--------------|--------------|
| Land & Building | 42 | 56 | 68 | 68 | 68 | 68 |
| Plant & machinery (including deadstock) | 702 | 821 | 1,053 | 1,058 | 1,306 | 2,096 |
| Computer & IT assets (including software) | 6 | 54 | 102 | 102 | 51 | 0 |
| Office equipment | 2 | 6 | 6 | 5 | 5 | 5 |
| Vehicles | 9 | 9 | 6 | 6 | 6 | 6 |
| Furniture & fittings | 3 | 2 | 2 | 1 | 0 | 0 |
| Intangible assets | - | - | - | - | - | - |
| Total | 765 | 949 | 1,237 | 1,239 | 1,437 | 2,176 |

Table 5: RAB during the second control period as per IOSL (in ₹ lakhs)

| Particulars | Upto 31.03.16 | FY 16- 17 | FY 17- 18 | FY 18- 19 | FY 19- 20 | FY 20- 21 |
|------------------------------|------------------|--------------|---------------|---------------|---------------|---------------|
| Opening RAB | 8,692 | 8,166 | 10,879 | 11,664 | 10,625 | 19,188 |
| Additions | 239 | 3,662 | 2,022 | 200 | 10,000 | - |
| Less: Depreciation on assets | 765 | 949 | 1,237 | 1,239 | 1,437 | 2,176 |
| Closing RAB | 8,166 | 10,879 | 11,664 | 10,625 | 19,188 | 17,013 |
| Average RAB | 8,429 | 9,522 | 11,271 | 11,144 | 14,907 | 18,101 |

Authority's Examination – RAB and depreciation

4.9 The Authority has proposed to revise estimates for capital expenditure during FY16-17 based on audited figures provided by IOSL.

Table 6: Revised capital expenditure during the control period (in ₹ lakhs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|---|------------|--------------|------------|---------------|----------|
| Land & Building | 12 | 325 | - | - | - |
| Plant & machinery | 508 | 4290 | 105 | 9846 | - |
| Deadstock | 95 | 95 | 95 | 154 | - |
| Computer & IT assets (including software) | 2 | 1,120 | - | - | - |
| Office equipment | - | 25 | - | - | - |
| Vehicles | 12 | 45 | - | - | - |
| Furniture & fittings | 0 | - | - | - | - |
| Intangible assets | - | 320 | - | - | - |
| Total | 629 | 5,901 | 200 | 10,000 | - |

4.10 The Authority noted that certain minimum level of fuel ('Deadstock') is to be stored in fuel storage tanks at all times for uninterrupted operations of the fuel farm. There are 2 possible accounting treatments for cost of Deadstock as observed in case of other fuel farms:

4.10.1 **Deadstock is treated as depreciable capital asset:** Cost of Deadstock is added to the capital asset (storage tank/ pipeline) cost and is depreciated at the rate of the capital asset since the fuel farm operator is required to transfer all assets at zero cost to the airport operator at the end of concession period.

4.10.2 **Deadstock is treated as non-depreciable capital asset:** Cost of Deadstock is accounted for as a separate capital asset (as 'Deadstock') which is not considered for depreciation since residual value of Deadstock might not fall below 5% of the original cost and hence depreciation cannot be provided for Deadstock in accordance with the provisions of the Companies Act, 2013.

4.11 The Authority in this regard has proposed to treat deadstock as a non-depreciable asset and consider appropriate adjustment in tariff at the time of disposal of such Deadstock in the last control period based on the concession period of the fuel farm operator.

4.12 The Authority notes that on some of the assets the depreciation charged by IOSL is not in line with the Companies Act 2013. The Authority is of the view that adoption of depreciation rates as prescribed under the Companies Act at any point of time is appropriate, considering the variation in policies adopted by the fuel farm operators.

4.13 In this regard, the Authority has issued a consultation paper titled "Consultation Paper No. 9/ 2017-18 in the matter of Determination of Useful life of Airport Assets" dated 19th June 2017, to determine appropriate depreciation rates in line with the provisions of the Companies Act 2013. Accordingly, the Authority has proposed to revise the useful life and depreciation rates in line with the proposals set out in such consultation paper. The Authority will consider changes/ revisions (if any) in the order pursuant to the aforementioned consultation paper for adjustment in RAB or true up.

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4.14 Revised depreciation during the control period is as follows:

Table 7: Revised Depreciation on assets during the second control period (in ₹ lakhs)

| Particulars | Rate | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|---|-------|------------|--------------|--------------|--------------|--------------|
| Land & Building | 3.3% | 23 | 29 | 34 | 34 | 34 |
| Plant & machinery | 6.7% | 612 | 772 | 918 | 1,250 | 1,578 |
| Deadstock | 0.0% | - | - | - | - | - |
| Computer & IT assets (including software) | 33.3% | 8 | 195 | 380 | 378 | 191 |
| Office equipment | 20% | 2 | 5 | 7 | 7 | 7 |
| Vehicles | 10% | 3 | 6 | 8 | 8 | 8 |
| Furniture & fittings | 10% | 1 | 1 | 1 | 1 | 1 |
| Intangible assets | - | - | - | - | - | - |
| Total | | 649 | 1,007 | 1,349 | 1,678 | 1,819 |

