File No. AERA/20010/MYTP/MAFFFL/FF/CP-II/2016-17/Vol-I

Order No. 30/2017-18

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of Fuel Infrastructure Charges in respect of Mumbai Aviation Fuel Farm Facility Private Limited at CSI Airport, Mumbai for the Second Control Period (01.04.2016 – 31.03.2021)

18th December, 2017

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

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1. LIST OF ABBREVIATIONS

AAI	Airport Authority of India
AERA or the Authority	Airport Economic Regulatory Authority of India
Aero	Aeronautical
ARR	Aggregate Revenue Requirement
ATA	Air Travellers Association
ATM	Air traffic movement
ATP	Annual Tariff Proposal
BPCL	Bharat Petroleum Corporation Limited
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
CSIA	Chhatrapati Shivaji International Airport, Mumbai
E&Y	Ernst & Young
FIC or Infrastructure charge	Fuel Infrastructure Charge
FRoR	Fair Rate of Return
FY	Financial Year
GOI	Government Of India
HPCL	Hindustan Petroleum Corporation Limited
IATA	International Air Transport Association
IND AS	Indian Accounting Standard
INR or ₹	Indian rupees
IOCL	Indian Oil Corporation Limited
IRR	Internal Rate of Return
ITP	Into Plane Service operators
JVC	Joint Venture Company
Ke	Cost of equity
Licence agreement	Licence Agreement between MAFFFPL and MIAL entered into on 30th December 2014 till 02nd May 2036
MAFFFPL/ Fuel Farm Operator	Mumbai Aviation Fuel Farm Facility Private Limited
MIAL	Mumbai International Airport Private Limited
MYTO	Multi Year Tariff Order
MYTP	Multi Year Tariff Proposal
O&M	Operating and Maintenance
OIL PSUs	IOCL, BPCL and HPCL
OPEX	Operating Expenditure
P&L	Profit and Loss
p.a.	Per annum
PAX	Passenger(s)
RAB	Regulated Asset Base
SLM	Straight Line Method
Sq.m.	Square Metre
YPP	Yield per passenger

2. BACKGROUND

2.1 MAFFFPL is a joint venture company (JVC) comprising of the Oil Public Sector Undertakings (PSUs) namely Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and Mumbai International Airport Private Limited (MIAL), each holding equal ownership. Pursuant to License Agreement between MAFFFPL and MIAL dated 30th December 2014 valid till 02nd May 2036, MAFFFPL was incorporated for the purpose of taking over and managing the current aviation fuel facilities of the Oil PSUs, creating an integrated aviation fuel facility at Terminal 2 of CSIA and operating the integrated aviation fuel facility on an open access model.

2.2 MAFFFPL had requested the Authority wide letter dated 14.11.2014 for interim tariff approval of ₹826/KL, as Fuel Infrastructure Charges (FIC). After multiple representations, discussions and user consultations, the Authority vide their order no. 01/ 2015-16 dated 27.03.2015 determined an ad-hoc infrastructure charge of ₹ 710/KL for the period 01.02.2015 i.e. the date of commencement of operations of MAFFFPL up to the date of implementation of tariff determined under the price cap regulation for MAFFFPL.

2.3 Subsequently, the Authority vide letter dated 28.01.2016 advised MAFFFPL to submit the MYTP for the second control period starting 01.04.2016 in order to have uniformity in submissions for the 2nd control period and further decided that tariff levied for the interim period from 1st February 2015 up to 31st March 2016 will be trued up while considering tariff determination for the forthcoming control period.

2.4 As per MAFFFPL submissions, currently all the Oil PSUs namely HPCL, BPCL and IOCL are operating from their respective facilities located at Sahar and Santa Cruz areas on the land provided by the Airport. The planned integrated Fuel Farm Facility (built on an area of approximately 30,000 square meters and having static storage capacity of 47,500 kilolitres of ATF) will operate from a single point (i.e., at the site of the existing facilities of IOCL and HPCL near the Domestic terminal 1A, Santa Cruz) to bring in efficiencies of integrated operations. It has been further stated that, the existing assets acquired from the Oil PSUs will be disposed-off once the Integrated Fuel Farm is operational.

2.5 MAFFFPL has approached the Authority with its MYTP seeking approval on tariff for FIC of ₹882/ KL. MAFFFPL filed its MYTP submissions for the second control period from 01.04.2016 to 31.03.2021, vide their letter dated 10.03.2016. Subsequently, MAFFFPL filed auxiliary submissions dated 30.09.2016, 11.11.2016, 14.11.2016, 23.02.2017, 24.02.2017 and 03.03.2017.

2.6 Further, vide Order No. 19/ 2016-17 dated 20th March, 2017 issued by the Authority, MAFFFPL were allowed to continue levy of the tariffs existing as on 31.03.2016 till determination of tariffs for the second control period.

Stakeholder's comments on issues pertaining to Open access model adopted by MAFFFPL

2.7 With regard to the Open Access model adopted by MAFFFPL, Reliance Industries Limited commented as under:

"With reference to the above, it has been clearly brought out in the consultation paper that Mumbai Airport Fuel Farm Facility Private Limited (MAFFFPL) has been incorporated with an express provision of ushering in "Open Access" at Mumbai Airport by developing an Integrated Fuel Farm Facility.

It is pertinent to note even after 3 years of the operations, MAFFFPL is nowhere near operating on "Open Access" basis. Only IOCL, BPCL, & HPCL - the equity holders of MAFFFPL - have access to supply fuel (ATF) to airlines operating out of Mumbai Airport while all other ATF suppliers having valid authorisation to market ATF in India (by GOI) continue to be denied access to supply ATF at Mumbai Airport. The situation is totally against the principles on which MAFFFPL has been formulated and goes contrary to the assurances provided by MAFFFPL to Competition Commission of India (CCI) during the approval process for the combination. We, therefore, feel that continuation of the Fuel Infrastructure Charges (FIC) much less accepting an increase as proposed by MAFFFPL would be akin to rewarding the PSU OMCs (Who hold 75% of equity shares in MAFFFPL) by providing them a healthy and assured return on less risky investment made in MAFFFPL and also to continue to allow them to have monopoly - for as long as they wish - to sell ATF at Mumbai Airport without any competition from other private players including RIL. The intended objectives of improving efficiency and service quality has not been achieved so far.