4.15 Revised RAB as per the Authority after considering the above proposals is shown below:

Table 8: Revised RAB during the second control period (in ₹ lakhs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|------------------------------|--------------|---------------|---------------|---------------|---------------|
| Opening RAB | 8,166 | 8,145 | 13,039 | 11,890 | 20,212 |
| Additions | 629 | 5901 | 200 | 10,000 | 0 |
| Less: Depreciation on assets | 649 | 1,007 | 1,349 | 1,678 | 1,819 |
| Closing RAB | 8,145 | 13,039 | 11,890 | 20,212 | 18,393 |
| Average RAB | 8,156 | 10,592 | 12,465 | 16,051 | 19,303 |

Stakeholder's comments on issues pertaining to RAB & Depreciation

4.16 With regard to the treatment of deadstock under RAB & Depreciation, IOSL was of the following view-

"We are under Service Provider Right Holder (SPRH) agreements with BIAL and as per clause 22.2 of the same, on expiry or early termination of the agreement, IOSL shall at its own cost & expenses and without any payment From BIAL, transfer the rights, title and interest in all Facility Capital assets, including dead stock to BIAL.

In view of the above, IOSL is bound to transfer such assets at zero cost to BIAL. It is essential to maintain the dead stock product at all the time in the pipelines and storage tanks for ensuring the operations and as such it becomes integral part of the pipelines & storage tanks. Such product available in the pipelines cannot be disposed / traded. In view of the above the deadstock of the product was treated as capital asset & depreciation was applied accordingly.



Authority's View of considering the dead stock product under non-depreciable assets, as it would have a residual value, vis-a-vis all other assets needs to be reconsidered. It may please be noted that at the end of the concession period, all assets including product dead stock shall be transferred to BIAL at zero cost. We have since commencement of operations considered this as depreciable asset on the above principle and would request the Authority to allow continuation of the same for the further period like all other capital assets.

Alternatively, we suggest that the Authority issues the specific order that the product deadstock would be transferred to BIAL at the end of the Concession period at a value."

4.17 With regard to Infrastructure & Safety- Additions to RAB, ATA was of the view that-

"Infrastructure- We would like to submit that any infrastructure project should be established by evaluating overall economic impact from both users as well as operator perspective. There is no necessity to mandate two operators merely to create competition if they can't attain economy of scale. The cost of extra capex/ capacity is also effectively borne by passengers. Hence, we believe that the existing infrastructure should be sweat out to its fullest before implementing new infrastructure plans. We heard the fuel facility operators airing their views in the consultation meeting that any extension of the existing hydrant system by the same airport operator will ensure the much-wanted integration of this; otherwise it becomes capital intrusive system. Air Travellers Association sees merit in this stand point.

Safety- As an Air Traveller Association, our objective is to support the measures meant to provide safe infrastructure for the air travellers. In this regards we believe that the Fuel Hydrant system is efficient and the safest way to re-fueling the aircraft. It does not only reduce the air side traffic movement but also helps airlines to get faster turnaround. DGCA also mandates measures that reduce air side traffic. Accordingly, we request authority to promote fuel hydrant Systems at all Indian Airports."

4.18 With regard to the treatment for Deadstock, IATA was of the view that-

"IATA agrees with AERA's proposal that deadstock be treated as non-depreciable capital asset and its impact on tariffs to be considered at the time of disposal of the deadstock."

4.19 With regard to the treatment for depreciation, IATA was of the view that-

"IATA agrees with AERA's revision to the asset depreciation rates which are more in line with the useful lives of the assets."

4.20 With regard to the treatment for Airport operator fee, IATA was of the view that-

"Additionally, in the case of treatment of the Airport Operator Fee (AOF), IATA does not agree that the AOF of 1067 INR/KL at BLR should be included in the assessment of the FIC. The AOF is fully passed through to the suppliers and then to the airlines – it is in effect not

an expense item for IOSL. It should be excluded from the tariff determination process like in the cases of DAFFPL and MAFFFPL."

IOSL's reply to Stakeholder's comments on issues pertaining to RAB & Depreciation

4.21 With regard to the ATA's comments on infrastructure and safety, IOSL was of the view that-

"IOSL agrees to the view that there is no necessity to mandate two operators merely to create competition if they can't attain economy of scales. In fact, this is the philosophy of "Open Access Model" of Fuel Farms prevalent at Bangalore and Delhi. Moreover, a fuel farm & Hydrant system needs to be operated from one location by a single operator for Optimizing the resources and efficient operations. As expressed by us in our earlier letters that the Competition had already ensued, as the Fuel Farm operator was selected through the process of international competitive bidding.

IOSL also agrees to the views that hydrant system extension by the same operator would ensure the desired integration of the entire Fuel Management System, else it becomes capital intensive system.

IOSL, however does not agree with that further Capital expenditure should be undertaken only after the existing infrastructure has been sweated out to the fullest. The Capital works are planned keeping in view the expected life of the existing assets & the future requirements for the next 5-10 years considering the growth projections. Majority of the Capital expenditure cannot be done in a short time since considerable time is required to complete the same. Also since the cost involved is huge, the arrangements of fund & the tendering process require considerable time and attention."

4.22 With regard to the IATA's comments on the treatment of deadstock, IOSL was of the view that-

"IOSL also disagrees to treatment of dead stock as non-depreciable assets. Kindly refer our submissions dated 09th Oct 2017."

4.23 With regard to the IATA's comments on Airport operator fee, IOSL was of the view that-

"IOSL being the operator of Fuel Farm at Delhi Airport does not agree with the views that higher operating cost determined by the Authority should not be considered. The tariff submission and its evaluation has been done under Price Cap mechanism in a transparent manner as per the AERA guidelines and the same needs to be honored. The operations at the Fuel Farm are being undertaken by us to ensure that the facility is maintained & safety of the Passengers / Airport / equipment is ensured. Any decrease in the operating expenditure may have the negative effect on the operations which may lead to compromises on safety.

The Authority has considered only the escalation of IOSL from Rs 433.00 / kl to Rs 633.00 / kl, keeping the AOF as constant. It may please be noted that the total amount (AOF +



Throughput charges) are to be recovered by way of a single invoice from the suppliers as per the agreements in place."



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Authority's examination of Stakeholder's comments on issues pertaining to RAB & Depreciation

- 4.24 The Authority has carefully considered the comments from the stakeholders as well as IOSL's own comments and responses to these stakeholder's comments on RAB & depreciation. The Authority's examination and decisions in this regard have been presented below.
- 4.25 With regard to IOSL's comments on the treatment of deadstock, the Authority has noted that the commercial value of Deadstock is always available, hence the Authority has decided to adjust the value of Deadstock (if any) in the last control period.
- 4.26 With regard to ATA's comments on Infrastructure & Safety, the Authority agrees to its views that hydrant system be provided wherever possible.
- 4.27 With regard to IATA's comments on Airport operator fee, the Authority notes that since there is no rent, fuel throughput seems comparable with that in other centers. Table 16 provides a comparison of the fuel related charges for different oil companies.

Decision No. 1 Regarding RAB and depreciation

- 1.a. The Authority has decided to revise estimates for capital expenditure during FY16-17 based on audited figures.
- 1.b. The Authority has decided to treat deadstock as a non-depreciable asset and consider appropriate adjustment in tariff at the time of disposal of such Deadstock in the last control period based on the concession period of the fuel farm operator.
- 1.c. The Authority has decided to true up depreciation as and when the decision to revise the depreciation rates is taken at the time of determination of tariff for the third control period.
- 1.d. The Authority has decided to true up the average RAB to be based on the actual date of capitalization at the time of determination of tariff for the third control period.
- 1.e. The Authority has decided to consider revised average RAB during the control period for calculation of ARR as shown in Table 8.



5. FAIR RATE OF RETURN (FRoR)

IOSL's submission - FRoR

5.1 IOSL in its submission has proposed the capital structure, funding mechanism, and FRoR as provided below:

Table 9: Capital structure, funding mechanism and FRoR of IOSL during the second control period (in ₹ lakhs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|--------------------------------------|--------------|--------------|--------------|---------------|---------------|
| Equity | 4,033 | 4,033 | 4,033 | 7,033 | 7,033 |
| Debt | 5,873 | 4,375 | 3,750 | 9,250 | 7,750 |
| Debt + Equity | 9,906 | 8,407 | 7,782 | 16,282 | 14,782 |
| Cost of Debt | 11.30 | 11.30 | 11.30 | 11.30 | 11.30 |
| Cost of Equity | 17.15 | 17.15 | 17.15 | 17.15 | 17.15 |
| Individual Year Gearing | 59 | 52 | 48 | 57 | 52 |
| (Debt + Equity)*Gearing | 5,873 | 4,375 | 3,750 | 9,250 | 7,750 |
| Weighted Average Gearing | 54 | | | | |
| Debt* Cost of Debt | 664 | 494 | 424 | 1,045 | 876 |
| Weighted Average Cost of Debt | 11.30 | | | | |
| Cost of Equity | 17.15 | | | | |
| Fair Return of Return | 13.98 | | | | |

Authority's Examination – FRoR

- 5.2 The Authority has proposed to consider fair return on equity at 14% p.a. since the business operations of fuel farms are inherently monopolistic with virtually no risk where returns are guaranteed by back to back agreements. The above rate shall be considered in the tariff determination process for other fuel farms as well.
- 5.3 The Authority noted that IOSL has considered interest cost of borrowings at 11.30% per annum during the second control period. However the Authority has proposed to consider interest cost of borrowings at 9.40% per annum as the interest cost for all the years during the second control period.
- 5.4 Further, the Authority has proposed to consider internal accruals during the control as part of equity to arrive at the debt equity ratio.
- 5.5 FRoR on the basis of revised return on equity at 14% p.a. and after considering internal accruals as part of equity for computing debt-equity ratio works out to 12.15% p.a. as shown in Table 10 below.



Table 10: Revised capital structure, funding mechanism and FRoR of IOSL during the second control period (in ₹ lakhs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|--|---------------|---------------|---------------|---------------|---------------|
| Debt | 5,873 | 4,375 | 3,750 | 9,250 | 7,750 |
| Equity | 4,033 | 4,033 | 4,033 | 7,033 | 7,033 |
| Internal accruals | 2,061 | 3,200 | 4,278 | 4,832 | 5,404 |
| Total | 11,967 | 11,608 | 12,061 | 21,115 | 20,187 |
| Cost of Debt (% p.a.) | 9.40 | 9.40 | 9.40 | 9.40 | 9.40 |
| Cost of Equity (% p.a.) | 14.00 | 14.00 | 14.00 | 14.00 | 14.00 |
| Individual Year Gearing | 49.08 | 37.69 | 31.09 | 43.81 | 38.39 |
| (Debt + Equity) * Gearing | 5,873 | 4,375 | 3,750 | 9,250 | 7,750 |
| Weighted Average Gearing (%) | 40.29 | | | | |
| Debt * Cost of Debt | 552 | 411 | 353 | 870 | 729 |
| Weighted Average Cost of Debt (%) | 9.40 | | | | |
| Cost of Equity (%) | 14.00 | | | | |
| Fair Return of Return (%) | 12.15 | | | | |