As regards the consultation paper 28/2017, in clause 4.5 the basis for determining the value of the dead stock (ATF) is not clear, whether this value has been determined based on open bidding from all the ATF suppliers authorised by GoI. As per clause 4.9, it is mentioned dead stock (ATF) after end of second control period shall be disposed off. It is not clear, how this transaction of sale and purchase of ATP (valued at Rs. 4563 lakhs) and at what value by MAFFFPL shall carried out.

We, therefore, request AERA to ensure that immediate "Open Access" be provided to all ATF Marketing Companies in India at Mumbai on the same terms and conditions and facilities as enjoyed by PSU OMCs before deciding on FIC issue at Mumbai Airport.."

MAFFFPL's reply to Stakeholder's comments on issues pertaining to Open Access model adopted by it

2.8 With regard to the stakeholder's comments on the Open Access Model adopted by MAFFFPL, MAFFFPL was of the view that-

"We agree that MAFFFPL has been incorporated with an objective of providing "open access" to all the authorised fuel suppliers at the CSIA, Mumbai by developing an Integrated Fuel Farm Facility.

While MAFFFPL is developing the aforesaid facility, the open access can be provided once this facility is commissioned. The MAFFFPL is fully committed in this direction and the facility will be made available at the earliest.

Dead Stock: Dead Stock is accounted based on actual acquisition values incurred while taking over existing facilities from OMCs and Hydrant facilities from MIAL. OMC's compensation for fresh dead stock was based on than declared present Domestic Market Price of ATF, whereas actual fuel cost related to Hydrant system was reimbursed to MIAL basis their Statutory Auditor's Certification. Total value of the existing dead stock is Rs 3876 Lakhs which was scrutinised by CAG and all other auditors. MAFFFPL's total dead stock value of Rs 4563 Lakhs up to second control period, includes value of this existing dead stock Rs 3876 Lakhs (added in First Control period) and further projection value for incremental dead stock of Rs.687 Lakhs (included in second control period). Projection value of incremental dead stock will differ based on actual operational requirement at time of commissioning of integrated facility and it will get trued up based on actual acquisition cost.

Please refer to decision of Authority (clause 1.c), where in Authority is considering above dead stock as non-depreciable asset and will consider an appropriate adjustment in tariff at the time of actual disposal of dead stock in LAST CONTROL PERIOD. Therefore please note this dead stock shall exist as non-depreciable asset throughout the life of the facility and shall not be disposed in second control period as stated."

Authority's response to Stakeholder's comments on issues pertaining to Open Access model adopted by MAFFFPL

2.9 With regard to the stakeholder's comments on the Open Access model adopted by MAFFFPL, the Authority is of the view that MAFFFPL is established to create competition among suppliers and make available the ATF at market rates at the Airport. The argument that the open access cannot be provided unless all the common facilities are created is not justified. MAFFFPL is advised to provide open access to all parties who propose to supply ATF, without compromising safety and security at the Airport.

3. METHODOLOGY FOR TARIFF CALCULATION

3.1 As stipulated in the CGF Guidelines, the Authority follows 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 MAFFFPL's submission, materiality index (based on the fuel throughput at IGI Airport in comparison to fuel throughput at other major airports) is more than 5% and therefore 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 At present, the fuel farm services at CSIA are being provided solely by MAFFFPL. 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 In pursuance of the same, MAFFFPL submitted Minutes of the User Consultation Meeting agreeing on the proposed FIC of ₹828/ KL for the second control period ending on 31.03.2021.

However the Authority noted that MAFFFPL 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 MAFFFPL at CSIA under price cap regulation for the second control period. This is in line with the earlier decision of the Authority to resort to intrusive tariff determination in case of MAFFFPL.

3.9 Where the Regulated Service is 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:

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

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

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 MAFFFPL in respect of the Regulatory Building Blocks have been discussed in the subsequent sections.

Stakeholder's comments on issues pertaining to methodology of tariff determination

3.13 With regard to the methodology of tariff determination, BAOA was of the following view-

"Fuel Charges should be regulated on 'price cap' approach, based on cost inputs and, not on 'light touch' approach."

MAFFFPL's reply to Stakeholder's comments on issues pertaining to methodology of tariff determination

3.14 MAFFFPL agrees with BAOA's comments on methodology of tariff determination.

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.

MAFFFPL's submission – RAB and Depreciation

4.3 Capital expenditure during the control period proposed by MAFFFPL is shown below:

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

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Building – RCC	1,518	1,827	582	-	-
Building - Non RCC	-	-	-	-	-
Roads	266	320	102	-	-
Lab equipment	-	-	-	-	-
Plant & machinery-others	2,759	3,209	1,023	-	-
Storage tanks	4,631	5,571	1,776	-	-
Pipeline	1,621	1,951	622	-	-
Furniture	-	-	-	-	-
Vehicles	-	-	-	-	-
Office equipment	-	-	-	-	-
Computers	-	-	-	-	-
Electric installations	462	556	177	-	-
Deadstock	-	-	687	-	-
Ancillary borrowing costs capitalized	1,046	879	-	-	-
Total	**12,303**	**14,314**	**4,970**	**-**	**-**

4.4 MAFFFPL's submissions in relation to components of project costs are given below:

<table>
<tr><th>Item</th><th>Assumption and basis</th></tr>
<tr><td>Basis of capital expenditure proposed to be incurred during the second control period</td><td>

• M/s Mott Macdonald India has assessed the cost of the proposed new integrated common user tank farm and allied facilities. Proposed project cost has been based on such report as detailed below:

<table>
<tr><th>Project Cost - Integrated Facility</th><th>₹ in Lakhs</th></tr>
<tr><td>Common User Tank Farm (including Pumps / Filters)</td><td>18,715</td></tr>
<tr><td>Hydrant Feed / Connector line</td><td>2,690</td></tr>
<tr><td>T2 New Fuel Hydrant System</td><td>13,049</td></tr>
<tr><td>Control room / Instrumentation</td><td>620</td></tr>
<tr><td>Buildings & Civil Works</td><td>4,553</td></tr>
<tr><td>Fire Systems (including pump)</td><td>873</td></tr>
<tr><td>Electrical Installations</td><td>430</td></tr>
<tr><td>Total</td><td>40,931</td></tr>
<tr><td>(Less): T2 New fuel Hydrant System (already capitalized in the books)</td><td>13,049</td></tr>
<tr><td>Total</td><td>27,882</td></tr>
</table>
</td></tr>
<tr><td>Transfer of existing assets of Oil PSUs</td><td>• The cost of assets being transferred from Oil PSUs is based on the valuation of an independent party, M/s EIL and in line with the MOU and Feasibility Study carried out by M/s E&Y</td></tr>
<tr><td>Transfer of assets of MIAL</td><td>• Basis the cost incurred by MIAL and certified by EIL, pertaining to Hydrant infrastructure at Mumbai Airport. This was primarily because the new terminal had to be completed and the Hydrant Refueling System work could not be kept pending.</td></tr>
<tr><td>Ancillary Borrowing cost:</td><td>• All expenditure which are directly attributable and incremental to the origination of a borrowing (e.g. loan processing fees paid to banks) may be required to be reduced from the borrowing at inception and recognized as finance cost with reference to the effective interest rate (amortization may be on a straight line basis in case of variable rate bearing loans).
• Basis the above: MAFFFPL has accounted for the General borrowing cost and ancillary cost is being capitalized for the period of construction.</td></tr>
</table>

4.5 As per MAFFFPL, value of minimum level of fuel or deadstock ('Deadstock') stored in fuel storage tanks forming part of RAB during the second control period will be ₹4,563 lakhs (₹3,876 lakhs added during first control period + ₹687 lakhs added during second control period). Deadstock has been considered as a part of plant & machinery however the same is not being depreciated during the second control period.

4.6 RAB during the control period as per MAFFFPL has been summarized in the table below:

Table 2: RAB as per MAFFFPL's submissions (in ₹ lakhs)

Particulars		Upto 31.03.16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening CWIP	OW	-	661	13,605	29,870	-	-
Capital expenditure during the period	**CE**	**38,615**	**12,303**	**14,314**	**4,970**	**-**	**-**
Financing Allowance	FA = Rd * (OW + (CE - CA - CR) / 2)	13	640	1,952	1,522	-	-
Financing Allowance Commissioned	FAC	-	-	-	4,128	-	-
Commissioned Assets	CA	37,967	-	-	32,326	-	-
Closing CWIP	**CW = OW + CE + FA - CA**	**661**	**13,605**	**29,870**	**-**	**-**	**-**
Opening RAB	OR	-	32,110	27,637	23,165	43,024	39,835
Commissioned assets	**CA + FAC**	**37,967**	**-**	**-**	**36,453**	**-**	**-**
Depreciation	DR	5,229	4,472	4,472	3,665	3,188	3,024
Disposals	DI	629	-	-	12,930	-	-
Closing RAB	CR = OR + CA - DR - DI + IA	32,110	27,637	23,165	43,024	39,835	36,811
Average RAB	**RAB = (OR + CR) / 2**	**28,669**	**29,873**	**25,401**	**33,095**	**41,430**	**38,323**

Authority's Examination – RAB and Depreciation

4.7 The Authority noted that MAFFFPL has capitalized ancillary borrowing costs pertaining to the construction during the control period as prescribed under IND AS. However, since MAFFFPL has separately considered financing allowance as per clause 9.2.7 of the CGF guidelines as part of RAB, such ancillary borrowing costs should be excluded from RAB.

4.8 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 other fuel farms:

4.8.1 **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 the concession period.

4.8.2 **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.

4.9 The Authority in this regard has proposed to treat deadstock as a non-depreciable asset and consider an 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.

4.10 The Authority notes that on some of the assets the depreciation charged by MAFFFPL 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

4.11 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.

4.12 Revised depreciation rates during the control period are as follows:

Table 3: Revised depreciation rates for the second control period (in %)

	As per MAFFFPL			As per Authority		
Particulars	**Useful life (# years)**	**Residual value**	**Rate**	**Useful life (# years)**	**Residual value**	**Rate**
Building- RCC	17	10%	**5.19%**	60	0%	**1.67%**
Building- Non-RCC	17	10%	**5.19%**	30	0%	**3.33%**
Roads	5	10%	**18.00%**	5	0%	**20.00%**
Lab equipment	-	-	-	10	0%	**10.00%**
Plant & Machinery-Others	15	10%	**6.00%**	15	0%	**6.67%**
Deadstock	-	-	-	-	-	-
Storage tanks	15	10%	**6.00%**	15	0%	**6.67%**
Pipeline	15	10%	**6.00%**	15	0%	**6.67%**
Furniture	-	-	-	10	0%	**10.00%**
Vehicles	8	10%	**11.25%**	8	0%	**12.50%**
Office equipment	-	-	-	5	0%	**20.00%**
Computers	3	10%	**30.00%**	3	0%	**33.33%**
Electrical installations	10	10%	**9.00%**	10	0%	**10.00%**

4.13 The Authority has proposed to revise estimates for capital expenditure during FY16-17 based on audited figures provided by MAFFFPL:

Table 4: Revised capital expenditure during the second control period as per Audited financial statements of FY16-17 considered by the Authority (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Building – RCC	212	1,894	1,822	-	-
Building - Non RCC	-	-	-	-	-
Roads	37	332	319	-	-
Lab equipment	-	-	-	-	-
Plant & machinery-others	385	3,331	3,275	-	-
Deadstock	-	-	687	-	-
Storage tanks	647	5,776	5,556	-	-
Pipeline	226	2,022	1,945	-	-
Electric installations	65	576	554	-	-
Total	**1,572**	**13,932**	**14,157**	-	-

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

Particulars		FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening WIP	OW	661	2,370	17,180	-	-
Capital expenditure	**CE**	1,572	13,932	14,157	-	-
Financing Allowance	FA = Rd * (OW + (CE - CA - CR) / 2)	136	878	851	-	-
Financing Allowance Commissioned	FAC	-	-	1,879	-	-
Commissioned Assets	CA	-	-	**30,401**	-	-
Closing WIP	**CW = OW + CE + FA - CA**	**2,370**	**17,180**	-	-	-
Opening RAB	OR	31,987	27,362	22,737	38,258	34,875
Commissioned assets	**CA + FAC**	-	-	**32,279**	-	-
Depreciation	DR	4,625	4,625	3,828	3,384	3,195
Disposals	DI	-	-	12,930	-	-
Closing RAB	CR = OR + CA - DR - DI + IA	27,362	22,737	38,258	34,875	31,680
Average RAB	**RAB = (OR + CR) / 2**	**29,675**	**25,050**	**30,498**	**36,567**	**33,277**

Stakeholder's comments on issues pertaining to RAB & Depreciation

4.14 With regard to the Total project cost considered in RAB & Depreciation, MAFFFPL was of the following view-

"MAFFFPL capitalized General Purpose Borrowing Cost based on IND AS Accounting Principles.

- Under IND AS 23, borrowing costs incurred in relation to both specific and general borrowing are required to be considered for inclusion in the cost of the qualifying assets.

- Accordingly, for each period, the Company is required to determine value of general borrowing cost for the respective period and determine the amount of general borrowing cost to be capitalized for specific project.

Basis the above, MAFFFPL has accounted for the General purpose borrowing cost of Rs 1925 lacs and capitalized the same for the period of construction. Additionally, interest during construction of Rs 1242 lacs was also capitalised by MAFFFPL.

The Authority vide point 4.7 of CP has excluded General purpose borrowing cost and only considered financing allowance as per clause 9.2.7 of the CGS guidelines as part of RAB.

Please consider General Purpose Borrowing cost in addition to Financing Allowance as part of project cost."

4.15 With regard to the treatment of Non-aeronautical income considered in RAB & Depreciation, MAFFFPL was of the following view-

"MAFFFPL has generated dividend / interest on fixed deposits out of investment of the surplus funds.

- Surplus funds are generated through cost effectiveness measures, basically placed as an interim arrangement in fixed deposits/ liquid funds to generate extra income before funding the project.

- These surplus investments are result of constant monitoring of cash flows and optimum utilization of cash required for operations and project.

- This requires efficient treasury management.

Request Authority to consider Fuel infrastructure Charges as Income under Aeronautical Revenue and other above incomes as Non-Aeronautical income as these are Non-Aeronautical in nature.

4.16 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."*

4.17 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."

4.18 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."

4.19 With regard to the Airport Operator Fee, BAOA was of the view that-

"The Airport Operator fee (AOF) needs to be looked at de-novo, in line with recent AERA's policy not to allow any royalty/revenue share for aeronautical services at public airports. It is submitted that AOF to be removed completely. Please read this submission in conjunction with our plea to remove Fuel Throughput Charges (FTC) submitted in our letter Ref. No. BAOA/ AERA/ 06/ 2017-18 dt. 20 October 2017, in response to consultation papers on five major public airports."

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

4.20 With regard to the ATA's comments on infrastructure and safety, MAFFFPL is of the following view:

"We agree with ATA's views. At CSIA, Mumbai, MAFFFPL is a sole operator meeting the entire fuelling requirement with respect to operation and building of any infrastructure project including existing hydrant system and extension thereof.

With respect to Safety, we agree with ATA's views."

4.21 With regard to the IATA's comments on treatment of deadstock and depreciation, MAFFFPL agrees to its views

"In terms of the Concession Agreement, it was a prerequisite for MAFFFPL to procure and maintain deadstock. The deadstock once employed is a sunk cost for MAFFFPL. Further with respect to residual value, following expiry of the Concession MAFFFPL has to return

back the facility at Zero value to the airport operator. The residual value of deadstock stands Zero in the hands of MAFFFPL at the end of concession period. Hence the depreciation should be allowed on the same to recover the aforestated cost."

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

4.22 The Authority has carefully considered the comments from the stakeholders and MAFFFPL on RAB & depreciation.

4.23 With regard to the MAFFFPL's views on total project cost, the Authority is of the view that the return is to be given only when the asset is capitalized and the cost of borrowing is added to the asset value and included in the RAB. Further, borrowing cost pertaining to the funding for the project shall only be considered in asset value. General purpose borrowing cost which is in the nature and for the purpose of working capital requirements shall not be considered as part of project cost.

4.24 With regard to MAFFFPL's views on Non Aeronautical income, the Authority notes that the other income cannot be considered as non-aeronautical since MAFFFPL does not own any non-aeronautical assets and does not carry out any non-aeronautical activities.

4.25 With regard to ATA's comments on Infrastructure & Safety, the Authority agrees to its views that hydrant system should be provided wherever possible.

4.26 With regard to Reliance Industry Limited's comments on Deadstock, the Authority reiterates the explanation given by MAFFFPL in respect of issue pertaining to the accounting treatment of deadstock and consequently proceed with the existing decision in this matter.

Decision No. 1 **<u>Regarding RAB and Depreciation</u>**

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

1.b. The Authority has decided to exclude ancilliary borrowing cost from RAB, since MAFFFPL has separately capitalized financing allowance in lieu of borrowing costs during the construction period.

1.c. The Authority has decided to treat deadstock as a non-depreciable asset and consider an 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.d. The Authority has decided to true up the 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.e. 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.

5. FAIR RATE OF RETURN (FRoR)

MAFFFPL's submission - FRoR

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

Table 6 : Capital structure, funding mechanism and FRoR of MAFFFPL during the control period (in ₹ lakhs)

Particulars	FRoR = (WG * Rd) + ((1-WG) * Re)		FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Internal Accruals		₹ lakhs	10,643	5,918	4,526	-	-
Debt	D	₹ lakhs	19,102	22,452	20,715	17,647	14,580
Equity	E	₹ lakhs	16,015	19,622	20,005	20,005	20,005
Debt + Equity	C	₹ lakhs	35,117	42,074	40,720	37,653	34,585
Cost of debt	kd	%	9.40%	9.40%	9.40%	9.40%	9.40%
Cost of equity	ke	%	21%	21%	21%	21%	21%
Individual year gearing	G	%	54%	53%	51%	47%	42%
Weighted average gearing	WG	%	50%				
Weighted average cost of debt	Rd	%	9.40%				
Cost of equity	Re	%	21%				
Fair Rate of Return	**FRoR**	%	**15.24%**	**15.24%**	**15.24%**	**15.24%**	**15.24%**

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 Further, the Authority has proposed to consider internal accruals during the control as part of equity to arrive at the debt equity ratio.