Stakeholder's comments on issues pertaining to FRoR

5.6 With regard to the return on equity, IOSL was of the following view-

"The Authority has considered Fair Return on Equity at 14% pa as against the calculated Fair Return on Equity of 17.15 % as per the AERA model taken by us while determining the tariff for the second control period Cost of equity (Ke) has been computed using the Capital Asset Pricing Model (CAPM) in line with the recommendations of the AERA guidelines. CAPM uses various parameters in the model as described below:

1. Risk Free Rate (Rf)

Risk free rate adopted for this calculation is the yield on the 10-year Government of India Bond as on February 11, 2016. This was 7.838% on that date.

2. Market Rate of Return

The average market rate of return was computed taking into account the movement of the BSE Sensex; for the last 20 years from 1996 to 2015. The value arrived at was 16.15 %.

3. Beta

Beta measures the systematic risk or volatility associated with the shares of a company. Beta of the market in case the BSE Sensex is 1.

In our calculation, Beta was taken as the average of the beta of the major oil companies as on February 4, 2016 who are in the business of oil marketing as per noted below:

- Hindustan Petroleum: 1.33



- Indian Oil Corporation: 0.78

- Bharat Petroleum: 1.25

The average Beta of the above works out to 1.12 and the same was considered by us.

Hence Cost of Equity after applying the CAPM approach is 17.15%.

We request the Authority to kindly consider 17.15% as Fair Return on equity."

5.7 With regard to the return on equity, DIAL was of the view that-

"MoCA has conducted study on Return on Equity in airport sector. According to the same study the equity return should be within range of 18.5% to 20.5%. As this report is airport sector the same should be applicable to DAFFPL."

IOSL's reply to Stakeholder's comments on issues pertaining to FRoR

5.8 With regard to the DIAL's comments on return on equity, IOSL was of the view that-

"We are agreeable with the views expressed by DIAL on the Fair return on equity and Dead stock as they are based on the study by MOCA and contractual terms between the parties, respectively. We have in our submission dated 09th Oct 2017, also given similar views confirming the above in line with the contractual terms."

Authority's examination of Stakeholder's comments on issues pertaining to FRoR

5.9 The Authority has carefully considered the comments from the stakeholders as well as IOSL's own comments and responses to these stakeholder's comments regarding Fair Rate of Return. The Authority's examination and decisions in this regard have been presented below.

5.10 With regard to DIAL's and IOSL's comments on Return on equity, the Authority has noted that the IOSL Fuel Farm facility is the only fuel storage provider at Bangalore airport and as such there is no business risk involved, therefore it has been decided that the cost of equity be kept at 14%.

5.11 It is noted that the Capital gearing of the fuel farms at different Airports varies and there is no uniformity for the same nature of business. The Authority will examine the issue and follow a normative approach in the next control period.

Decision No. 2 Regarding FRoR

- 2.a. The Authority has decided to consider the cost of equity at 14% p.a., interest cost of borrowings at 9.40% p.a., internal accruals as equity for computing debt-equity ratio and FRoR at 12.15% p.a. for IOSL for the second control period.
- 2.b. The FRoR will be trued up based on the actual debt-equity ratio and the cost of debt and equity as determined at the time of tariff determination for the third control period.



- 2.c. The Authority will consider an appropriate norm for Capital gearing ratio for the Fuel Farm Facilities in the next control period.



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6. OPERATION AND MAINTENANCE EXPENDITURE

- 6.1 As provided in Clause 9.4 of the CGF Guidelines, the operational and maintenance expenditure shall include all expenditures incurred by the Service Provider(s) including expenditure incurred on statutory operating cost and other mandated operating costs.

IOSL's submission - Operating and Maintenance expenditure

- 6.2 IOSL has submitted details and basis for each of the proposed O&M expenditure in their submission. The details of the assumptions made by IOSL for each item of operation and maintenance expenditure are provided in the following paras.
- 6.3 Items considered for operating costs are those based on past trend of the company. Most items of cost have been escalated at the rate of 5.33% p.a. in line with past trend. Salaries have been escalated by 12%. The basis of increase in salaries is on past trend and that adopted by IOSL. The gross emoluments of the employees of Indian Oil Corporation have to be compensated by IOSL based on debit notes raised by IOCL each year. Some other expenses like repairs and maintenance has been escalated at 10.33%, utilities at 8.33% and Insurance at 10%.
- 6.4 Concession fee to airport operator (Airport Operator Fee): The fee payable by the IOSL to BIAL for each litre ATF delivered through the Facility monthly basis and the current rate is ₹1067/ KL and has not been changed since 2009.