5.4 FRoR on the basis of revised return on equity at 14% p.a. works out to 11.87% p.a. as shown below:

Table 7: Revised capital structure, funding mechanism and FRoR of MAFFFPL during the second control period (in ₹ lakhs)

Particulars	FRoR = (WG * Rd) + ((1-WG) * Re)		FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Internal Accruals		₹ lakhs	1,803	11,536	2,783	-	-
Debt	D	₹ lakhs	18,043	18,653	24,012	20,788	17,564
Equity	E	₹ lakhs	15,309	17,089	22,229	22,229	22,229
Debt + Equity	C	₹ lakhs	35,154	47,278	49,024	43,018	39,794
Cost of debt	kd	%	9.40%	9.40%	9.40%	9.40%	9.40%
Cost of equity	ke	%	14%	14%	14%	14%	14%
Individual year gearing	G	%	51%	39%	49%	48%	44%
Weighted average gearing	WG	%	46%				
Weighted average cost of debt	Rd	%	9.40%				
Cost of equity	Re	%	14%				
Fair Rate of Return	**FRoR**	**%**	**11.87%**	**11.87%**	**11.87%**	**11.87%**	**11.87%**

Stakeholder's comments on issues pertaining to FRoR

5.5 With regard to the Cost of equity considered in FRoR, MAFFFPL was of the following view-

"MAFFFPL would like to request Authority to reconsider Cost of Equity basis following submission:

Capital Asset Pricing Model formula basis AERA Guidelines:

As per the AERA Guidelines, Clause 9.1.3 The Authority will estimate Cost of Equity for a control period by using Capital Asset Pricing Model (CAPM). Further as per clause 2, the formula for Cost Equity is defined as below;

The CAPM model states that Re = Rf + 8 (Rm—Rf)

Where:

Re is the cost of equity

Rf is the risk free rate

8 is the market volatility

Rm is the return on market portfolio

After using above formula, estimated Cost of Equity for MAFFFPL is 21.6%.

Debt equity exposure of MAFFFPL-

MAFFFPL has considered Debt Equity Ratio as 60:40. Further, HDFC has sanctioned Rs 350 Crs as long term loan to MAFFFPL.

Basis above, FROR proposed by MAFFFPL is 15.24% and considered by the Authority of 11.87%.

Please consider Cost of Equity at 21 60% based on CAPM formula given in AERA Guidelines. Rate of cost of equity higher than proposed rate of 14% by Authority will help MAFFFPL to improve its FROR above 11.87%.

Due to higher debt exposure and risk factors stated above, MAFFFPL requests Authority to consider greater than 14% rate for cost of equity."

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

5.6 The Authority has carefully considered MAFFFPL's comments regarding Fair Rate of Return.

5.7 The Authority has noted that since the MAFFFPL is the only fuel storage provider at Mumbai airport, there is no business risk involved. Therefore it is decided to maintain the cost of equity at 14% p.a.

Decision No. 2 **<u>Regarding FRoR</u>**

2.a. The Authority has decided to consider the Cost of Equity at 14% p.a., internal accruals as equity for computing debt-equity ratio and FRoR at 11.87% p.a. for MAFFFPL 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.

6. OPERATION AND MAINTENANCE EXPENDITURE

6.1 As provided in Clause 9.4 of the CGF Guidelines, the operational and maintenance expenditure incurred by the Service provider(s) including expenditure incurred on security operating costs, other mandated operating costs and statutory operating costs.

MAFFFPL's submission - Operating and Maintenance expenditure

6.2 Operation and Maintenance expenditure submitted by MAFFFPL has been segregated into:

6.2.1 Employee costs

6.2.2 Utilities and Outsourcing Expenditure

6.2.3 Repair and Maintenance Expenditure

6.2.4 Administration and General Expenditure

6.2.5 Other O&M Expenditure

6.3 MAFFFPL has submitted details and basis for each of the above proposed expenditure in their submission. The details of the assumptions made by MAFFFPL for each item of operation and maintenance expenditure are provided in the following paras.

Table 8: Actual and projected aeronautical O&M expenditure by MAFFFPL for the second control period (in ₹ lakhs)

S. No.	Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
A	Employee cost	172	247	262	508	550
B	Utilities and Outsourcing Expenditure	1,373	1,483	1,603	1,732	1,872
C	Repair and Maintenance Expenditure	60	64	67	71	76
D	Admin and General Expenditure	887	1,020	1,302	993	1,047
E	Other O&M Expenditure	209	224	239	256	273
	Total (A+B+C+D)	**2,701**	**3,037**	**3,474**	**3,559**	**3,817**

Table 9: Assumptions considered by MAFFFPL for each item of Operation and Maintenance Expenditure

S. No.	Item	Assumption and basis
A	Employee cost	• Annual increment of 8% has been considered, in line with the normal increments. • Further as per discussions with MAFFFPL, the high increase in employee costs from FY 18-19 to FY 19-20 is on account of integrated fuel farm becoming operational during that period.
B	Utilities and Outsourcing Expenditure	• The fuel farm operations are outsourced and the operator has been selected through a competitive bidding by way of public tender. The rates considered and escalation in the model are as per the tender conditions. • The requirements of office staff etc. are presently outsourced and the charges considered are as per the work orders placed. • Utility charges estimated basis trend of actual expenditure incurred.

S. No.	Item	Assumption and basis
C	Repair and Maintenance Expenditure	• The existing facilities have been taken over and require urgent action in various areas to ensure safe and smooth operations. This is one time major costs, in the first year of operation, towards the refurbishment of existing assets. Subsequent years, the expenses are towards the mandatory requirements. The estimate for the cost is based on prevailing market rates.
D	Admin and General Expenditure	• Facility related expenses like Property Tax, application fees for various licenses, rates and taxes are based on the charges payable to the authorities. • Insurance Cost- the Insurer has been selected on the basis of tender, the cost is as per premium charged by the Insurer. • Consulting/audit/legal fees – as per the requirements of the Companies Act, MAFFFPL would require to engage the services of – cost audit, secretarial audit, internal audit, statutory audit, IND-AS consultancy, various mandatory technical audits, and annual certification by the credit rating agency, consultancy for filing returns with AERA etc. Legal firms are engaged for legal vetting of tenders & other important documents, due diligence exercise etc. The charges considered based on actual expenditure of FY 15-16 with an escalation of 6% on year on year basis. • Membership of IATA, JIG and other aviation fueling related organizations – the charges of membership considered are as published by these agencies. • Bank Guarantee Charges – normal charges as payable for bank guarantee are considered. • Stamp duty & Registration Charges: The stamp duty and registration charges for various agreements executed by MAFFFPL with various parties are accounted under this head. The stamp duty and registration charges are as per Bombay Stamp Act, 1958. • License Fee to Airport Operator: License Fees is estimated based on the License Agreement signed with MIAL.
E	Other O&M Expenditure	• ITP revenue share to MIAL – As per the ITP agreement, 5% of the gross revenue of the ITP operation is payable to MIAL. • The increase is considered at 6% (which includes cost of inflation at 5% plus Swachha Bharat Cess & Krishi Vikas Cess .05% each)