Table 11: Actual and projected aeronautical O&M expenditure by IOSL for the second control period (in ₹ lakhs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|--|--------------|--------------|--------------|--------------|--------------|
| Payroll Costs | 261 | 293 | 328 | 367 | 411 |
| Administrative and General Costs | 883 | 457 | 488 | 521 | 556 |
| Utilities and Outsourcing costs | 140 | 151 | 164 | 178 | 192 |
| Concession Fee & Airport Operator Fees | 6,230 | 6,292 | 6,355 | 6,419 | 6,483 |
| Repair and Maintenance Costs | 293 | 360 | 392 | 433 | 477 |
| Total | 7,807 | 7,554 | 7,727 | 7,917 | 8,120 |

Authority's Examination - Operating and Maintenance expenditure

- 6.5 The Authority has proposed to consider annual increment of 8% in case of payroll costs instead of IOSL's proposed annual increment of 12% to reflect a more conservative impact of inflation.
- 6.6 Further the Authority has proposed to exclude CSR expenses from operating and maintenance expenses as these are in the nature of appropriation of profits rather than an expense related to operations.
- 6.7 Accordingly, the reworked Operating and Maintenance expenditure is shown in the table below.



Table 12: Operation and Maintenance Expenditure as per the Authority (in ₹ lakhs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|--|--------------|--------------|--------------|--------------|--------------|
| Payroll Costs | 253 | 273 | 295 | 318 | 344 |
| Administrative and General Costs | 833 | 405 | 433 | 463 | 495 |
| Utilities and Outsourcing costs | 140 | 151 | 164 | 178 | 192 |
| Concession Fee & Airport Operator Fees | 6,230 | 6,542 | 6,869 | 7,212 | 7,573 |
| Repair and Maintenance Costs | 293 | 360 | 392 | 433 | 477 |
| Total | 7,748 | 7,731 | 8,152 | 8,603 | 9,081 |

- 6.8 The Authority has proposed to true up the Operating and Maintenance expenditure in the third control period based on the actual expenditure during the second control period.

Stakeholder's comments on issues pertaining to Operating & maintenance expenditure

- 6.9 With regard to the escalation on manpower cost, IOSL was of the following view-

"The major cost element for the service provider for fuel farm operation is the manpower cost which is approximately 40 % of our total operating cost (excluding Airport operator fees). We are mainly employing Engineers for our Fuel Farm operations. These officers are being trained & necessary DGCA certifications awarded enabling them to carry out their jobs of handling the Aviation Fuel. The Authority has considered annual escalation of 8% in the manpower cost to give a conservative impact of inflation. We would like to submit that in IOSPL manpower cost are being escalated @ 12-15%. We had already taken a conservative increase of only 12%. The annual increase in manpower cost (salaries & wages) may thus be considered at 122% which will help us in the retention of trained manpower.

We thus request the Authority to consider annual increment of 12 % in case of manpower cost in view of the submissions provided."

- 6.10 With regard to truing-up of operating & maintenance expenditure, IATA was of the following view-

"IATA does not agree that Operating & Maintenance Expenditure should be trued up in the third control period as it runs contrary to incentivizing operational efficiency and fiscal discipline."

IOSL's reply to Stakeholder's comments on issues pertaining to Operating & maintenance expenditure

- 6.11 With regard to the IATA's comments on truing-up of operating & maintenance expenditure, IOSL was of the view that-

"IOSL also does not agree with IATA view of not trueing up the operating expenditure and carrying it forward to the third control period. The stakeholders who are currently availing the services should bear the cost of the same and not the future users of the third control period."

Authority's examination of Stakeholder's comments on issues pertaining to Operating & maintenance expenditure

- 6.12 The Authority has carefully considered the comments from the stakeholders as well as IOSL's own comments and responses to these stakeholder's comments on Operating and maintenance expenditure. The Authority's examination and decisions in this regard have been presented below.
- 6.13 With regard to the IOSL's comments on escalation of manpower cost, the Authority is of the view that if there is a significant increase in manpower cost, it shall be looked at separately. At present, it intends to go with the projected figures.
- 6.14 With regard to the IATA's comments on truing-up of operating & maintenance expenditure, the Authority is of the view that true up would be resorted to only when the service provider justifies the increase in cost. It is also to be noted that in most of the cases the Authority had observed that the Opex provided for is more than the actual, and is thus required to be trued up for benefit of stakeholders.

Decision No. 3 Regarding Operating and Maintenance expenditure

- 3.a. The Authority has decided to revise operating and maintenance expenditure as shown in Table 12.
- 3.b. The Authority has decided to true up the Operating and Maintenance expenditure in the third control period based on the actual expenditure during the second control period.

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7. TAXATION

7.1 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.

7.2 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.

IOSL's submissions - Taxation

Table 13: Tax liability as per IOSL's submission

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|-------------------|------------|------------|------------|-------------|-------------|
| Profit before Tax | 507 | 740 | 736 | -172 | -842 |
| Less: Current Tax | 175 | 256 | 255 | - | - |
| Total | 331 | 484 | 481 | -172 | -842 |

Authority's examination – Taxation

7.3 The Authority has proposed to revise tax as per the provisions of Income Tax Act, 1961. For FY16-17, tax has been computed on actual revenue as per audited financial statements of FY16-17 as submitted by IOSL and revised book depreciation as considered by the Authority. For FY17-18 to FY20-21, tax has been computed on revised revenue based on revised tariff and revised book depreciation.

7.4 Revised taxation considering revisions in other building blocks is shown below:

Table 14: Revised tax liability as per the Authority

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|------------------------------------|--------------|--------------|--------------|------------|------------|
| Profit before Tax | 1,338 | 1,854 | 1,714 | 892 | 867 |
| Add: Depreciation – Companies Act | 649 | 1,007 | 1,350 | 1,682 | 2,010 |
| Less: Depreciation - I T Act | (74) | (795) | (1,226) | (1,597) | (2,025) |
| Profit chargeable to tax | 1,913 | 2,066 | 1,839 | 977 | 852 |
| Average corporate tax rate | 34.61% | 34.61% | 34.61% | 34.61% | 34.61% |
| Tax - Normal provisions (a) | 662 | 715 | 636 | 338 | 295 |
| Average MAT rate | 21.34% | 21.34% | 21.34% | 21.34% | 21.34% |
| Tax – MAT (b) | 286 | 396 | 366 | 190 | 185 |
| Higher of a & b | 662 | 715 | 636 | 338 | 295 |

7.5 The Authority has decided to consider tax as given in Table 14.

7.6 The Authority has decided to true up amount of tax in the third control period based on the actual tax liability during the second control period.



Decision No. 4 Regarding taxation

- 4.a. The Authority has decided to consider tax as given in Table 14.
- 4.b. The Authority has decided to true up amount of tax in the third control period based on the actual tax liability during the second control period.



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8. AGGREGATE REVENUE REQUIREMENT (ARR) AND ANNUAL FIC

IOSL's submissions – ARR, annual FIC and shortfall

Table 15: ARR as per IOSL for the second control period (in ₹ lakhs)

| Particulars | | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 | Total |
|---|-----------------|----------|----------|----------|----------|----------|---------|
| RAB for calculating ARR | [A] | 9,522 | 11,271 | 11,144 | 14,907 | 18,101 | 64,945 |
| Fair Rate of Return (%) | [B] | 13.98% | 13.98% | 13.98% | 13.98% | 13.98% | |
| Fair Rate of Return on RAB | [C] = [A * B] | 1,331 | 1,575 | 1,558 | 2,084 | 2,530 | 9,078 |
| Depreciation | [D] | 949 | 1,237 | 1,239 | 1,437 | 2,176 | 7,037 |
| Operating Expenditure | [E] | 7,807 | 7,554 | 7,727 | 7,917 | 8,120 | 39,125 |
| Tax | [F] | 175 | 256 | 175 | 256 | 255 | 1,117 |
| Aggregate Revenue Requirement | [G] = [C+D+E+F] | 10,262 | 10,623 | 10,699 | 11,693 | 13,080 | 56,357 |
| Discount factor (#) | [H] | 1.00 | 0.88 | 0.77 | 0.68 | 0.59 | |
| Present Value (PV) of ARR | [I] = [G*H] | 10,262 | 9,320 | 8,236 | 7,897 | 7,750 | 43,465 |
| Annual FIC sought by IOSL | [J] | 1,700 | 1,700 | 1,700 | 1,700 | 1,700 | |
| Fuel throughput (KL lakhs) | [K] | 5.84 | 5.90 | 5.96 | 6.02 | 6.08 | |
| Revenue from annual FIC as sought by IOSL | [L] = [J*K] | 9,926 | 10,025 | 10,126 | 10,227 | 10,329 | 50,634 |
| PV of Revenue from annual FIC as sought by IOSL | [M] = [L*H] | 9,926 | 8,796 | 7,794 | 6,907 | 6,121 | 39,544 |
| Shortfall | [N] = [I-M] | (336) | (524) | (441) | (990) | (1,630) | (3,921) |

Authority's Examination

- 8.1 The Authority has proposed that the date of order shall be considered as 01.11.2017 for calculating discount factors.

Table 16: Comparison of fuel related charges borne by oil companies at major airports during FY 2015-16 (in ₹ / KL)

| Airport | Airport operator fee (AOF) | Fuel infrastructure charge (FIC) | Total (AOF + FIC) | ITP fee for aircraft fuelling (ITP) | Total (AOF + FIC + ITP) |
|-----------|----------------------------|----------------------------------|-------------------|-------------------------------------|-------------------------|
| New Delhi | 688 | 755 | 1,443 | 190 | 1,633 |
| Mumbai | 804 | 710 | 1,514 | 198 | 1,712 |
| Bengaluru | 1,067 | 433 | 1,500 | 268 | 1,768 |

- 8.2 The Authority noted that no license fee/ land lease rental is payable by the fuel farm operator to the airport operator at Bengaluru Airport. Further, FIC at New Delhi and Mumbai airports are higher as compared to FIC at Bengaluru airport because it includes license fee/ land lease rental payable by the fuel farm operator to the airport operator in the respective airports.



8.3 Below table provides estimated license fee/ land lease rentals payable to airport operators at Delhi and Mumbai airport during FY 2015-16.

Table 17: Estimated license fee/ land lease rentals payable to airport operators at Delhi and Mumbai airport during FY 2015-16

| Airport | Licence fee | Licence fee - total (in ₹ lakhs) | Fuel throughput (in KL lakhs) | Licence fee (₹ per KL) |
|-----------|---------------------|-------------------------------------|----------------------------------|---------------------------|
| New Delhi | ₹2,226 / sqm / p.a. | 1,594.78 | 16.64 | 96 |
| Mumbai | ₹1,500 / sqm / p.a. | 416.54 | 15.53 | 27 |
| Bengaluru | Nil | - | - | - |

8.4 The Authority has noted that AOF of ₹1,067/ KL at Bengaluru airport seems high when compared to fuel related charges at New Delhi and Mumbai airport after reducing the per KL license fee computed in the table above from such fuel related charges computed in Table 16. However, the Authority has noted that pass through payments such as AOF are based on long term concession agreements entered into on the basis of competitive bidding. Accordingly the Authority has proposed to allow the existing AOF at Bengaluru airport. However, the Authority will relook at such pass through payments when the order pursuant to consultation paper no. 8/ 2016-17 dated 31st March, 2017 on capping the percentage of Royalty / Revenue Share payable to Airport Operator as a "Pass Through" Expenditure for the Independent Service Providers providing Cargo facility, Ground Handling and Supply of Fuel to the Aircraft at Major Airports is finalized.