Authority's Examination - Operating and Maintenance expenditure

Revision in license fees (land lease rental rates)

6.4 The Authority has noted that MAFFFPL will be required to pay the additional land lease rentals on behalf of the ITP operators The revised rental is based on AAI carved out land rentals + 20% Development charges to get a total of ₹ 8,127 (₹ 6,300 per Sq/MT/P.A.*120%+*7.5% Escalation)

6.5 The Authority, after analyzing the details and various underlying Agreements, has proposed to include incremental land lease rentals pertaining to land leased to ITP operators as part of MAFFFPL's operating and maintenance expenditure as calculated in table below:

Table 10: Impact of estimated increase in license fees (land lease rentals)

	Particulars	Units	FY 17-18	FY 18-19	FY 19-20	FY 20-21
A	Rate as per ITP agreement	per Sq. Mt	1,863	2,003	2,153	2,315
B	Rates as per MIAL	per Sq. Mt	9,392	10,096	10,853	11,667
C = (B-A)	Incremental lease rent rate	per Sq. Mt	7,528	8,093	8,700	9,352
D	Area required by ITP operators	Sq. Mt	4,000	4,000	4,000	4,000
E = (C * D)	**Incremental lease rent**	**in ₹ lakhs**	**301**	**324**	**348**	**374**

Table 11: Summary of license fees (land lease rentals) (in ₹ lakhs)

Particulars	FY16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
License fees as per MAFFFPL before considering incremental lease rent	248	300	524	627	658
License fees as per the Authority after considering incremental lease rent	**248**	**601**	**848**	**975**	**1,032**
Difference	0	301	324	348	374

6.6 The Authority has proposed to revise operating and maintenance expenditure as shown in Table 12.

Table 12: Revised O&M expenditure for the second control period (in ₹ lakhs)

S. No.	Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
A	Employee cost	172	247	262	508	550
B	Utilities and Outsourcing Expenditure	1,373	1,483	1,603	1,732	1,872
C	Repair and Maintenance Expenditure	60	64	67	71	76
D	Admin and General Expenditure (including license fees/ land lease rentals)	887	1,321	1,626	1,341	1,421
E	Other O&M Expenditure	209	224	239	256	273
	Total (A+B+C+D)	**2,701**	**3,339**	**3,798**	**3,908**	**4,191**

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

6.7 With regard to loss on sale of fixed assets, MAFFFPL was of the following view-

"It can be observed that loss on sale of assets is not forming part of above expenditure though it is incurred by MAFFFPL up to FY 2016-17 and supported by audited accounts. The details for the same are given below:

MAFFFPL has taken over the existing facilities of IOCL, HPCL and BPCL and running the fuel farm operations at CSI Airport. Simultaneously, the activities of construction of integrated facility and demolishing the specific existing facilities for creating the space for Integrated Fuel Farm are in progress. As per executed License Agreement's obligations with MIAL (please refer clause 8.3 of the License Agreement), after the Integrated Facility will be commissioned, the Redundant Facilities will be demolished and the surplus land will be handed over to MIAL for the development of the airport. Therefore, to fulfil the basic obligation under the License Agreement, phase wise accounting of loss on sale of assets is inevitable operating expenditure in corresponding accounting periods. Loss on sale of assets incurred up to FY2016-17 is Rs 348.52 Lakhs (as per our Audited Accounts) with further estimation of is Rs 1230.88 Lakhs during FY 2018-19, totaling to Rs. 1579.40 Lakhs.

Please consider addition of loss on sale of assets totalling to Rs.1579.40 lakhs as part of operating cost in respective control periods."

6.8 With regard to truing-up of operating and maintenance costs, MAFFFPL was of the following view-

"MAFFFPL requests Authority to consider trued up approach for Operating and Maintenance cost in the third control period for following reasons:

- Price Cap Approach: The Authority vide letter dated 28.01.2016, in order to have uniformity in submissions for the 2nd control period, advised MAFFFFL to submit the MYTP/ATP for the second control period starting 01.04.2016.Further decided that ARR/tariff levied for the period 1st February 2015 up to 3lst March 2016 will be trued up while considering tariff determination for the forthcoming control period.

- Mechanism Followed: Under Price cap regulation, the Operating & Maintenance expenditure as per the Audited Financial Statements are determined with trued up or true down approach. Therefore, there is equal possibility of reduction of tariff in third control period in the scenario of less actual operating cost incurred. Since the actual operating cost is supported with audited financials, it brings transparency and accountability in the entire process.

- Cost control Measures: MAFFFPL has complete operational cost control and fiscal discipline as explained above.

- Control period is for Five years: The control period is running for five years, though the advance projections are carried out with at most prudence, certain unexpected unforeseen expenditure may occur in reality which can be considered in the trued up approach.

- Materiality: Proposed Fuel Infrastructure Charges are forming part of approximately 1.51% of the average seven month's domestic fuel cost delivered at Mumbai for the current financial year. Therefore, fuel infrastructure charges may not be material in entire value chain. Trued up or trued down approach for operating and maintenance expenditure will provide transparent and fair assessment of tariff during third control period.

6.9 With regard to truing-up of operating and maintenance costs, 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."

6.10 With regard to additional land requirement, MAFFFPL was of the following view-
"M/s IOSL has to bear the cost of additional land requirement of 1000 SQ MTs. However, the Authority is of the view that MAFFFPL has to provide the agreed land to IOSL as per the existing agreement and hence has not considered any increase in tariff on this account."

MAFFFPL's reply to stakeholder's comments on issues pertaining to Operating and maintenance expenditure

6.11 With regard to IATA's comments on truing-up of operating and maintenance costs, MAFFFPL states that-
"MAFFFPL does not agree with view expressed by IATA and strongly recommends that operating and maintenance expenditure should be trued up in the third control period. The trued-up approach adopted by AERA is fully justifiable."