8.5 The Authority has further noted that as per IOSL's calculations there is a shortfall between the present value of projected ARR and the present value of projected aeronautical revenue at FIC of ₹1,700/ KL during the second control period. Therefore, the Authority has proposed to accept IOSL's request for increase in FIC from ₹1,500/ KL at present to ₹1,700/ KL for the second control period.

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Table 18: Revised ARR, annual FIC and shortfall for the second control period (in ₹ lakhs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 | Total |
|--|----------|----------|----------|----------|----------|--------|
| Average RAB [1] as per Table 8 | 8,156 | 10,592 | 12,465 | 16,051 | 19,303 | 66,566 |
| FRoR [2] as per Table 10 | 12.15% | 12.15% | 12.15% | 12.15% | 12.15% | |
| Discount Factor (#) | 1.09 | 0.97 | 0.87 | 0.77 | 0.69 | |
| Return on Average RAB [3] = [1] * [2] | 991 | 1,287 | 1,515 | 1,950 | 2,346 | 8,089 |
| Add: Depreciation [4] as per Table 7 | 649 | 1,007 | 1,349 | 1,678 | 1,819 | 6,502 |
| Add: Operating expenses [5] as per Table 12 | 7,748 | 7,731 | 8,152 | 8,603 | 9,081 | 41,316 |
| Add: Taxation [6] as per Table 14 | 662 | 715 | 636 | 338 | 295 | 2,646 |
| ARR [9] = [3] + [3A] + [4] + [5] + [6] + [7] - [8] | 10,051 | 10,740 | 11,652 | 12,570 | 13,541 | 58,552 |
| PV (Discounted ARR) [10] | 10,961 | 10,444 | 10,103 | 9,715 | 9,331 | 50,554 |
| Fuel throughput [11] | 5.84 | 6.13 | 6.44 | 6.76 | 7.10 | 32 |
| Annual FIC [12] | 1,804 | 1,804 | 1,804 | 1,804 | 1,804 | |
| Annual FIC sought by IOSL | 1,500 | 1,700 | 1,700 | 1,700 | 1,700 | |
| Revenue from annual FIC as sought by IOSL | 8,758 | 10,423 | 10,944 | 11,491 | 12,065 | 53,681 |
| PV of Revenue from annual FIC as sought by IOSL [13] | 10,399 | 10,135 | 9,489 | 8,881 | 8,315 | 47,222 |
| Shortfall/ (Excess recovery) [14] = [10] - [13] | (562) | (309) | (614) | (834) | (1,017) | 3,335 |

8.6 Further, the Authority has decided to consider the true up of all building blocks in the third control period.

Stakeholder's comments on issues pertaining to ARR & annual FIC

8.7 With regard to the fuel infrastructure charges, BPCL & HPCL were of the view that-
"Any revision in the Fuel Infrastructure charges should be approved on prospective basis only."

IOSL's response to stakeholder's comments on issues pertaining to ARR & annual FIC

8.8 With regard to BPCL's & HPCL's comments on fuel infrastructure charges, IOSL was of the following view-

"Both the OMC have stated that the Facility Charges are to be revised on prospective basis & not retrospective. We would like to submit that for the second control period, the proposal was submitted to AERA on 08th March 2016 as per the AERA timelines. The second control period is for the period 1st April 2016 to 31st March 2021. Already a period of 1 1/2 has elapsed with the Fuel throughput fees not being revised. We have vide our letter dated 09th Oct 2017 & 08th July 2017 already appraised the Authority of the huge incurrence of "Under Recoveries" because of delays in approval process.

The Honorable Authority also as per Table 18 of the Consultation paper 29/2017-18, has recognized the under recoveries to the tune of Rs 31.96 Crs in the Second Control Period, in case tariff of Rs 1700 / kl is approved.

We thus request the Authority to consider the approval for the control period as per the AERA guidelines in respect of control period for the tariff determination."

Authority's examination of Stakeholder's comments on issues pertaining to ARR and annual FIC

- 8.9 The Authority has carefully considered the comments from the stakeholders as well as IOSL's own comments and responses to these stakeholder's comments on ARR and annual FIC. The Authority's examination and decisions in this regard have been presented below.
- 8.10 With regard to the BPCL's and HPCL's comments on fuel infrastructure charges, the Authority agrees with their views that the revisions be approved on prospective basis only.

Decision No. 5 Regarding ARR and annual FIC

The Authority has decided to consider ARR as stated below:

- 5.a. The Authority has decided to accept IOSL's request for increase in FIC from ₹1,500/ KL at present to ₹1,700/ KL for the second control period since there is a shortfall between the present value of projected ARR and the present value of projected aeronautical revenue at FIC of ₹1,700/ KL during the second control period.
- 5.b. The Authority has decided to consider the true up of all building blocks in the third control period.

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9. FUEL THROUGHPUT AND REVENUE FROM AERONAUTICAL SERVICES

IOSL's submissions – Fuel throughput and revenue from aeronautical services

Table 19: Projected fuel throughput during the control period as per IOSL (lacs KL)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|--------------------------|----------|----------|----------|----------|----------|
| Uplift of fuel in a year | 5.84 | 5.90 | 5.96 | 6.02 | 6.08 |

9.1 As per IOSL, fuel throughput is projected to increase by 1% per annum during the control period based on the historical CAGR of fuel volume at Bengaluru Airport.

Table 20: Projected revenue from aeronautical services during the control period as per IOSL's submissions (₹ lacs)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|-----------------------------|--------------|---------------|---------------|---------------|---------------|
| Fuel Infrastructure charges | 9,926 | 10,025 | 10,126 | 10,227 | 10,329 |
| Total | 9,926 | 10,025 | 10,126 | 10,227 | 10,329 |

Table 21: Assumptions made by IOSL for each item of revenue from aeronautical services

| S. No. | Item | Assumption and basis |
|--------|-----------------------------|--|
| A | Fuel Infrastructure charges | Revenue from FIC has been calculated based on the projected fuel throughput multiplied by per KL charge of ₹1,700. |

Authority's Examination – Fuel throughput and revenue from aeronautical services

9.2 However, the Authority has decided to increase the growth rate assumed for projected fuel throughput from 1% per annum to 5% per annum based on high growth rate assumed for projected ATM traffic as per BIAL's submission for Bengaluru airport tariff review.

Table 22: Projected fuel throughput during the control period as per IOSL (lacs KL)

| Particulars | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|--------------------------|----------|----------|----------|----------|----------|
| Uplift of fuel in a year | 5.84 | 6.13 | 6.44 | 6.76 | 7.10 |

9.3 Further, the Authority notes that revenue from FIC is subject to change as and when the FIC being reviewed in this consultation paper is approved by the Authority. Hence, such revenues will be trued up in the third control period based on the actual revenue from aeronautical services during the second control period.

Decision No. 6 Regarding fuel throughput and revenue from aeronautical services

6.a. The Authority has decided to accept projected fuel throughput as given in Table 22.



10. SUMMARY OF DECISIONS

Decision No. 1 Regarding RAB and depreciation 16

1.a. The Authority has decided to revise estimates for capital expenditure during FY16-17 based on audited figures. 16

1.b. The Authority in this regard has decided to treat deadstock as a non-depreciable asset and consider appropriate adjustment in tariff at the time of disposal of such Deadstock in the last control period based on the concession period of the fuel farm operator. 16

1.c. The Authority has decided to true up depreciation as and when the decision to revise the depreciation rates is taken at the time of determination of tariff for the third control period. 16

1.d. The Authority has decided to true up the average RAB to be based on the actual date of capitalization at the time of determination of tariff for the third control period. 16

1.e. The Authority has decided to consider revised average RAB during the control period for calculation of ARR as shown in Table 8. 16

Decision No. 2 Regarding FRoR..... 19

2.a. The Authority has decided to consider the cost of equity at 14% p.a., interest cost of borrowings at 9.40% p.a., internal accruals as equity for computing debt-equity ratio and FRoR at 12.15% p.a. for IOSL for the second control period. 19

2.b. The FRoR will be trued up based on the actual debt-equity ratio and the cost of debt and equity as determined at the time of tariff determination for the third control period. 19

2.c. The Authority will consider an appropriate norms for Capital gearing ratio or the next control period.

Decision No. 3 Regarding Operating and Maintenance expenditure 23

3.a. The Authority has decided to revise operating and maintenance expenditure as shown in Table 12. 23

3.b. The Authority has decided to true up the Operating and Maintenance expenditure in the third control period based on the actual expenditure during the second control period. 23

Decision No. 4 Regarding taxation 25

4.a. The Authority has decided to consider tax as given in Table 14. 25

4.b. The Authority has decided to true up amount of tax in the third control period based on the actual tax liability during the second control period. 25

Decision No. 5 Regarding ARR and annual FIC 29

5.a. The Authority has decided to accept IOSL's request for increase in FIC from ₹1,500/ KL at present to ₹1,700/ KL for the second control period since as per IOSL's calculations there is a shortfall between the present value of projected ARR and the present value of projected aeronautical revenue at FIC of ₹1,700/ KL during the second control period. 29

5.b. The Authority has decided to consider the true up of all building blocks in the third control period. 29

Decision No. 6 Regarding fuel throughput and revenue from aeronautical services ... 30

6.a. The Authority has decided to accept projected fuel throughput as given in Table 22. 30




ORDER

In exercise of powers conferred by Section 13(1)(a) of the Act and based on the above decisions the Authority hereby orders that:

- i. The fuel infrastructure charge (FIC) in respect of the fuel farm services provided by IOSL at KIA Airport, Bengaluru is determined @ Rs. 1700/KL (inclusive of operator's fee) for the second control period up to 31.03.2021. These rates will be effective from 1st January 2018.

By the Order and in the name of the Authority




(Puja Jindal)
Secretary

To

IndianOil Skytanking Private Limited
Fuel Farm Facility, Bangalore International Airport,
Devanahalli, Bangalore -560 300 सत्यमेव जयते



भा.वि.प्रा.
AERA

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