6.12 With regard to the Authority's understanding of additional land requirement, MAFFFPL states that-
"MAFFFPL would like to clarify as per obligations arising out of existing agreement, MAFFFPL would provide 2000 SQ MTs land for ITP Depot to IOSL. For any additional Land required by IOSL the same may be directly dealt with the Airport Authority."

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

6.13 The Authority has carefully considered the comments from the stakeholders MAFFFPL on RAB & depreciation.

6.14 With regard to the MAFFFPL's comments on loss on sale of fixed assets, the Authority notes that this issue was not brought out in their original submissions and consequently in the consultation paper too. The matter was raised only in the Stakeholders meeting and the complete details were not provided to the Stakeholders. Further, it is clear that the major portion of loss on sale is not yet incurred. Normally, any loss in sale of assets should be certified by the auditors and instead of phase-wise loss on sale of assets, the total loss on completion of the sale may be considered. Therefore, it would not be prudent to take it into account in the current control period. If the loss is substantial and would require a major change in the tariffs, a revised proposal may be submitted to the Authority for consideration.

6.15 With regard to the MAFFFPL's comments on additional land requirement, the Authority notes that MAFFFPL has an existing contract with the ITP operators to provide land up to 2000 sqm for fuel farm operations at a price of Rs. 1500 per sqm per month.

Decision No. 3 <u>Regarding Operating and Maintenance expenditure</u>

3.a. The Authority has decided to include incremental land lease rentals pertaining to land leased to ITP operators as part of MAFFFPL's operating and maintenance as shown in Table 10

3.b. The Authority has decided that if loss on sale of fixed assets is substantial, a revised proposal may be submitted to the Authority for consideration.

3.c. The Authority has decided to consider MAFFFPL's O&M expenditure as shown in Table 12.

3.d. 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.

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.

MAFFFPL's submissions - Taxation

Table 13: Tax liability as per MAFFFPL's submission (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Earning Before Tax	5,693	5,666	4,242	5,912	6,420
Add: Book Depreciation	4,472	4,472	3,665	3,188	3,024
Less: IT Depreciation	3,860	3,305	3,842	5,402	4,624
Taxable Profit / Loss	**6,305**	**6,833**	**4,065**	**3,698**	**4,820**
Less: Brought Forward Losses	(64)	-	-	-	-
Taxable Profit adjusted for Loss CF	6,241	6,833	4,065	3,698	4,820
Corporate Tax	**2,160**	**2,365**	**1,407**	**1,280**	**1,668.2**

Authority's Examination - Taxation

7.3 The Authority has decided 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 MAFFFPL and revised book depreciation as considered by the Authority. For F17-18 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 (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Earning Before Tax	3,017	3,777	1,859	3,227	3,749
Add: Book Depreciation	4,625	4,625	3,828	3,384	3,195
Taxable income before tax depreciation	7,642	8,402	5,687	6,610	6,944
Less: IT Depreciation	(3,860)	(3,305)	(3,743)	(5,417)	(4,637)
Taxable Profit / Loss	3,782	5,097	1,944	1,193	2,307
Net tax as per Income Tax Act	**933**	**1,764**	**673**	**689**	**800**

Decision No. 4 <u>Regarding taxation</u>

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.

8. AGGREGATE REVENUE REQUIREMENT (ARR) AND ANNUAL FIC

MAFFFPL's submission – ARR

Table 15: ARR as per MAFFFPL 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]	29,873	25,401	33,095	41,430	38,323	**1,68,123**
FRoR [2]	15.24%	15.24%	15.24%	15.24%	15.24%	
Return on Average RAB [3] = [1] * [2]	4,551	3,870	5,042	6,312	5,839	**25,614**
Add: Depreciation [4]	4,472	4,472	3,665	3,188	3,024	**18,822**
Add: Operating expenses [5]	2,701	3,038	3,474	3,560	3,817	**16,590**
Add: Taxation [6]	2,160	2,365	1,407	1,280	1,668	**8,880**
Add: Under / (Over) Recovery from Previous Control Period [7]	325	325	325	325	325	**1,626**
ARR [8] = [3]+[4]+[5]+[6]+[7]	14,209	14,070	13,913	14,666	14,674	**71,531**
Fuel throughput (in lakhs) [9]	15.59	15.90	16.22	16.54	16.87	**81.13**
Annual FIC (in INR) [8] / [9]	**911**	**885**	**858**	**887**	**870**	
Weighted average FIC (in INR) [10]		**882**				

Authority's Examination – ARR

8.1 The Authority has noted that revenue share from ITP operators has not been reduced from the recoverable ARR before calculating the Annual FIC based on yield per KL, accordingly the Authority has proposed to reduce revenue share from ITP operators from ARR computed as per CGF guidelines to arrive at the recoverable ARR.

8.2 Further, the Authority has proposed that the date of order shall be considered as 01.01.2018 for calculating discounting factors.

8.3 Accordingly, the Authority has proposed to revise the ARR and the Annual FIC for MAFFFPL as follows:

Table 16: ***Revised ARR and Annual FIC 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 5	**29,675**	**25,050**	**30,498**	**36,567**	**33,277**	**1,55,066**
FRoR [2] as per Table 7	11.87%	11.87%	11.87%	11.87%	11.87%	-
Discount Factor	1.09	0.97	0.87	0.78	0.69	-
Return on Average RAB [3] = [1] * [2]	3,523	2,974	3,621	4,342	3,951	**18,411**
Add: Depreciation [4] as per Table 5	4,625	4,625	3,828	3,384	3,195	**19,657**
Add: Operating expenses [5] as per Table 12	2,701	3,339	3,798	3,908	4,191	**17,937**
Add: Taxation [6] as per Table 14	933	1,764	673	689	800	**4,858**
Add: Under / (Over) Recovery from Previous Control Period [7]	178	178	178	178	178	**890**
Less: 30% of Other income and Interest income [8]	-	-	-	-	-	-
ARR [9] = [3] + [3A] + [4] + [5] + [6] + [7] - [8]	**11,960**	**12,880**	**12,098**	**12,500**	**12,316**	**61,753**
PV (Discounted ARR) [10A]	13,019	12,533	10,522	9,715	8,556	**54,344**
Revenue Share from ITP Operator	204	219	234	251	269	**1,177**
PV of revenue share from ITP operator [10B]	222	213	204	195	187	**1,020**
PV of recoverable discounted ARR [10] = [10A] - [10B]	**12,797**	**12,320**	**10,318**	**9,520**	**8,369**	**53,324**
Fuel throughput [11]	15.59	15.90	16.22	16.54	16.87	**81**
Annual FIC [12]	**750**	**750**	**750**	**750**	**750**	**750**
Revenue from FIC [13] = [12] * [11]	11,687	11,921	12,159	12,402	12,650	**60,820**
PV of revenue from FIC [14]	12,722	11,599	10,575	9,639	8,788	**53,324**

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

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

8.5 With regard to fuel infrastructure charges, MAFFFPL was of the following view-

"MAFFFPL has generated dividend / interest on fixed deposits out of investment of the surplus funds.

- Surplus funds are generated through cost effectiveness measures, basically placed as an interim arrangement in Fixed deposits/liquid funds to generate extra income before funding the project.

- These surplus investments are result of constant monitoring of cash flows and optimum utilization of cash required for operations and project.

- This requires efficient treasury management.

Request Authority to consider Fuel infrastructure Charges as Income under Aeronautical Revenue and other above incomes as Non-Aeronautical income as these are Non-Aeronautical in nature.

8.6 With regard to fuel infrastructure charges, BPCL and HPCL were of the following view-

"Any revision in the Fuel Infrastructure charges should be approved on prospective basis only."

MAFFFPL's reply to stakeholder's comments on issues pertaining to ARR & annual FIC

8.7 MAFFFPL agrees with the views of BPCL and HPCL.

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

8.8 The Authority has carefully considered the comments from the stakeholders and MAFFFPL on ARR & annual FIC.

8.9 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 **<u>Regarding ARR and annual FIC</u>**

5.a. The Authority has decided to consider ARR and recomputed annual FIC of ₹750/ KL as shown in *Table 16.*

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

9. FUEL THROUGHPUT AND REVENUE FROM AERONAUTICAL SERVICES

MAFFFPL's submissions - Fuel throughput and revenue from aeronautical services

Table 17: Projected fuel throughput during the control period as per MAFFFPL (lacs KL)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Uplift of fuel in a year	15.59	15.90	16.22	16.54	16.87

9.1 As per MAFFFPL, fuel throughput is projected to increase by 2% per annum during the control period based on historical growth in ATM traffic figures as advised by MIAL.

Table 18: Projected revenue from aeronautical services during the control period as per MAFFFPL's submissions (₹ lacs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Fuel Infrastructure charges	13,433	13,701	13,975	14,255	14,540
Revenue share from ITP operator	3,403	3,645	3,903	4,181	4,477
Total	**13,637**	**13,920**	**14,210**	**14,506**	**14,809**

Table 19: Assumptions made by MAFFFPL 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 ₹862
B	ITP Sub-Concession Fee	As per the ITP agreement between MIAL and MAFFFPL, MAFFFPL can appoint two sub-concessionaires. MAFFFPL shall be charging 6% of the Gross Revenue of the ITP operators as sub concession fee and in turn MAFFFPL will pay MIAL 5% of the Gross Revenue of ITP Operators Currently base Approved rate of Rs 198 per KL is considered in projection with 5% escalation year on year in the MYTP.As both sub-concessionaires will be independently filing MYTP returns, MAFFFPL's final revenue share will be based on approved rate.

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

9.2 The Authority has decided to accept projected fuel throughput as given in Table 17.

9.3 Further, the Authority has decided to accept revenue from ITP sub-concession fee as considered in Table 18. However, the Authority notes that revenue from FIC and sub-concession fee from ITP operators is subject to change as and when FIC and ITP sub-concession charges are 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 volume of fuel throughput as given in Table 17.

6.b. The Authority has decided to accept revenue from ITP sub-concession fee as considered in Table 18. However, revenue from aeronautical services will be trued up in the third control period based on the actual revenue from aeronautical services during the second control period.

10. **SUMMARY OF DECISIONS**

Decision No. 1 Regarding RAB and Depreciation 17

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

1.b. The Authority has decided to exclude ancilliary borrowing cost from RAB, since MAFFFPL has separately capitalized financing allowance in lieu of borrowing costs during the construction period. 17

1.c. The Authority has decided to treat deadstock as a non-depreciable asset and consider an 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. 17

1.d. The Authority has decided to true up the 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. 17

1.e. 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. 17

Decision No. 2 Regarding FRoR 20

2.a. The Authority has decided to consider the Cost of Equity at 14% p.a., internal accruals as equity for computing debt-equity ratio and FRoR at 11.87% p.a. for MAFFFPL for the second control period. 20

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. 20

Decision No. 3 Regarding Operating and Maintenance expenditure 26

3.a. The Authority has decided to include incremental land lease rentals pertaining to land leased to ITP operators as part of MAFFFPL's operating and maintenance as shown in Table 10 26

3.b. The Authority has decided that if loss on sale of fixed assets is substantial, a revised proposal may be submitted to the Authority for consideration. 26

3.c. The Authority has decided to consider MAFFFPL's O&M expenditure as shown in Table 12. 26

3.d. 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. 26

Decision No. 4 Regarding taxation 27

4.a. The Authority has decided to consider tax as given in Table 14. 27

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. 27

Decision No. 5 Regarding ARR and annual FIC 30

5.a. The Authority has decided to consider ARR and recomputed annual FIC of ₹750/ KL as shown in Table 16........ 30

5.b. The Authority has decided to consider the true up of all building blocks in the third control period. 30

Decision No. 6 Regarding fuel throughput and revenue from aeronautical services 32

6.a. The Authority has decided to accept projected volume of fuel throughput as given in Table 17. 32

6.b. The Authority has decided to accept revenue from ITP sub-concession fee as considered in Table 18. However, revenue from aeronautical services will be trued up in the third control period based on the actual revenue from aeronautical services during the second control period. 32

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11. **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 MAFFFPL at CSI Airport, Mumbai is determined @ Rs. 750/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

सत्यमेव जयते

To

Mumbai Aviation Fuel Farm Facility Private Limited
Opp. ITC Maratha, Sahar Police Station Road,
CSIAirport, Sahar, Andheri (East),
Mumbai - 400099.

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